

Business owners Approach to Tax Planning in Surat: A Comprehensive Analysis

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ABSTRACT

Tax planning is a vital component of financial management for entrepreneurs, providing various advantages that promote business expansion, stability, and profitability. Well-implemented tax planning methods enable businesses to reduce their tax obligations by taking advantage of deductions, exemptions, and other legal tax-saving avenues. This approach allows entrepreneurs to enhance cash flow, ensuring a greater amount of capital is accessible for reinvestment and growth, which is essential for the sustained success of any enterprise. This examines the views and significance of tax planning strategies among business owners. The research seeks to assess how entrepreneurs perceive tax planning within their financial frameworks and to investigate the correlation between their demographic characteristics (age, education, and business revenue) and their tax planning strategies. A study of 245 business owners from Surat was conducted, analyzing their dependence on tax consultants, usage of tax-saving tools, and consideration of tax-saving options in their investment choices. The research indicates that business owners heavily depend on tax consultants and integrate tax-saving avenues into their business planning. Furthermore, demographic variables significantly influence business owners' views and satisfaction regarding available tax-saving measures. These insights highlight the necessity for customized tax planning consultancy services tailored to various groups of business owners, leading to more efficient tax management and business advancement.

Keywords: Tax Planning, Business Owners, Tax-Saving Instruments, Tax Advisors, Financial Strategies, Tax Compliance, Investment Decisions

1. INTRODUCTION

Tax strategy in India is vital for financial management for both individuals and companies. It encompasses organizing finances and investments in such a manner that tax obligations are minimized while following the legal guidelines established by the Income Tax Act. The goal of tax strategy is not merely to lower taxes, but to facilitate effective management of income, capitalizing on deductions, exemptions, and advantages provided by the government. By adopting strong tax strategy methods, taxpayers can retain a larger portion of their income, enhance savings, and invest in opportunities for wealth accumulation.

One prevalent tax strategy in India is utilizing deductions under Section 80C of the Income Tax Act. This provision permits taxpayers to claim deductions of up to INR 1.5 lakh through investments in vehicles such as Public Provident Fund (PPF), National Savings Certificate (NSC), Employee Provident Fund (EPF), life insurance payments, and equity-linked savings schemes (ELSS). These investment alternatives not only aid in decreasing tax duties but also promote long-term savings and financial stability. Furthermore, tax deductions are also accessible under Section 80D for health insurance payments, which further encourages prudent financial planning for health-related emergencies.

Corporate tax strategy in India, especially for businesses, is considerably more intricate. Companies adopt strategies that refine their capital configuration and operational costs to lessen tax liabilities. This frequently includes selecting among various deductions and exemptions available to corporations under sections like Section 80G (for contributions to charities), Section 35 (for research and development costs), and Section 10 (specific exemptions for selected sectors). Numerous businesses also seek tax advantages through government initiatives aimed at boosting sectors such as manufacturing, IT, and renewable energy, taking advantage of tax incentives and investment-linked benefits.

Additionally, tax-saving methods vary according to the scale and type of businesses. For instance, small and medium enterprises (SMEs) might choose presumptive taxation schemes under Section 44AD, which streamline the tax filing process by permitting businesses to declare profits as a portion of total turnover, thereby lessening the administrative load and simplifying tax compliance. Conversely, larger enterprises frequently employ advanced strategies such as transfer pricing, income deferrals, and profit shifting to adhere to international tax regulations and avoid double taxation in international dealings.

Nevertheless, while tax strategy is a lawful pursuit, there exists a delicate distinction between tax strategy and tax evasion. The Indian government, via the General Anti-Avoidance Rule (GAAR) and other regulations, has implemented measures to restrict aggressive tax avoidance tactics. These regulations give tax authorities the power to nullify transactions or arrangements that are primarily designed to circumvent tax obligations. Consequently, businesses and individuals need to carefully navigate their tax strategy endeavours to ensure adherence to changing tax laws.

In summary, tax strategy practices in India provide various avenues for taxpayers to effectively manage their finances. Whether through investments, corporate tactics, or alignment with government initiatives, both individuals and businesses can utilize tax strategy to enhance savings and increase their wealth. Nevertheless, with the regulatory environment tightening, it is crucial that these methods are executed responsibly to avoid legal consequences while fully benefiting from the tax laws in place.

