



International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.206

Volume 9, Issue 4, April 2026



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Lack of Awareness About Tax Deductions and its Impact on the Financial Planning Among Salaried Individuals

K.N Aishwarya, Dr. Vinoth S

Master of Business Administration, CMS Business School, JAIN (Deemed-to-be University), Bengaluru,
Karnataka, India

Professor, Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be-University), Bengaluru, India

ABSTRACT: This study examines the lack of awareness about income tax deductions and its impact on financial planning among salaried individuals in India, focusing on employees in the organized sector. Despite the availability of various deductions under the Income Tax Act, 1961, a gap exists between awareness and effective financial planning behavior. Primary data were collected from 400 respondents using a structured questionnaire covering tax-deduction awareness, tax-planning behavior, financial planning practices, and tax-saving instrument usage.

Statistical analysis using SPSS (correlation, regression, t-tests, ANOVA, chi-square, and logistic regression) reveals that awareness levels are moderate (mean: 2.88–3.12) and do not significantly influence financial planning ($r = -0.058$, $p = 0.249$). Awareness also does not vary across demographic groups or significantly affect the adoption of tax-saving instruments such as ELSS, NPS, and health insurance.

The findings highlight a clear awareness–behavior gap, where moderate knowledge does not translate into effective financial decisions, and behavior is largely advisor-driven. The study concludes that awareness alone is insufficient to improve financial planning. It emphasizes the need for targeted tax-literacy initiatives, employer-led financial education, and improved advisory practices to promote tax-efficient financial planning among salaried individuals.

KEYWORDS: Tax-deduction awareness, Financial planning, Salaried individuals, Tax-saving instruments, Financial literacy, Indian income tax system

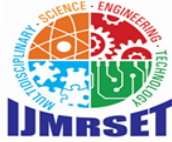
I. INTRODUCTION

Income tax is a mandatory financial obligation for salaried individuals in India, but the Income Tax Act, 1961 provides several deductions and exemptions—such as Sections 80C, 80D, 80CCD, 80E, 80G, 24(b), and HRA—that can significantly reduce tax liability and improve financial efficiency. Effective utilization of these provisions requires adequate awareness and integration with overall financial planning.

In India's evolving economic environment, marked by rising incomes, increasing living costs, and changes in tax regimes, tax planning has become an essential component of personal financial planning. For salaried individuals, optimizing tax liabilities is critical for enhancing disposable income and achieving long-term financial goals. However, the complexity of tax regulations, limited financial literacy, and dependence on advisors often restrict effective utilization of available deductions.

Financial planning—including budgeting, saving, investment, and retirement planning—is closely linked to financial well-being. While theory suggests that higher awareness of tax deductions should lead to better financial planning, evidence indicates the presence of an “awareness–behavior gap,” where moderate knowledge does not necessarily translate into effective financial decisions.

Existing studies in India have largely focused on general financial literacy or tax-saving behavior, with limited emphasis on the direct impact of tax-deduction awareness on financial planning. This study addresses this gap by examining the relationship between tax-deduction awareness and financial planning among salaried individuals using



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

quantitative analysis. The findings aim to provide insights for policymakers, employers, and financial advisors to enhance tax literacy and promote more effective financial planning practices.

II. LITERATURE REVIEW

Research on financial planning and tax behavior among salaried individuals in India highlights the important role of financial literacy, including awareness of tax deductions, in influencing investment and savings decisions. Studies on tax literacy indicate that individuals with better understanding of tax provisions are more likely to adopt tax-efficient investment strategies and optimize their financial outcomes. However, most existing research treats tax awareness as a broad concept and does not specifically examine detailed knowledge of deduction provisions and their direct impact on overall financial planning quality.

Empirical studies in the Indian context reveal that salaried individuals generally exhibit moderate awareness of tax-saving options, with higher familiarity regarding commonly used deductions such as Section 80C, while awareness of provisions like 80D, 80CCD, and 24(b) remains relatively limited. Research conducted across cities such as Bengaluru, Mumbai, and Chennai indicates that although tax-saving is considered important, individuals often rely on traditional instruments like life insurance, provident funds, and fixed deposits, with limited diversification into more efficient options such as ELSS or NPS.

