



RESEARCH ARTICLE

Assessing the influence of tax refunds and incentives on personal tax Reporting: A qualitative perspective

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Abstract

Taxation is an important financial resource for the government, enabling it to support development projects and maintain the efficient functioning of the country. The taxes collected are closely linked to public services such as healthcare, education and infrastructure, which are essential to improving the quality of life of citizens. Tax rules, including deductions and credits, greatly affect individual taxpayers and determine their financial well-being. This article examines the impact of these tax deductions and credits on individual income tax returns (ITRs) over a period of time to understand the impact of certain tax policies on taxpayers' financial outcomes. The main objective of the study is to assess the impact of certain factors, such as income, occupation, salary, and tax exemptions, on the favorable results of tax deductions and credits reported on individual tax returns. By examining these factors, this article attempts to determine how each factor affects the effectiveness of deductions and credits and the overall impact on the ITR of individual taxpayers. The study used logistic regression models to examine these relationships and assess how specific factors contribute to the positive effects of tax deductions and credits.

The results of the study revealed significant relationships between the selected factors, highlighting that income is the most important factor in determining the beneficial effect of tax deductions and credits on ITR. Income level, more than occupation, salary, or exemptions, significantly affects the benefits a taxpayer receives from deductions and credit programs. This observation is consistent with the widely held belief that individuals with higher incomes generally face greater tax liabilities and may not receive as much direct benefit from deductions and credits as those with lower incomes. Conversely, individuals with lower incomes tend to receive greater financial relief as a result of tax policies designed to reduce their liabilities.

The analysis also highlights the importance of specific trends and patterns in the selected data, showing how tax deductions and credits can be used strategically to reduce tax inequality. These policies are designed to promote a fairer tax structure, ensuring that lower-income earners receive more substantial benefits while higher-income earners pay a greater share of the tax burden. The paper highlights how understanding these trends can help policymakers design more effective and targeted tax systems that can help reduce economic inequality.

In summary, this study highlights the significance of tax deductions and credits in shaping the financial results of individual taxpayers. The logistic regression model illustrates that income is a key factor in determining the effectiveness of these tax policies. The results suggest that tax credits and rebates, if carefully designed, can have a positive impact on ITRs, promoting equity and fairness in the tax system. By identifying the factors that have the greatest impact on individual tax returns, this study provides valuable insights for policymakers aiming to refine tax policy and improve the overall tax system for all citizens.

Keywords: Impact, Relief, Rebate, ITR, Individual, Qualitative.

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Introduction

Tax policy poses significant challenges for developing countries, as complex tax laws, administrative shortcomings and a tax system that relies on the informal sector lead to inefficient revenue collection. These barriers hinder the effective functioning of the tax system, leading to low tax compliance, under-collection of tax revenues and limited public investment. In numerous developing nations, including India, the tax system is convoluted and consists of multiple taxation layers, including central, state, and local taxes, as well as direct and indirect taxes. This complexity frequently discourages taxpayers from engaging in the

formal tax system, especially among lower and middle-income populations. A key concern highlighted by Ghuge (2015) is that the diversity and complexity of tax systems have discouraged individuals from participating in the tax process. For example, the many exemptions, rebates and complex procedures in countries such as India may confuse taxpayers or make them believe that compliance is too burdensome compared to the perceived benefits. As a result, individuals may be reluctant to file income tax returns (ITRs), resulting in lower levels of tax compliance. Furthermore, the informal sector, which constitutes a significant portion of many developing economies, also exacerbates the problem. Informal workers and businesses generally do not contribute to the tax base because their economic activities are neither officially registered nor monitored. As a result, a large proportion of economic transactions remain outside the tax net, resulting in a limited tax base and insufficient revenues for essential public services.