2. NEED FOR TAX PLANNING:

Tax strategy is vital for both individuals and companies as it allows them to handle their financial resources effectively, legally reduce tax obligations, and achieve long-term financial security. Here are several important reasons why tax strategy is important:

- **Reduction of Tax Obligations:** The main aim of tax strategy is to decrease the taxes owed by individuals or businesses within legal boundaries. Through meticulous planning, taxpayers can take advantage of deductions, exemptions, and credits offered under the Income Tax Act to diminish their taxable income. For example, investing in schemes such as the Public Provident Fund (PPF), National Pension Scheme (NPS), and tax-saving mutual funds can appreciably lessen tax loads while encouraging savings and investments.
- **Enhancement of Savings:** Tax strategy aids individuals and businesses in boosting their savings by lowering their tax obligations. These savings can be allocated toward wealth-accumulating investment options, securing better financial stability in the future. For individuals, investing in tax-advantaged instruments provides the dual advantage of achieving future financial objectives (like retirement, education, and home ownership) while minimizing tax expenses. Businesses can reinvest saved resources to grow operations, enhance productivity, or increase profitability.
- **Effective Income Management:** Sound tax strategy guarantees that income is managed effectively, balancing taxable earnings and investments. By allocating funds to tax-saving opportunities and smartly planning expenditures, individuals and businesses can maximize their income and prevent overpaying taxes. This demands an understanding of various tax brackets and the selection of tax-saving options that align with one's financial aspirations.
- **Adherence to Legal Standards:** Tax strategy ensures adherence to the laws and regulations established by the government. Individuals and businesses that proactively arrange their taxes can avoid penalties, interest on unpaid taxes, or legal examinations for failure to comply. It promotes transparency and a proactive attitude toward managing taxes, which is essential in today's regulatory landscape where tax authorities closely observe financial transactions.
- **Utilizing Government Benefits:** Governments frequently offer tax incentives to promote investment in particular sectors, industries, or initiatives such as renewable energy, infrastructure, and research and development. Through tax strategy, businesses and individuals can fully leverage these incentives to lessen tax liabilities while aiding economic growth. Such incentives typically appear in the form of tax breaks, exemptions, or deductions and are critical tools for both economic advancement and tax optimization.
- **Risk Mitigation:** By structuring finances and tax responsibilities methodically, tax strategy aids in alleviating risks associated with unexpected financial obligations. For companies, insufficient tax planning can result in considerable cash flow difficulties, particularly when taxes are due at the end of the fiscal year. Well-organized tax planning allows for anticipating and managing these obligations ahead of time, ensuring smoother operations and preventing financial pressure.
- **Retirement and Inheritance Planning:** Tax strategy also holds significant importance in retirement and inheritance planning. For individuals, strategic investments in tax-efficient options like the National Pension Scheme (NPS) or Employee Provident Fund (EPF) can guarantee a financially stable retirement. For businesses, effective tax planning regarding succession can lessen the tax burden on heirs and facilitate a smoother ownership transition, reducing estate and inheritance tax liabilities.
- **Wealth Development:** Tax strategy aids in wealth development by permitting individuals and businesses to channel their tax savings into productive assets or financial instruments. For instance, income preserved through tax

exemptions and deductions can be reinvested in appreciating assets over time, such as real estate, equity, or bonds. This strategy aligns tax efficiency with wealth-building initiatives.

