PEOPLE'S PREFERENCES IN INVESTMENT BEHAVIOUR-BIBILIOGRAPHIC REVIEW

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ABSTRACT

There are a lot of investment choices and one must select the most appropriate one. The person dealing with the planning must know all the various investment choices and how these can be chosen for the purpose of attaining the overall objectives. The details of making the investment along with the various ways in which the investment has to be maintained and managed. The expectations of the investors, their perception towards various products/ investment avenues, their current pattern of investment have to be understood to serve them well and also to offer better products.

Hence this study has been done with an objective to find out the investment pattern of investors in various investment avenues offered in the Indian financial system. The findings of the study are that the investors are aware of different modes of investment but the prime motive for investment is tax benefit. The study shows that the investor's current preference of investments is in the order of life insurance policy, bank deposits, investments in shares and national savings certificates.

Key words: *Patterns of Investment, Savings Schemes in India Income-Tax Act 1961, Various Tax Saving Schemes etc.*

INTRODUCTION

The direct tax, which is paid by an individual to the central government of India, is known as Income Tax. It is imposed on our income and plays a vital role in the economic growth and stability of our country. For years, the government is generating revenue through this tax system. The study is about an investor's centric analysis of various tax saving Instruments available in India. As in other countries, India also has an established system of Taxation. In case of individual taxation, government has offered few schemes in which the investments are not subjected to tax liability. It is as per government policy and is liable to change over time. From government side intention is to channel investments in desired avenues and give benefits to the investors. These benefits vary from scheme to scheme.

SAVING AVENUES IN INDIA

Savings has an important place in the mobilization of resources for development expenditure because the investors would not only get back their money, but also some interest and they would therefore prefer to lend money in this way instead of paying it as outright tax. Further, in a developing economy in which there will be always surplus money available with some sectors to the extent that the savings are tapping the money available for circulation is taken away and to that extent pressure on prices and inflationary trend is reduced. So therefore, savings have a very important role to play in the sphere of economy.

REVIEW OF LITERATURE

Karthikeyan (2001) has conducted research on Small Investors' Perception on Post Office Saving Schemes and found that there was a significant difference among the four

age groups, in the level of awareness for Kisan Vikas Patra (KVP), National Savings Schemes (NSS), and Deposit Scheme for Retired Employees (DSRE), and the overall score confirmed that the level of awareness among investors in the old age group was higher than in those of the young age group. No difference was observed between male and female investors except for the NSS and KVP. Out of the factors analyzed, necessities of life and

tax benefits were the two major ones that influence the investors both in semi-urban and

urban areas. The Majority (73.3 per cent) of investors of both semi- urban and urban areas were very much willing to invest in small savings schemes in future provided they have more for savings.

Somasundaram (1998) invest in small savings schemes in future provided they have more for savings. It has found that bank deposits and chit funds were the best-known modes of savings among investors and the least known modes the Unit Trust of India (UTI) schemes and plantation schemes. Attitudes of investors were highly positive and showed their intention to save for a better future.

Prasad (2009) examined the perception of the investors and their awareness on various investment alternatives available. A sample of 100 investors has been taken from the twin cities of Hyderabad and Secunderabad. The result of findings showed 75% Net traders were using online stock trading requiring strong technology base whereas

Traditional traders felt online trading not an acute process of stock trading and they didn't participate in net trading due to risk of a system failure.

Securities, Exchange Board of India (SEBI), and NCAER (2000), 'Survey of Indian Investors' has reported that safety and liquidity were the primary considerations, which determined the choice of an asset. Ranked by an ascending order of risk perception fixed deposit accounts in bank were considered very safe, followed by gold, units of UTI-US64, fixed deposits of non- government companies, mutual funds, equity shares, and debentures.

Therefore it is essential to understand the attitude of the investor so that the marketing efforts could be tuned towards their preferences. The types of assets that are owned by individuals with similar personality profiles if identified could be used to suggest various types of assets that would appeal to new investors. Also Asian investors are found to be very knowledgeable of markets and instruments and willing to try new things.

OBJECTIVES OF STUDY

- To study investors preference towards various tax saving avenues
- To identify patterns of investment in tax saving avenues.
- To describe the reasons for investment in tax saving avenues.

- To rank various taxes saving instruments based on investor's preference.
- To assess the awareness level about tax saving avenues.
- To assess the proportion of investors based on the nature of expected benefits.
- To study the ways investors keep themselves updated about tax saving avenues.