Studies have shown that income levels are closely linked to filing ITRs. Individuals with higher incomes are more likely to file their returns due to greater tax liabilities and the financial benefits associated with the formal tax system. As income increases, the likelihood of a person interacting with the tax system also increases, as they move up to higher tax brackets and can better understand the legal requirements. In contrast, people with low incomes are usually exempt from tax or receive the lowest tax rates, so they are less motivated to file ITRs, which results in them being excluded from the formal tax system. This gap has led to a regressive tax system, where the wealthy bear a disproportionate tax burden.

Tax policies are not just about raising revenue, they are also inextricably linked to a broader economic strategy. They affect key macroeconomic factors such as employment, inflation, interest rates, economic growth, and national welfare programs. For example, an effectively designed tax policy can stimulate job creation by incentivizing businesses or specific industries, while a poorly designed policy can have the opposite effect. Taxes also play a role in managing inflation, as consumption taxes can affect price levels. Furthermore, tax policies influence interest rates, as government revenue collection affects fiscal policy choices and borrowing needs. Economic growth depends on effective taxation, as tax revenues finance essential infrastructure, education, healthcare and other public services that underpin long-term economic development.

In this perspective, taxpayer contributions are essential for the effectiveness of comprehensive economic policies. The government needs to review tax structures and policies to ensure revenue optimization while maintaining fairness and equity. A well-functioning tax system provides the necessary financial resources for development and welfare programs, which ultimately benefit the economy and improve people's living standards. Therefore, tax reforms

that address administrative challenges, broaden the formal tax base, and promote tax compliance are crucial to the overall economic viability of developing countries.

Objectives

- Assess the impact of refunds and concessions on ITR
- Examine the impact of income, occupation and salary on tax refunds and deductions.

Research Methodology

This research adopts a primary research methodology to meet its objectives. The study emphasizes six critical variables that significantly impact financial planning and ITR procedures. These variables include occupation, income, salary, deductions, exemptions, and rebates and benefits. Among them, occupation, income, and salary are determined as the main independent variables, while deductions, exemptions, rebates, and benefits serve as the dependent variables in this analysis. Employment as an independent variable affects financial planning by influencing the nature of a person's income, the way it is taxed, and the deductions and exemptions that apply. Similarly, the level of income and wages directly determines a person's tax bracket, which affects the application of deductions, exemptions, and refunds to reduce overall tax liability. The study illustrates the interrelationship of these factors when developing financial planning strategies, especially with regard to their impact on the ITR procedure.

The study studied the impact of the exemption on ITR, stressing that these exceptions may be related to health, education and other government-approved benefits that may reduce taxable income and reduce tax. The study also looked at the beneficial effects of discounts and reliefs on the ITR, which can further reduce the impact on individuals, especially in some income areas. The aim of examining these dependent variables is to provide a deeper understanding of how various tax incentives affect financial planning and ITR outcomes.

To ensure the validity of the results, the study uses various statistical methods. Descriptive statistics summarize data and highlight significant trends in the relationships between independent and dependent variables. Logistic regression was used to analyze the relationships between independent variables (employment, income, and wages) and dependent variables (deductions, exemptions, compensation, and benefits) to accurately describe their impact on financial planning. The t-test and Chi-Square test are also used to assess the significance of findings and to determine whether the observed relationships between variables are statistically significant.

Graphical tools such as charts and graphs are used to visually convey the results of statistical tests. These visual aids help interpret the data and provide a clearer understanding of the relationships between the variables

studied. Using this multifaceted approach, the study aims to gain insight into the factors that influence financial planning and tax strategies.

