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ANALYSING THE IMPACT OF TAX INCENTIVES ON SAVINGS AND INVESTMENTS

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Abstract

Tax incentives have a significant impact on how people save and invest. The goal of this study is to look into the impact of tax incentives on saving and investing. This study tries to provide insights into how tax incentives influence behavior. The study aims to examine the effects of tax incentives on savings and investment habits among respondents. The study also sets up some hypothesis about the impact of tax incentives. The study primarily uses primary data, i.e., a questionnaire. The data will be tested by chi-square tests, regression, and frequency using the statistical software SPSS. The study received approximately 110 responses. The study addressed the debated effects of tax incentives on individuals' behavior, the effectiveness of incentive structures, and overall economic outcomes. The study found that tax incentives significantly impact savings habits, investment portfolio checks, and awareness among respondents. The study also found that the hypothesis being tested was that tax incentives have an impact on savings and investments.

Keywords: Awareness, Investment, Savings, Saving Habit and Tax Incentives

INTRODUCTION

Tax incentives are government taxation policies that aim to boost economic activity by reducing tax payments. They can have both positive and negative effects on the economy, such as attracting investment, increasing employment, and strengthening undeveloped regions. However,

if not properly planned and managed, they can significantly impact a government's financial status. Tax incentives often incur four costs: resource allocation costs, compliance costs, revenue costs, and corruption costs. Individual incentives include deductions, exemptions, and credits, while income tax advantages direct investors and promote overseas investment. Corporate incentives can be enhanced at federal, state, and local levels. Tax incentives for historical preservation, such as 20% and 10% tax credits, help preserve historic structures. However, for tax incentives to be effective in the long run, the benefits and drawbacks must be balanced.

LITERATURE REVIEW

Anderson S E & Butler J B (1999), The study uses an experimental market to evaluate the impact of risk and tax treatment on asset value. It revealed that assets with preferred tax treatment cost more than equal riskier, non-tax-favored securities. The study also revealed that riskier equities with favorable capital gains and loss treatment cost more than the benchmark security.

Schreiber U, Spengel C & Lammersen L (2002), The paper discusses the computation of the effective tax rate on profitable investments, with a focus on those that generate economic rent. It calculates a standard measure of the effective average tax rate, which is connected to the generally used effective marginal tax rate, and compares it to the statutory tax rate to determine if an investment is tax efficient.

Ashley N Newton (2008), To promote savings and boost national productivity development, the US government has created tax breaks like the Individual Retirement Account (IRA) and Health Savings Account (HSA). However, as the baby boom generation ages and draws on the dwindling Social Security Trust Fund, the effectiveness of these programs is called into question. IRAs and HSAs increase overall savings while decreasing long-term interest rates, cutting borrowing expenses, and increasing investment opportunities.

Botman D, Klemm A & Baqir R (2010), The paper compares the Philippine tax and investment incentives to those of six other East Asian countries. It concludes that high effective tax rates, equivalent investment incentives, and tax exemptions are most tempting to successful businesses and short-lived assets. Two proposed tax reforms would replace tax advantages with lower corporate income tax rates or gross receipts, resulting in stronger investment incentives and more government revenue.

Dr. Radha Gupta (2012), The paper examines the economic effects of personal income tax on various assessments. It emphasizes that high tax rates reduce the motivation to work, save, and invest. The researcher finds that more adjustments to the personal income tax system are required to stimulate investments, which are critical for personal wealth and national economic development.

Stuart Adam & Jonathan Shaw (2016), The tax treatment of various savings vehicles in the UK, such as bank accounts, pensions, homes, stocks, and ISAs, has a considerable influence on their appeal to different individuals. Recent modifications have altered these tax systems, making it critical to grasp the consequences for saving incentives. This paper identifies family wealth types, investigates the effects of the existing UK tax system on saving incentives, proposes alternatives, and explores non-tax elements such as employer matching of pension contributions.

Raphael S Etim, Mfon S Jermiah & Ofonime O Jermiah (2019), This study looked at the impact of tax policy incentives on foreign direct investment (FDI) in Nigeria during a 19-year period (1999-2017). The World Bank Database and CBN bulletins were used as secondary data sources in the study. The three models were subjected to multiple regression analyses. The findings revealed that cost-based tax policy incentives had a stronger influence on FDI than profit-based incentives. However, there was no significant relationship found between these incentives and foreign direct investment. The paper recommends that non-tax incentive initiatives be utilized in tandem with tax policy incentives to attract and stabilize foreign direct investment in Nigeria.