Further literature on financial planning emphasizes that structured planning—covering budgeting, saving, investment, and retirement—significantly improves financial well-being. Studies incorporating tax planning as a component of financial planning suggest that tax incentives influence savings behavior and portfolio composition. However, empirical findings are mixed regarding the extent to which awareness translates into action, with several studies identifying a gap between knowledge and actual financial behavior.

Behavioral and empirical research also highlights the role of external influences such as professional advisors, employer guidance, and peer networks in shaping tax-saving decisions. While reliance on advisors is common among salaried individuals, it does not necessarily lead to higher awareness or better financial planning outcomes, suggesting that decisions may be driven more by guidance than by individual knowledge.

Despite extensive research on financial literacy, tax-saving behavior, and financial planning, there is limited empirical work that integrates these dimensions into a single framework. In particular, the direct relationship between tax-deduction awareness and financial planning quality, along with its variation across demographic factors and its influence on instrument diversification, remains underexplored. This study addresses this gap by providing a structured quantitative analysis of how awareness of tax deductions affects financial planning among salaried individuals in India.

III. RESEARCH OBJECTIVES AND HYPOTHESES

This study pursues the following core research objectives:

- To assess the level of awareness about income tax deductions among salaried individuals.
- To evaluate the financial planning practices of salaried individuals with respect to savings, investment, and tax planning.
- To examine the relationship between tax-deduction awareness and financial planning behavior.
- To analyse the influence of demographic factors and external guidance on awareness and financial planning outcomes.

Table 1: Research Hypotheses and Statistical Tests

| Hypothesis | Test Applied | Outcome |
|--|---|--|
| H1: Significant relationship exists between tax-deduction awareness and financial planning among salaried individuals | Pearson correlation + linear regression | $r = -0.058$, $p = 0.249$ → Not Supported |
| H2: Tax-deduction awareness significantly differs across demographic groups (age, gender, income, education, sector) | t-test + ANOVA | No significant difference → Not Supported |



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

| | | |
|--|--|---|
| H3: Higher awareness leads to greater use of diversified tax-saving instruments (ELSS, NPS, health insurance) | Chi-square test + logistic regression | No significant association → Not Supported |
| H4: Tax-deduction awareness positively influences financial well-being through financial planning | Multiple regression / mediation analysis | Not testable (missing data) |
| H5: Use of professional advisors leads to higher tax-deduction awareness | Independent t-test + chi-square | No significant difference → Not Supported |

IV. RESEARCH METHODOLOGY

4.1 Data and Sample

The study is based on primary data collected from 400 salaried individuals working in the organized sector in India, particularly in a metropolitan context. Data were gathered using a structured, closed-ended questionnaire designed to measure tax-deduction awareness, tax-planning behavior, financial planning practices, tax-saving instrument usage, and perceived financial well-being. The sample includes respondents across different age groups, income levels, education backgrounds, and employment sectors to ensure diversity and generalizability.

4.2 Analytical Framework

The study adopts a quantitative analytical framework to examine the relationship between tax-deduction awareness and financial planning. Composite scores for awareness, tax-planning behavior, and financial planning practices are computed by averaging responses across multiple Likert-scale items. Descriptive statistics such as mean, standard deviation, frequency, and percentage are used to summarize respondent characteristics and key variables.

To test the hypotheses, multiple statistical techniques are employed. Pearson correlation and linear regression are used to analyse the relationship between tax-deduction awareness and financial planning. Independent-samples t-tests and one-way ANOVA are applied to examine differences in awareness across demographic groups such as age, gender, income, education, and employment sector. Chi-square tests and logistic regression are used to evaluate the association between awareness levels and the usage of diversified tax-saving instruments.

Reliability of the measurement scales is assessed using Cronbach's alpha, while exploratory analysis is considered to examine the structure of the constructs. However, due to low internal consistency and data limitations, results are interpreted with caution. Overall, the methodology provides a structured empirical approach to evaluate whether awareness of tax deductions significantly influences financial planning behavior among salaried individuals.

V. DATA ANALYSIS AND RESULTS

5.1 Preliminary Analysis: Awareness and Financial Planning Levels

The descriptive analysis of 400 salaried respondents reveals a consistent pattern of **moderate tax-deduction awareness and financial planning practices**. Mean scores for awareness items range between 2.88 and 3.12 on a five-point scale, indicating neither low nor high awareness across key deduction provisions. Awareness is relatively higher for commonly discussed deductions such as NPS (Section 80CCD(1B)) and education loan interest (Section 80E), while comparatively lower for health insurance (Section 80D), housing loan interest (Section 24(b)), and donations (Section 80G).