Literature Review

- Puttaswamy (2018) examined "Income Tax Reforms in India: A Study Based on Perceptions of Income Tax Assessors and Authorities," indicating that the ITR via "SARAL" had been highly important for small and medium taxpayers. In addition, direct taxes rose in their share of tax revenue throughout this period. Compared to countries like Brazil, China and Russia, India's tax-to-GDP ratio remains low. The study also showed that personal income tax has been gradually increasing for middle-income groups compared to high-income groups. In terms of state contribution to income tax revenue, Maharashtra leads India with the highest contribution (38%), followed by Delhi and Karnataka.
- Prospect theory was proposed by Kahneman Daniel and Tversky Amos (1979) and emphasizes the analysis of decisions made under risk. This theory combines psychology and economics to examine how cognitive biases and heuristics influence tax behavior. The authors highlight the benefits and drawbacks associated with specific reference points that serve as catalysts for decision-making. People are more sensitive to losses than to gains, so prospect theory can explain the weighting of decisions. These weights reflect the fact that low odds significantly influence choices related to insurance and gambling.
- C. Chitteenbabu (2023) investigated the awareness and perceptions of tax-saving instruments in the Bengaluru region, encompassing a sample of 110 salaried individuals for this primary study. The main objective of this study is to understand the taxpayer tax planning strategy and to determine the actual tax-saving tools for tax cuts. The main findings show that 60% of paid persons are satisfied with tax-saving tools and 18% expressed great satisfaction. Only 9% of the people were in the dissatisfied group.
- Saheb Dubey (2021), the author, pointed out that tax collection is an accepted practice in several countries that serves as a major source of direct or indirect financial support to governments. Taxes are designed to extract a portion of the wealth from a country's wealthiest citizens in order to finance social development and meet the needs of the less fortunate. As mentioned in the introduction, taxation motivates individuals to save more by making investments to reduce their tax liabilities. However, this study shows that while workers have some awareness of the different tax schemes, their understanding is incomplete. In order to fully utilize tax incentives, it is necessary to have a

comprehensive understanding of them. Therefore, it would be beneficial to offer more educational programs on tax planning to employees.

- Shakhawat Hossain Sarkar *et al.* (2019) showed that the ITPI for various categories of individual taxpayers in Bangladesh is significantly lower and inconsistent compared to India. As more individuals participate in tax planning, the potential for capital development, improved tax compliance, and accelerated national growth increases. This is due to the tax plan that allows each taxpayer to reduce its tax liabilities. This research has begun in a new exploration field on the taxpayer's tax plan for personal taxpayers in connection with developing countries such as Bangladesh. Further research can investigate the impact of tax plans on specific taxpayers, the role of tax plans in capital generation, the company's tax plan strategy and the impact of the company's tax plan on business assessment and performance.

Data Analysis

i) Descriptive Statistics Test

The results of this study are divided into four sections, of which the descriptive section is outlined. Figure 1 shows the preliminary analysis of the variables involved with details of their means, standard deviations and minimum-maximum values. A total of 500 samples were considered for the descriptive analysis. Income and wages are analyzed as continuous variables related to the qualitative attributes of deductions, tax exemptions, and the effects of refund reductions.

Furthermore, all five variables comprised an equal number of 500 cases for each individual taxpayer. The deduction variable recorded the highest mean value, whereas the impact ITR variable registered the lowest mean value during the measured period. The income variable exhibited the highest standard deviation, while the impact ITR variable displayed the lowest.

According to descriptive analysis, the occupation (Figure 2) is most represented in the third category, namely the "Business-Self-employed\" group, at about 33%, while the fourth category, "Housewife,\" has the lowest representation, at 14%. The distribution of the second category, "private sector salaried person,\" is 23%, but the distribution of the "salaried government person\" category during the studied time is 29.6%. Regarding the income distribution (Figure 3), the first category segments below Rs.5 lakh show the most dramatic drop in income, followed by a 29% gap in the second group of "500000\" across all income categories. Furthermore, in Figures 4, 5 and 6, the overall distribution is only 20% for people earning between 10 lakhs and 20 lakhs. In terms of the distribution of salary variables (Table 1), salaried individuals have the highest representation,

reaching 72% in the entire study. In terms of derived factors, the third group of “medium belief” had the highest distribution (33.8%), followed by the combined category of “not recommended and less belief” (48%). The overall distribution of the belief category was 52%.