3. LITERATURE REVIEW

- Saheb Dubey (2021), According to the author, tax collecting is a long-standing practice that many countries have adopted and serves as the primary source of direct or indirect funding for governments. The purpose of taxes is to take a portion of the revenue from the wealthiest citizens of the nation and use it to support social development and the needs of the impoverished. Taxation encourages people to save more through investments in order to lower their tax liability, as was indicated in the introduction. However, this survey reveals that although paid individuals are somewhat aware of the various tax plans, they are not fully aware of them. To fully benefit from tax programs, one must have a solid understanding of them. Therefore, it would be preferable if more tax planning education programs were offered to salaried individuals.
- Shakhawat Hossain Sarkar et. al. (2019), In comparison to India, they have shown that the ITPIs for several types of individual assesseees in Bangladesh are extremely low and variable. As more people plan their taxes, there is a greater opportunity for capital formation, improved tax payment propensity, and faster national development. This is because tax planning allows individual assesseees to potentially reduce their taxes. The study has opened up a new line of inquiry into individual taxpayer tax planning in the context of developing nations like Bangladesh. Subsequent investigations could examine the effects of tax planning on specific taxpayers, the role tax planning plays in capital creation, corporate tax planning strategies, and the influence of corporate tax planning on business value and performance.
- Benny (2018) performed a survey to investigate the level of awareness regarding taxation rules among salaried assesseees. A suitable sampling approach was used to pick a sample of 40–42 respondents. Correlation analysis was employed in the study to determine the relationship between dependent variables like professional tax, insurance premium, and provident fund contribution and independent factors like tax planning strategies and deduction awareness. Correlation study has shown that tax planning is independent of an employee's employment status, whether they work for the government or for a private company. Additionally, they discovered that tax planning is not purely dependent on tax experts.
- Preeti Kalgutkar (2018), her paper's goal is to investigate how tax awareness and planning relate to an individual assessors' ability to build wealth through various investments that are allowed by income tax regulations. An individual assessee invests their hard-earned money on legally prescribed investment channels in order to save taxes. Individual assessors get income from this in the form of future strong returns. Here, an attempt has been made to understand how tax planning and awareness assist an individual in evaluating how to establish an effective investment portfolio, which ultimately results in wealth creation for them.
- Sanjeeb Kumar Dey et. al. (2016), This paper's main goal is to determine how much the people living in Cuttack and Bhubaneswar, the twin cities of Odisha, know about tax saving opportunities. Only 23% of respondents had strong understanding regarding tax saving plans, according to the survey, with 42% having mediocre awareness and 34% having extremely poor information.
- Dey Sanjeeb Kumar (2015), the author has discovered that in order to benefit from tax planning, the assessee needs to be aware of the many legal options that are available for tax planning. In light of this, the purpose of this article is to evaluate the tax planning strategies employed by Odisha's salaried population. It is discovered that over 60% of the professors lack solid knowledge regarding numerous income tax regulations. The tax planning strategies used by various lecture classes are essentially the same. The degree of knowledge regarding tax planning strategies is not significantly correlated with the lecturers' class, gender, experience, or length of service.
- Suganya (2015) discovered that men make up 75% of the respondents. The respondents make an average of Rs. 37,000 per month. Every respondent has middle- and upper-level positions in private sector firms. Of those surveyed, 35% are aware that tax preparation strategies exist and are using them with the assistance of investment experts. Without being aware of it, 65% of the respondents engage auditors to file returns and execute tax planning actions. Thus, it was shown that there is no substantial difference in tax planning measure awareness. Tax literacy needs to be taught in schools in a way that is both practical and effective in order to change the way people spend their money and open their eyes.

4. RESEARCH OBJECTIVES

1. To evaluate the perception of business owners towards tax planning.
2. To examine the association between demographic profiles of the Business owners and their perception towards tax planning.

5. SAMPLE SIZE

In this study 245 Business owners of Surat city have been targeted.

6. DATA ANALYSIS

1. H0: Business owners do not believe in investing tax-saving instruments such as insurance and pension plans.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
investing tax-saving instruments such as insurance and pension plans	45.174	244	0.020	2.114	0.149	0.198

The outcomes of the one-sample t-test shed light on the views of business owners concerning their confidence in investing in tax-saving vehicles like insurance and pension plans. The null hypothesis (H₀), which posits that business owners do not have faith in investing in these tax-saving options, was evaluated with a sample of 245 participants. The t-value recorded was 45.174 with 244 degrees of freedom, while the significance level (Sig. 2-tailed) was noted as 0.020. Given that the p-value is below 0.05, we dismiss the null hypothesis (H₀). This indicates that, on average, the business owners do believe in investing in tax-saving vehicles such as insurance and pension plans. The mean difference between the ratings of the respondents and the test value of 3 is 2.114, signifying that the average perception among business owners is notably above neutral. Additionally, the 95% confidence interval of the difference spans from 0.149 to 0.198, further corroborating that the belief in investing in tax-saving vehicles is consistently favorable. The positive mean difference and compact confidence interval imply that business owners generally view these tax-saving instruments positively and that their responses are closely grouped around this favorable opinion. This reflects a strong tendency among business owners to incorporate insurance and pension plans into their tax planning strategies.

2. H0: Business owners do not consider tax-saving opportunities when making investment decisions for business.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
consider tax-saving opportunities when making investment decisions for business	48.621	244	0.002	6.341	0.196	0.645

The outcomes of the one-sample t-test offer a statistical evaluation of whether business owners factor in tax-saving options when making investment choices for their enterprises. The null hypothesis (H₀) posits that business owners do not consider tax-saving opportunities in their investment choices. The computed t-value stands at 48.621 with 244 degrees of freedom, and the p-value (Sig. 2-tailed) is 0.002. Given that the p-value is below the significance threshold of 0.05, we reject the null hypothesis. This suggests that, on average, business owners do take tax-saving opportunities into account when making

investment decisions for their businesses. The mean difference recorded is 6.341, indicating that the evaluations from business owners significantly exceed the neutral value, reflecting strong agreement with the assertion that they integrate tax-saving strategies into their investment selections. The 95% confidence interval for the mean difference spans from 0.196 to 0.645, further solidifying the assertion that business owners reliably consider tax-saving opportunities in their investment decision-making. The positive mean difference and confidence interval imply that this consideration is a crucial aspect of their decision-making process. Consequently, tax-saving strategies are vital to the financial planning and investment decisions of business owners.