Financial planning practices also exhibit moderate levels, with mean scores close to 3.0 across indicators such as goal setting, budgeting, savings, and investment behavior. While respondents show relatively better performance in defining financial goals and reviewing investments, weaker areas include maintaining emergency funds, avoiding high-cost debt, and consistent long-term investing. This overall pattern indicates that both awareness and planning remain average, suggesting scope for improvement.

Table 2: Awareness and Financial Planning – Selected Indicators

| Indicator | Mean Score |
|-----------------------|------------|
| Section 80C awareness | 3.05 |
| NPS (80CCD) awareness | 3.12 |



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

| | |
|----------------------------------|------|
| Health insurance (80D) awareness | 2.88 |
| Financial goal setting | 3.05 |
| Monthly budgeting | 3.00 |
| Emergency fund planning | 2.98 |

5.2 Behavioral Patterns and Instrument Usage

Analysis of tax-saving instruments shows **broad but non-strategic diversification** among respondents. Common instruments such as life insurance (69.5%), donations under Section 80G (70.25%), and health insurance (55%) are widely used, while advanced instruments like ELSS and NPS are used by around half of the respondents.

Despite this diversification, statistical tests (chi-square and logistic regression) reveal **no significant relationship between awareness levels and instrument usage**, indicating that investment choices are not driven by knowledge. Instead, external factors play a dominant role, with 45% of respondents relying on professional advisors, followed by online sources and employer guidance. This highlights that financial decisions are largely **advisor-driven rather than awareness-driven**, reinforcing the presence of a behavioral gap.

5.3 Hypothesis Testing Results

Correlation and regression analysis show that the relationship between tax-deduction awareness and financial planning is **negative and statistically insignificant** ($r = -0.058$, $p = 0.249$), indicating that awareness does not meaningfully influence planning behavior. Similarly, no significant differences in awareness are observed across demographic variables such as age, gender, income, education, or employment sector ($p > 0.05$ in all cases).

Further, awareness does not significantly predict the usage of diversified tax-saving instruments or improve outcomes among individuals using professional advisors. The hypothesis linking awareness to financial well-being could not be tested due to missing data. Overall, the results consistently indicate that **tax-deduction awareness alone is not a strong determinant of financial planning behavior**.

5.4 Key Findings and Interpretation

The results highlight a clear **awareness-behavior gap** among salaried individuals. While awareness, tax-planning behavior, and financial planning practices are all moderate, they do not translate into effective or optimized financial decisions. The absence of significant relationships across all major hypotheses suggests that factors such as behavioral biases, reliance on advisors, and complexity of tax systems play a more influential role than awareness alone.

Overall, the findings demonstrate that improving awareness in isolation may not be sufficient; instead, integrated financial education, simplified tax frameworks, and more transparent advisory practices are required to enhance financial planning outcomes among salaried individuals.

VI. HYPOTHESIS TESTING RESULTS

H1 (Awareness–Financial Planning Relationship): Pearson correlation between tax-deduction awareness and financial planning scores yields $r = -0.058$ ($p = 0.249$), indicating a very weak and statistically insignificant relationship. Linear regression produces the equation: Financial Planning = $3.158 - 0.059 \times$ Awareness ($R\text{-squared} = 0.003$), meaning that only 0.3% of variation in financial planning is explained by awareness levels. The null hypothesis of a significant positive relationship is not rejected at the 5% significance level, indicating that awareness does not meaningfully influence financial planning behavior.

H2 (Demographic Differences in Awareness): Independent-samples t-tests and one-way ANOVA reveal no statistically significant differences in tax-deduction awareness across demographic variables including gender, age, income, education, and employment sector ($p > 0.05$ in all cases). The null hypothesis that awareness does not differ across demographic groups is not rejected, indicating that awareness levels are uniformly moderate across the salaried population.

H3 (Awareness and Instrument Usage): Chi-square tests examining the association between awareness categories and usage of tax-saving instruments such as ELSS, NPS, and health insurance yield non-significant results ($p > 0.05$). Logistic regression further confirms that awareness is not a significant predictor of instrument adoption. The null hypothesis that awareness is independent of diversified instrument usage is not rejected, indicating that investment behavior is not driven by awareness levels.