When it came to free income, the highest approval was for the “moderately agree” category (33%), and the lowest for the “strongly agree” category (14%). Over 52% of the distribution falls within the categories of disagree and slightly agree. (Table 2 & 3) In the variable distribution

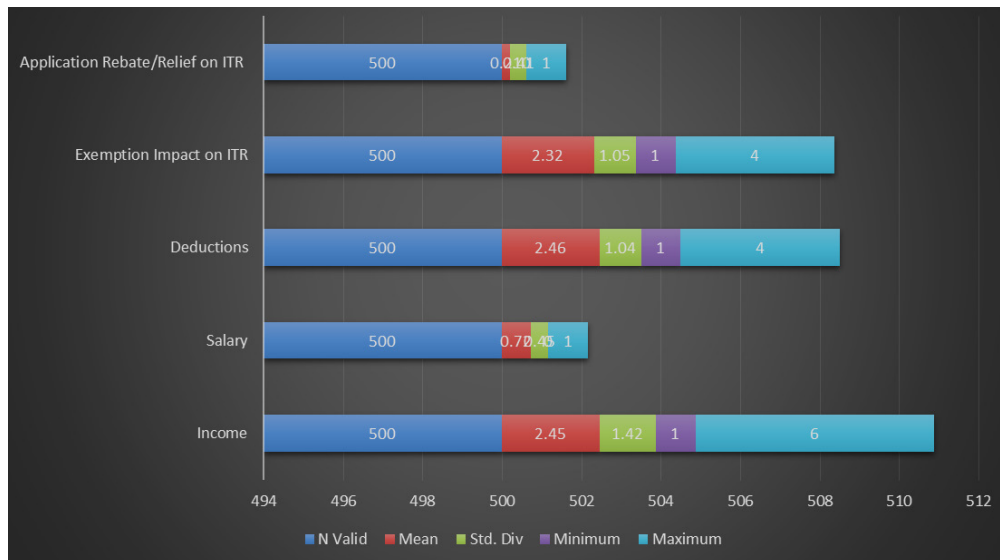


Figure 1: Statistics

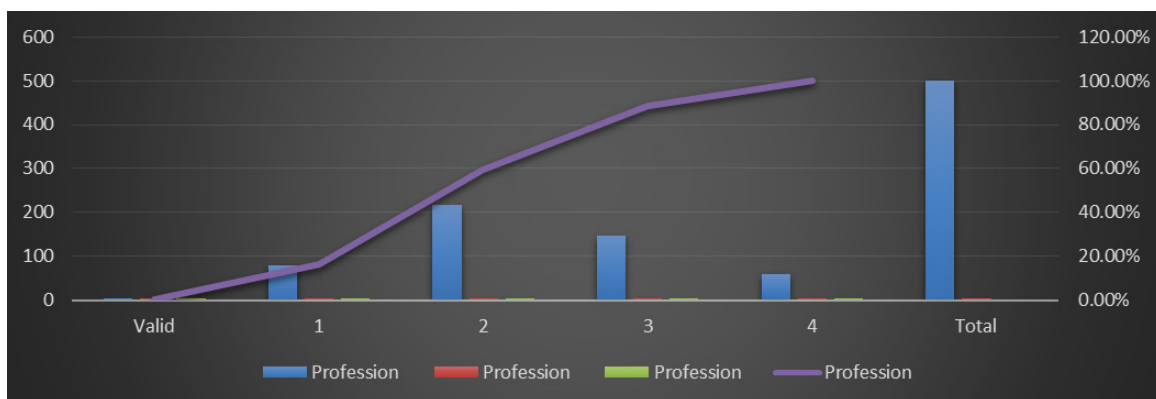


Figure 2: Profession

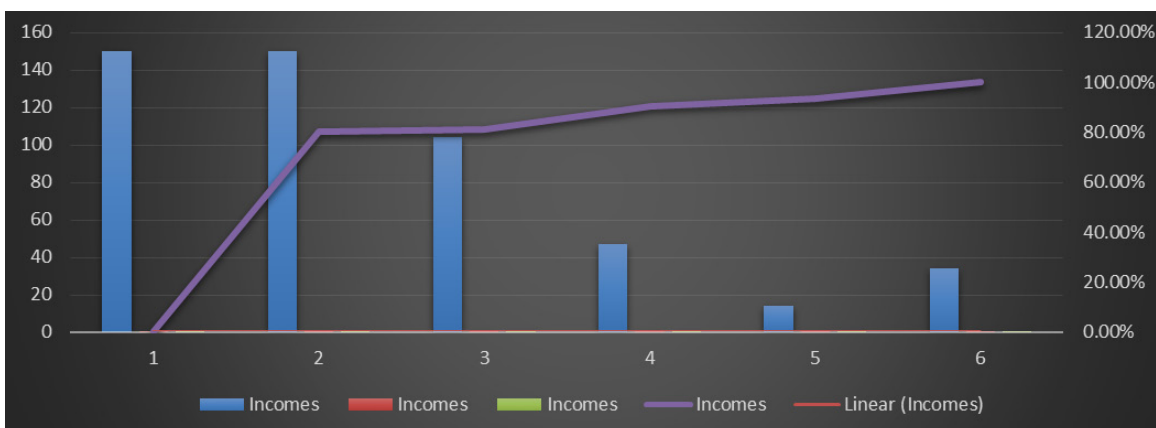


Figure 3: Incomes



Figure 4: Salary

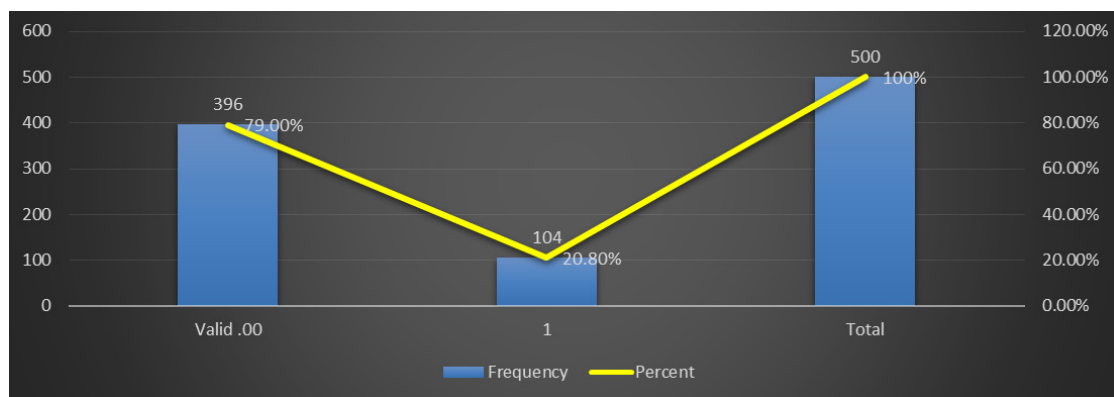


Figure 5: Rebate & Relief on ITR

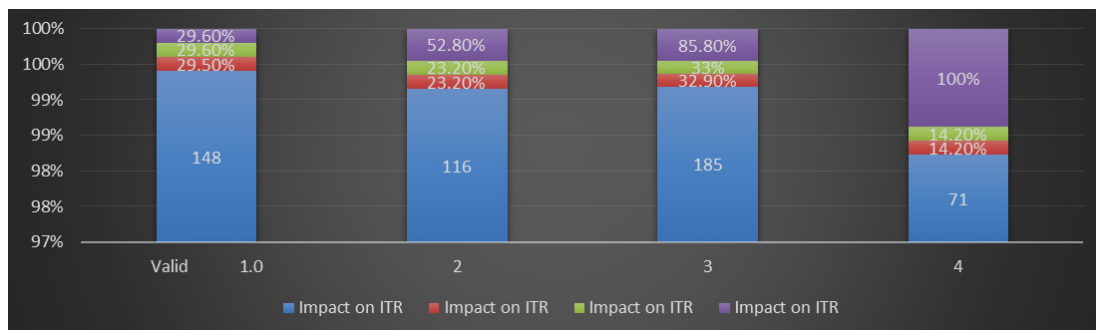


Figure 6: Impact on Income Tax Return

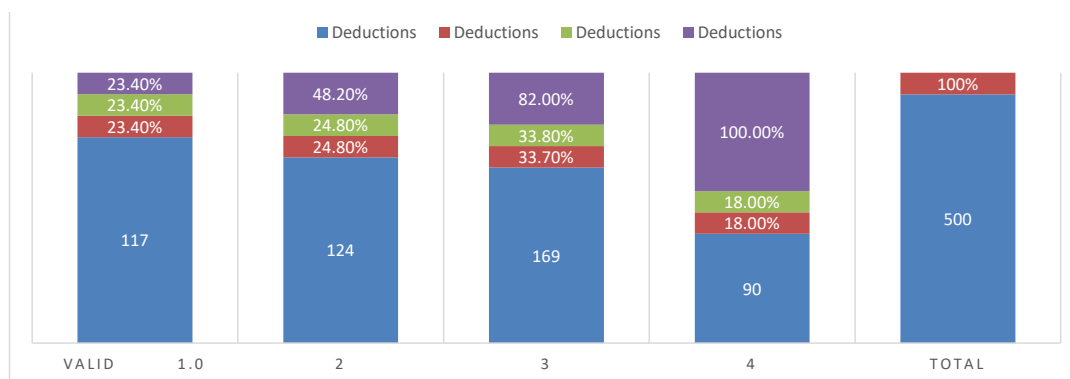


Figure 7: Deductions

of the “discount relief effect on ITR”, the majority of the representation is negative (79%), while the rest reflects a favourable perception of its impact on ITR (Figure 7).

ii) Correlation between selected variables

This section examines the relationship between some of the variables considered in the study. The chi-square test was used to evaluate the hypotheses H0: there is no relationship between the selected variables and H1: there is a relationship between the selected variables.