SCOPE OF STUDY

The study would attempt to provide an insight to the understanding of the Tax saving instrument that suits the needs and goals of investors and would aim by providing a foundation for marketing strategies for organizations involved in selling the concerned schemes. The study could also be reference for further analysis in related concepts.

INVESTORS AWARENESS OF SAVING AVENUES

The concept of "investor awareness" refers to the stage wherein a prospective investor is conscious of and is having the knowledge of the existence of an investment product or avenue for his consideration to place the savings. Awareness is a continuingprocess by which investors come to learn about the investment particulars. In certain cases, they try to know about the modes clearly and eventually adopt it or reject it. Awareness is commonly described as the first step in the process of investment.

The investors are aware of the existence of numerous investment modes; their inquisitiveness stimulates them to seek more information. After becoming well versed of investment models, the investor turns to evaluating each channel by making comparison with each other. At last, the investor decides to make an investment in an advantageous mode or modes. Thus, awareness creates an attitude in investor towards investment channels

An understanding of the small investor's behavior constitutes the focal point for evolving suitable and effective strategies for development of securities markets in any country. The investor behavior needs to be studied and analyzed from the dimensions like - What motivates a small investor making an investment. How frequently he prefers to make the investment. In whose name the investor would like to hold the investment. In this context, an attempt is made to study and analyze the behavior of investors in terms of the motives of investments, periodicity of investments, factors influencing the investment decisions, and methods of evaluation of the investments.

POPULAR TAX SAVING AVENUES

PUBLIC PROVIDENT FUND

Public Provident Fund Or Generally Called As PPF Is Saving Scheme For Employees In Various Governments, Public And Private Sector Organizations For Income Tax Saving In India. The Government Has Set Limit For Saving Ranging From A Minimum Of Rs. 500 To The Maximum Of Rs. 70,000. The Government Pays A Rate Of Interest At 8%. This Can Be Opened In Any Public Sector Banks Like SBI And Others.

Almost four years since the PPF rate was linked to the benchmark bond yield. But bond yields have stayed buoyand and the PPF rate has not fallen. Government has indicated that it will review the interest rates on small saving schemes, including PPF and NSCs. It offers that same interest rate and tax benefits as the EPF. There is no limit to how much people can invest in the VPF. The contribute gets deducted from the salary itself so the investor does not feel for it.

Allocate 25% of your pay hike to VPF. People won't notice the deduction.

NATIONAL PENSION SYSTEM

The last budget made the NPS attractive as a tax-saving tool by offering an additional tax deduction of Rs.50,000. Also, pension fund managers have been allowed to invest in a larger basket of stocks. Concerns remain about the capital on equity exposure. Besides, the taxability of the NPS on maturity is a sore point. Right now, the income from annuities is taxed at the normal rate.

Even so, concerns remain about the cap on equity exposure. For a young investor, the 50% ceiling may be too conservative an allocation. Besides, the taxability of the NPS on maturity is a sore point. At least 40% of the corpus must be put in an annuity. Right now, the income from annuities is taxed at the normal rate, though the government is considering tax exemption for annuity income.

Opt for the auto choice where the equity exposure is linked to age and comes down as you grow older.

ELSS FUNDS

ELSS funds has tremendous potential, high liquidity and greater transparency to perform better. The ELSS category has given average returns of 17.8% in the past three years. The three-year lock-in period is the shortest for any Section 80C option. What's more, you can get some of the investment back if you opt for the dividend option.

It is also very easy to get details of the fund's portfolio. Add to these advantages the ease of investment that mutual fund houses are offering. If you have already fulfilled the KYC requirements, you can invest online. Even if you are a new investor, fund houses facilitate the investment by picking up the documents from your house and guiding you through the KYC screening.

ELSS funds are equity schemes and carry the same market risk as any other diversified fund. The previous year was not good for equities, with the Sensex ending the year with a 5% loss. Even some top-rated ELSS funds lost money in the past year. Investors who opted for the ultra-safe PPF would have made more money.The SIP route is the best way to contain the risk of investing in equity funds.

Opt for the direct plan of the fund. The returns are higher because charges are lower.

ULIP

The new online Ulips are ultra cheap, with some of them costing even less than direct mutual funds. They also offer greater flexibility. Unlike ELSS funds, where the investment cannot be touched before three years, Ulip investors can switch their corpus from equity to debt, and vice versa.

There is no tax implication of the gains made from such switching because insurance plans enjoy exemption under Section 10 (10d). Even so, only savvy investors who know how to utilise the switching facility should get in.