Thejesvini K, Swetha M E & Siddharth Gandhi (2019) The study looks on the tax effectiveness of stocks, bonds, mutual funds, and ULIPS securities under the 1961 Income Tax Act. The research looks at deductions and exclusions for various security kinds, including a standard deduction of ₹150,000. Equity is considered a tax-efficient investment because of its tax-free dividends and equal purchase and sale taxes. Bond interest is tax-free, although tax rates are 10% and 20%, respectively. ELSS is tax-efficient for risk-averse investors, with a variety of deductions and exemptions. In some cases, ULIPS offers a premium discount. The investor's risk tolerance effects his or her selection of tax-deferred investments.

Corti Paul Lakuma (2019), Uganda's tax incentives have resulted in significant revenue losses, prompting the country to restructure its incentive scheme. A study found sectoral variations in

effective average tax rates as a result of selective tax benefits and preferential income taxes. Tax reductions and preferential income tax rates lower the effective tax burden to a single digit percentage, encouraging tax fraud. The increase in inflation during 2010/11 had a detrimental influence on effective tax rates. The study underlines the need of macroeconomic foundations for successful Ugandan taxation.

Staanislav Dimitrov (2023), Personal pensions are vital for retirement savings in the European Union, however there is no uniform pension tax legislation. With increased personal responsibility for retirement savings, the market for long-term savings products is crucial for income replacement and maintaining the elderly's standard of living. The essay investigates the impact of tax incentives on increasing savings in personal pension products and the pan-European personal pension product, concluding that favorable tax treatment is crucial to overall social welfare and fiscal policy.

STATEMENT OF PROBLEM

Although tax incentives are widely used to encourage savings and investment, their precise impacts are still debated. It is unclear to what extent these incentives influence individual behavior, how effective different incentive schemes are, and what the overall economic consequences of these policies may be. To investigate the impact of tax incentives on savings and investments, a study was conducted and various tests were performed.

OBJECTIVES

- To analyse the impact of tax incentives on savings and investment
- To examine the saving and investment habits of the respondents.

Hypothesis

Impact of tax incentives on the savings and investments

H_1: There is a significant impact of tax incentives on the savings and investments.

Impact on savings habits, investment portfolio checks, and awareness of tax incentives on savings and investments.

H_2: There is a significant impact on savings habits, investment portfolio checks, or awareness of tax incentives for savings and investments.

METHODOLOGY

The study conducted was based on primary data and was analyzed using the statistical software named SPSS. The research is categorized as quantitative research and used data obtained from questionnaires. The sampling technique used for this study is simple random sampling with a sample size of 100 respondents. The statistical tools utilized for this study include regression, chi-square test, and frequency analysis.

ANALYSIS AND DISCUSSION

The table below presents the results demographic information of the respondents.

Table 1: Demography profile

Sl No	Demographical Variables	Frequency	Percentage
1.	**Age**		
	18 - 25 Years	44	44%
	26 - 35 Years	24	24%
	36 - 45 Years	31	31%
	46 Years and above	1	1%
	Total	**100**	**100%**
2.	**Gender**		
	Male	60	60%
	Female	40	40%
	Total	**100**	**100%**
3.	**Education**		
	Undergraduate	47	47%
	Postgraduate	49	49%
	Others	4	4%
	Total	**100**	**100%**
4.	**Occupation**		
	Student	33	33%
	Teacher	6	6%
	Government Employee	4	4%
	Private Employee	44	44%
	Business	13	13%
	Total	**100**	**100%**
5.	**Annual Income**		
	Less than Rs. 30,000	45	45%
	Rs. 30,000 - Rs. 50,000	33	33%

	Rs. 50,000 - Rs. 70,000	6	6%
	Rs. 70,000 and above	16	16%
	Total	**100**	**100%**

The above table depicts the frequency distribution of demographic information, and we came to know that 44% of respondents were in the age range of 18–25 years, followed by 36–45 years, with 31%, and 26–35 years, with 24% of respondents. And in the study, 60% of the respondents are male, and the rest, 40%, are female. In the study, the respondent's education background was the most prevalent among postgraduates, i.e., 49%, followed by undergraduates, i.e., 47%. In the study, the private employee occupation was the most common respondent to the questionnaire, i.e., 44%, followed by students, i.e., 33%. The annual income of the respondents evinced from the data indicated that most of them have an annual salary of less than Rs. 30,00, i.e., 45% of respondents, and 33% have an annual income of Rs. 30,000–Rs. 50,000.