Table 1 shows the chi-square values of the four selected variables: occupation, tax exemption impact, financial planning deduction and tax refund relief have a positive effect on ITR, which are 125.23, 41.01, 27.09 and 170.53 respectively. If the significance level is less than 0.05, the p-value of the dependent variable is 0.000. This is sufficient evidence to reject the H0 hypothesis and we accept the alternative hypothesis H1 regarding the significance of the association between all selected variables.

iii) Performing the randomness test

It identified a trend and highlighted the need for further research in this study. The chi-square test shows that the correlation is strong, as shown in the run test in Table 2

Here the test is shown by the average number indicating that there are average and three wages, and the logical regression is two and zero average digits. Each selected variable has 500 samples. Extensive two-tailed running tests demonstrated the significance of each variable by yielding *p-values* below 0.05. The results of this test indicate that there are identifiable patterns or trends in the current data that can serve as evidence of the significance of the chi-square test.

iv) Logistic Regression for Impact Analysis

The logistic regression illustrates the influence of different variables on the dependent variables. Previous associations and pattern significance identified in the selected variables form the basis for further investigation, where the current logistic regression delves deep into impact analysis. Table 3 displays the logistic regression model where the probability of achieving a higher value is indicated as 506.82. Income and salary serve as independent variables, while rebate-relief positive impact ITR is assessed as a dependent variable within the model.

Table 1: Chi-Square Test for Association

Test Statistics			
	Chi-square	df	Asymp.Sig.
Profession	125.23	3	.000
Exemptions Impact	41.01	3	.000
Deductions Financial Planning	27.09	3	.000
Rebate-Reliefs Positive Impact on ITR	170.53	1	.000

The classification model shows the dependent variable with a percentage correct value of 79, indicating strong explanatory power in this model. The equation model illustrates the overall fit of the model, with the largest beta value attributed to constant, followed by income at 0.18 and salary at 0.13. The highest standard error is due to constant, while the lowest error and income is 0.09.