Opt for liquid or debt fund of the Ulip and gradually shift the money to the equity fund.

SUKANYA SAMRIDDHI SCHEME

A new entrant, this scheme for the girl child is a great way to save tax. However, given its limited scope, it does not figure very high in the ranking. It is open only to girls below 10. The Sukanya Samriddhi Scheme is a better option than the bank deposits, child plans and even retire the PPF account you opened for her education and marriage.

Accounts can be opened in any post office or designated branches of PSU banks with a minimum investment of Rs 1,000. The maximum investment in a financial year is Rs 1.5 lakh and deposits can be made for 14 years after opening the account. A parent can open an account for a maximum of two daughters, but the combined investment in the two accounts cannot exceed Rs 1.5 lakh a year. The account matures when the girl turns 21, though up to 50% of the corpus can be withdrawn after she is 18 or gets married.

Instead of putting money in the PPF, put it in the Sukanya scheme and earn 50 basis points more.

SENIOR CITIZENS' SAVING SCHEME

As mentioned earlier, this is the best tax-saving instrument for retirees. At 9.3%, it also offers the highest interest rate among all Post Office schemes.

The tenure of the scheme is five years, which is extendable by another three years. The interest is paid out in quarterly tranches on fixed dates, irrespective of when you invested. However, there is a Rs 15 lakh overall investment limit per individual.

Also, the scheme is open only to investors above 60. In some cases, where the investor has opted for voluntary retirement and has not taken up another job, the minimum age is relaxed to 58 years.

There is also no age bar for defence personnel. They can invest in the scheme even before 60 as long as they satisfy the other requirements.

If investor want to invest more than Rs 15 lakh, gift the amount to your spouse and invest in her name.

BANK FDs AND NSCs

Though bank fixed deposits and NSCs are ultra-safe and offer assured returns, there is a heavy price to be paid for this safety and surety of returns. The interest earned on the deposits is fully taxable, so the post-tax returns are not very lucrative. Those in the highest 30% tax bracket (taxable income of over Rs 10 lakh a year) should not invest in these deposits. They are best suited to taxpayers in the 10% bracket (taxable income of less than Rs 5 lakh a year) or senior citizens who have already exhausted the Rs 15 lakh overall investment limit in the Senior Citizens' Saving Scheme.

The positive feature of bank deposits and NSCs is that they are straightforward instruments and don't require a multi-year commitment. If you don't have time to study the fine print of other options and the deadline is nearing, invest in fixed deposits.

They are also widely available. Just walk into any bank branch or Post Office branch and invest. Of course, you will have to comply with the KYC norms while doing so.

One ticklish area is the TDS rule. If the interest income exceeds Rs 10,000 in a year, the bank will deduct TDS. Some investors try to avoid the TDS by splitting their investments across 2-3 banks. This is not a good idea because one has to pay tax on this income. In fact, the TDS is only 10% on the interest earned. If the taxpayer is in the higher income slab, he will have to pay more tax.

On the other hand, some retired taxpayers are subjected to TDS even though they are not liable to tax. Since their total income from interest exceeds the threshold, they have to first pay tax and then claim it back after they file returns. This problem needs to be fixed.

Invest in FDs and NSCs if you don't have the time to assess the other options and the deadline is nearing.

PENSION PLANS

Pension plans from insurance companies do not enjoy the same tax benefits as the NPS. The additional deduction of Rs 50,000 under Sec 80CCD(1b) is reserved exclusively for the government-promoted pension scheme. But pension fund managers dismiss the charge that this is an unfair advantage.

"The retirement funds from mutual funds are not really pension products. And the cost structure of pension plans from insurance companies is not very favourable to buyers."

To be sure, pension plans still have very high charges which makes them poor investments. They also force the investor to put a larger portion (66%) of the corpus in an annuity. The prevailing annuity rates are not very attractive. For instance, if a a 60-year-old man invests Rs 10 lakh, LIC will give him Rs 7,792 per month for life.

The pension plans launched by mutual funds have lower charges, but these are actually mutual funds disguised as pension plans. Moreover, they are debt-oriented plans so they are not eligible for the tax benefits that equity plans enjoy. ELSS funds will be better alternatives to these plans.

Invest in retirement plans from mutual funds. They offer greater flexibility than those from life insurance companies.

INSURANCE POLICIES

Traditional life insurance policies remain the worst way to save tax. Still, millions of taxpayers buy these policies every year, lured by the "triple benefits" of life insurance cover, long-term savings and tax benefits.