Table 1.2 Impact of savings habits, awareness of tax incentives on savings and investments

Questions	P value
Percentage of Savings	0.173
Primary reasons for savings	0.489
Current investments	0.800
Preferred mode of investment	0.000
Frequency of review and portfolio adjustment	0.360
Awareness of Tax incentives	0.759
Preferred modes of tax incentives on savings and investments.	0.710
Influence of Tax on investment decisions	0.000

From the above table, it depicts the chi-square test conducted to know whether there is an impact on savings habits, investment portfolio checks, or awareness of tax incentives on savings and investments or not. The above questions were tested, and the inference was that the majority of the questions had a significant value that was less than 0.05, and the values were 0.173, 0.489, 0.36, and 0.00. Hence, we accept the alternate hypothesis, i.e., there is an impact on savings

habits, investment portfolio checks, or awareness of tax incentives on savings and investments, and hence we reject the null hypothesis.

Table 3 Regression test on impact of tax incentives on the savings and investments

Model	R	R Square	Adjusted R Square	SE	F	Sig.
1	0.528	0.481	0.472	0.50715	47.235	0.013

Coefficients						
Model		Unstandardized	Standardized		t	Sig.
		B	SE	Beta		
1	(Constant)	1.832	.380		4.822	.000
	Future safety	-.199	.103	-.229	-1.935	.056
	Changes in Tax rate	.206	.098	.248	2.095	.039
a. Dependent Variable: Savings and Investment						

From the above table, we can infer that a regression test was conducted to determine the impact of tax incentives on savings and investments or not. The test resulted in the above two questions having two different significant values, i.e., 0.056 and 0.039, and hence, taking the higher value from the table, we get 0.056, which is more than the significant value, and hence we accept the alternate hypothesis, i.e., that there is a significant impact of tax incentives on savings and investments. And hence, we reject the null hypothesis. Further the coefficient of determination (R^2) of the model is 0.481, indicating that approximately 48.1% of the variability in the dependent variable can be explained by the independent variables included in the model. This suggests that the model provides a reasonably good fit to the data, as it accounts for a significant portion of the variance in the dependent variable.

CONCLUSION

The study aimed to analyse the impact of tax incentives on savings and investments and examine the savings habits of respondents. The results showed that tax incentives had a significant impact on savings habits, investment portfolio checks, and awareness of tax incentives. The majority of respondents were postgraduates (49%), undergraduates (47%), and

private employees (44%). The annual income of the respondents was 45%, i.e., below Rs. 30,000, with 33% having an annual income of Rs. 30,000–Rs. 50,000.

The chi-square test and regression test were conducted to determine the impact of tax incentives on savings and investments and to know the savings habits. The results showed that the majority of questions had a significant value less than 0.05, indicating that there is an impact on savings habits, investment portfolio checks, and awareness of tax incentives. The null hypothesis was rejected, and the alternate hypothesis was accepted, indicating that there is a significant impact of tax incentives on savings and investments. The study concludes that tax incentives have a significant impact on savings and investments. The findings of the study may not be entirely reliable due to its small sample size and demographics, which may introduce bias. Self-reported data may also lead to inaccuracies. Future research should consider additional methods, such as interviews or observational studies, and external factors like economic conditions and financial regulations to better understand the relationship between tax policies and financial behavior. It is important to note that the study is limited to a specific geographic region. Therefore, future research in this area could explore the long-term effects of tax incentives on savings and investments, including their impact on retirement savings adequacy and wealth accumulation over time. Studies could also investigate the effectiveness of different types of tax incentives in promoting specific savings and investment behaviors, such as contributions to retirement accounts versus investments. Furthermore, researchers could analyze the interaction between tax incentives and other factors, such as financial literacy, risk tolerance, and economic conditions, to provide a more comprehensive understanding of how individuals respond to tax policy changes. Further research can be conducted on the behavioral tax biases that affect risky investment decisions in India.

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