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

H4 (Awareness and Financial Well-Being): The hypothesis testing the relationship between tax-deduction awareness, financial planning, and perceived financial well-being could not be conducted due to the absence of valid data for financial well-being measures. As a result, this hypothesis remains untested, and no statistical inference can be drawn.

VII. AWARENESS PATTERNS AND ROBUSTNESS

7.1 Category-Specific Awareness and Planning Patterns

Category-wise analysis shows variation in awareness across tax-deduction provisions. Awareness is relatively higher for deductions like Section 80CCD(1B) (NPS) and Section 80E (education loans), while lower for Section 80D (health insurance), Section 24(b) (housing loan interest), and Section 80G (donations).

Financial planning practices remain moderate overall, with better performance in goal setting and investment review, but weaker areas in emergency fund management, long-term investing, and debt control. Tax-planning behavior follows a similar pattern, indicating limited proactive planning.

7.2 Robustness Analysis

Robustness checks confirm consistency of results. First, no significant variation in awareness is observed across demographic groups. Second, regression models consistently show that awareness does not significantly predict financial planning. Third, no significant association is found between awareness and instrument usage or advisor reliance.

Overall, findings confirm a stable awareness-behavior gap, indicating that awareness alone is insufficient to drive effective financial planning among salaried individuals.

VIII. FINDINGS AND DISCUSSION

The findings of this study contribute to both theoretical and empirical understanding of financial planning behavior among salaried individuals in India. The central finding—that tax-deduction awareness remains moderate (mean ≈ 3.0) and does not significantly influence financial planning ($r = -0.058$, $p = 0.249$)—confirms the presence of a clear awareness-behavior gap. Despite the availability of multiple deductions under the Income Tax Act, 1961, awareness alone does not translate into improved financial planning outcomes.

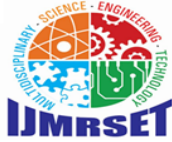
The absence of a significant relationship between awareness and financial planning challenges the assumptions of financial literacy theory, which suggests that higher knowledge should lead to better financial behavior. The results indicate that awareness is not a strong predictor of planning quality, as reflected in the negligible explanatory power ($R^2 \approx 0.003$). Financial planning practices remain moderate, suggesting that other factors—such as behavioral biases, time constraints, and reliance on advisors—play a more influential role.

The findings also reveal that diversified usage of tax-saving instruments is not driven by awareness levels. While a large proportion of respondents use instruments such as life insurance, NPS, ELSS, and health insurance, statistical analysis shows no significant association between awareness and instrument adoption. This indicates that investment decisions are largely influenced by external guidance rather than individual understanding.

IX. LIMITATIONS

The study carries several limitations. The analysis is based on cross-sectional survey data and assumes that respondents accurately report their awareness and financial planning behavior, which may be subject to response bias. The study adopts a quantitative approach using structured questionnaires, which may not fully capture deeper behavioral and psychological factors influencing financial decisions. The measurement scales exhibit low internal consistency, indicating that the constructs may not be perfectly represented by the selected items.

The analysis does not incorporate qualitative insights, behavioral experiments, or alternative data sources such as actual financial records, which could provide a more comprehensive understanding of financial behavior. Furthermore, the study assumes that awareness is a primary driver of financial planning, while other factors such as behavioral biases, cultural influences, and economic constraints may play a significant role but are not explicitly modeled.



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

REFERENCES

1. Agarwal, P., & Mazumder, B. (2013). Cognitive abilities and household financial decision making. *American Economic Journal: Applied Economics*, 5(1), 193–207.
2. Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.
3. OECD. (2016). *OECD/INFE International Survey of Adult Financial Literacy Competencies*. OECD Publishing.
4. Reserve Bank of India. (2022). *Report on Trend and Progress of Banking in India*. RBI Publications.
5. Securities and Exchange Board of India (SEBI). (2021). *Investor Awareness and Financial Education Report*. SEBI.



INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA



INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH IN SCIENCE, ENGINEERING AND TECHNOLOGY

| Mobile No: +91-6381907438 | Whatsapp: +91-6381907438 | ijmrset@gmail.com |

www.ijmrset.com