Actually, these policies give very little cover. A premium of Rs 20,000 a year will get you a cover of roughly Rs 2 lakh. The returns are very poor, barely 6% if you opt for a 20-year plan. And the tax-free income is a sham. Going by the indexation rule, if the returns are below the inflation rate, the income should anyway be tax free.

If people can't afford to pay the premium, turn your insurance plan into a paid-up policy.

The cover will continue but the premiums will end.

OTHER OPTION AVAILABLE

In India there are lot many Investment avenues are available. The following figure is pretty self explanatory regarding investment options. Investments are broadly classified into five categories i.e. Equity, Debt, Real Estate, Commodities and Miscellaneous.

Equity

Equity is one of the most risky areas. But, at the same time this is also a place where an investor can earn high rates of returns that will push up the returns of the entire portfolio. There is a need for the investor to separate the speculation from the investment. Investment in equities can be made directly by the purchase of shares from the market or it can be done through the mutual fund route, whereby the investor buys the mutual fund units and the fund in turn buys equity. Shares for its portfolio. There are various benefits as well as risks associated with both these routes and it is up to the individual to make up his mind.

Debt

Debt is a route that most people will know and have the necessary experience of. There is a wide range of debt instruments that are present from bank fixed deposits to company fixed deposits. Debt is simple as the investor ill earn at a fixed percentage of the investment, which will then be returned to the investor at the time of maturity or redemption of the investment.

Mutual Funds

This is an emerging area for investment and there is a large variety of schemes in the market to suit the requirements of a large number of people. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.

Corporate Debenture

Corporate debentures are normally backed by the reputation and general creditworthiness of the issuing company. It is a type of debt instrument that is not covered by the security of physical assets or collateral. Debentures are a method of raising credit for the company and although the money thus raised is considered a part of the company's capital structure, it is not part of the share capital.

Company Fixed Deposit

Company fixed deposit is the deposit placed by investors with companies for a fixed term carrying a prescribed rate of interest. Company FDs are primarily meant for conservative investors who don't wish to take the risk of vagaries of the stock market. But The 2013 IBEA, International Conference on Business, Economics, and Accounting 20 – 23 March 2013, Bangkok – Thailand experts say the due diligence that an investor should undertake is similar to that before buying shares. Getting lured by the high interest rate alone is not advisable.

Fixed Deposits

Fixed Deposits with Banks are also referred to as term deposits. Minimum investment period for bank FDs is 30 days. Deposits in banks are very safe because of the regulations of RBI and the guarantee provided by the deposit insurance corporation. The interest rate on fixed deposits varies with term of the deposits Bank deposits enjoy exceptionally high liquidity. Loans can raise against bank deposits.

Post Office Saving

Post Office Monthly Income Scheme is a low risk saving instrument, which can be availed through any Post Office The interest rate on deposits is slightly higher than banks. The interest is calculated half yearly and paid yearly Life Insurance Policies: Insurance companies offer many investment schemes to investors. These schemes promote saving and additionally provide insurance cover. L1C is the largest life insurance company in India. Insurance policies, while catering to the risk compensation to be faced in the future by investor, also have the advantage of earning a reasonable interest on their investment insurance premiums.

CONCLUSION

Tax is always a concern for the individuals for more than one reason. Some do not want to give tax while others want to minimize the amount to be paid. Latter is legal and is referred to as tax planning. Tax planning is not a simple and standard process. In fact it is a complex collection of measures available to reduce one's own tax incidence. Further the tax saving options or schemes or deductions provided as per Income-Tax Act 1961 are huge in number which further complicates the process. Thus tax planning has evolved into an intellectual activity.

One of the ways to plan the tax incidence for individuals is to invest in some avenues where government gives relaxation for various tax schemes. But this again is not as simple as it may sound to be. Investments in these avenues do not give the same advantage to all the individuals in the same manner. While some are suited for individuals paying higher taxes few other suits people belonging to lower tax bracket. Individuals are not always aware of all the technical details about the scheme which they chose for investment.

They might choose a particular scheme for one benefit while being ignorant about other schemes which provide same or better benefits with better terms. So what is important here is to know all the terms related to an investment. Information is something which is shaping business and world constantly in this century. More is the amount and quality of information better will be the decision quality. In the absence of critical information investors end up taking decisions which yield less than potential benefits for them. So with information comes awareness and with awareness comes thirst for more information and information in right format at the right time with right people ensures quality decision making which triggers a virtuous cycle where everything turns out to be nicely synchronized and productive.

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