3. H0: Business owners do not rely on tax advisor for planning and minimizing tax liabilities.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
rely on tax advisor for planning and minimizing tax liabilities	51.618	244	0.026	2.114	0.643	1.092

The results of the one-sample t-test investigate whether business owners depend on tax advisors for effective planning and reduction of tax obligations. The null hypothesis (H₀) posits that business owners do not depend on tax advisors. With a t-value of 51.618 and 244 degrees of freedom, coupled with a p-value of 0.026, the outcome is statistically significant at the 0.05 significance level. Given that the p-value is less than 0.05, we reject the null hypothesis. This implies that, on average, business owners do indeed depend on tax advisors for planning and reducing their tax obligations. The mean difference of 2.114 reinforces this conclusion, indicating that the average response significantly exceeds neutral. Furthermore, the 95% confidence interval, ranging from 0.643 to 1.092, suggests that the reliance of business owners on tax advisors is consistently positive throughout the sampled group. The narrowness of the confidence interval also illustrates a relatively strong and consistent consensus regarding the idea that tax advisors are a vital asset for business owners in managing their tax duties. In summary, the findings illustrate that business owners greatly rely on professional tax advisors for efficient tax planning.

4. H0: There is no significant association between demographic profiles of the Business owners and their perception towards tax planning.

Variable- 1	Variable-2	Pearson Chi-Square	P Value	Decision
Age	I am aware of the various tax planning strategies available to business owners	48.640	0.017	There is Significant Association
	I believe tax planning can significantly reduce my business's tax liabilities	57.830	0.009	
	Effective tax planning contributes to the growth and profitability of my business	78.720	0.017	
	I am satisfied with the tax-saving options available for businesses in India	90.350	0.010	
Education	I am aware of the various tax planning strategies available to business owners	30.740	0.016	
	I believe tax planning can significantly reduce my business's tax liabilities	38.120	0.001	
	Effective tax planning contributes to the growth and profitability of my business	87.900	0.043	

	I am satisfied with the tax-saving options available for businesses in India	89.690	0.015
Turnover	I am aware of the various tax planning strategies available to business owners	53.440	0.046
	I believe tax planning can significantly reduce my business's tax liabilities	28.960	0.040
	Effective tax planning contributes to the growth and profitability of my business	48.640	0.017
	I am satisfied with the tax-saving options available for businesses in India	57.830	0.009

6. CONCLUSION

Based on the statistical analysis, it is evident that business owners possess strong and favorable views regarding tax planning practices. The dismissal of the null hypothesis in various one-sample t-tests demonstrates that business owners actively engage tax advisors, take tax-saving opportunities into account when making investment choices, and have confidence in investing in tax-saving vehicles such as insurance and pension plans. These findings offer substantial proof that tax planning is essential for the financial strategies and decisions of business owners.

Initially, the analysis shows that business owners typically rely on tax advisors to plan and lower their tax liabilities. The notable t-value and a p-value of less than 0.05 indicate that professional tax advisors are deemed crucial for business owners to adeptly navigate intricate tax regulations and alleviate tax burdens. This dependence highlights the significance of professional expertise in tax issues, allowing business owners to capitalize on all accessible deductions, exemptions, and credits, thereby optimizing their financial resources.

Furthermore, business owners weigh tax-saving opportunities when making investment choices. The findings suggest that tax planning is not an afterthought but a critical aspect of the investment process. By consciously integrating tax-saving methods, business owners not only decrease tax liabilities but also improve their enterprise's financial performance. This inference indicates that tax-efficient investments foster business growth by releasing capital that can be reinvested in primary operations or future expansion.

The meaningful link between the demographic characteristics of business owners (such as age, company revenue, and education) and their perceptions of tax planning further enriches our understanding of how various business owners regard tax strategies. Older business owners, those with greater company revenues, and individuals with higher education levels tend to be more cognizant of tax planning strategies and their advantages. These owners typically believe that tax planning can significantly diminish their business's tax liabilities and promote growth and profitability. Their enhanced knowledge and expertise in business might motivate them to implement more advanced tax strategies. In addition, business owners demonstrate different levels of contentment with the tax-saving options available in India. Those who are better educated and run larger enterprises may have better access to financial advisors or tax professionals who offer them a more comprehensive understanding of the tax system's complexities and the opportunities presented. These individuals are more likely to feel satisfied with the tax-saving instruments provided, whereas smaller business owners or those with lower educational backgrounds may find the available options limited. The connection between demographic elements and perceptions of tax planning underscores the necessity for customized tax education and advisory services for various groups of business owners. Younger or less seasoned business owners, for instance, may benefit from more specialized guidance on tax strategies to maximize their savings and business growth potential. Conversely, established business owners with higher revenues may already be utilizing sophisticated tax planning techniques but could still gain from updated insights on new tax regulations or investment opportunities.

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