In addition, the importance of the model highlights the impact of income and the continuous impact of wages on variables. The model equation shows that income is the key variable affecting the dependent variable as tax refund has a positive impact on ITR.

Conclusion

The aim of this study is to analyze and identify relationships between specific variables and to explore the significance of various patterns and trends observed in the data. The study is concerned with understanding how these variables affect tax refund ITRs, with particular attention to factors such as salary, employment, and income level. By assessing these factors, the study shows how they interact and affect the overall results.

The main findings of the study show that salary and employment do not have a significant impact on ITR refund deductions. Contrary to popular belief that higher salaries or certain occupations can affect the discount, the data tells a different story. Salary alone does not appear to have a direct impact on discount benefits, highlighting that other factors, especially income level, are more important in determining discounts. The study highlighted that income level is the most important factor affecting ITR deductions compared to salary or employment.

Furthermore, the study found that occupation has no significant effect on the dependent variable (in this case, ITR tax refund deductions). While different professions may have different income or tax benefits, the study shows that the

Table 2: Runs Test for Randomness

	Run Test			
	Salary	Deduction Financial Planning	Exemption Impact	Rebate- Reliefs Positive Impact on ITR
Test Value (Median)	1.00	3.00	2.00	.00
Cases< Test Value	138	241	148	0
Cases> Test Value	362	259	352	500
Total Cases	500	500	500	500
No. Of Runs	181	128	121	1
Z	-2.22	-11.00	-9.50	NaN
Asymp.Sig. (2-tailed)	.026	.000	.000	NaN

Table: 3 Impact analyses by logistic regression

Model summary						
Step	-2 Log likelihood	Cox & Snell R Square			Nagel kereke R Square	
1	506.82	.01			.01	
Dependent variable encoding						
Original value		Internal value				
.00		.00				
1.00		1.00				
Classification table						
Observed		Predicated				
		Rebate-reliefs positive impact on ITR			Percentage correct	
Rebate-reliefs positive impact on ITR		.00	1.00		100%	
		396	0		0%	
		.00				
		1.00	104		0	
Overall percentage					79.2%	
Variables in the Equation						
	B	S.E.	Wald	df	Sig.	Exp (B)
Income	-.18	.09	4.19	1	.041	.84
Salary	-.13	.25	.27	1	.604	.88
Constant	-.83	.31	6.95	1	.008	.44

profession itself has no direct correlation with the discount. This means that regardless of a person's occupation, this variable does not significantly affect the discount on the ITR. The small effect of occupation highlights the importance of income level as a significant determinant.

The study also pointed to specific trends in the data that reinforce the notion that income level is the most influential variable. By analyzing the relationship between income level and tax refund ITR reduction, the study confirms that individuals with higher income levels tend to receive larger tax refunds. The trend suggests that income level, rather than salary or professional background, is the determining factor in determining the size of the tax refund an individual is eligible to receive. Furthermore, the study provides important insights into how demographic elements, such as income level, should be prioritized in future policymaking or tax-related decisions. Given that income level emerged as the primary influence on the ITR rebate, this finding could inform future tax policy, suggesting that changes in income thresholds or tax brackets may be necessary to ensure a more equitable distribution of rebates.

The implications of this study are significant for both policymakers and individuals in comprehending the complexities of tax rebates. It questions the belief that higher salaries or specific professions are automatically associated with greater rebates and underscores the necessity for a more nuanced approach focused on income levels. In

conclusion, this study provides important insights into the factors that influence ITR tax refund relief. The results show that salary and position do not have a significant impact on the amount of tax refund, and income level is the most significant variable affecting tax refund outcomes. These findings highlight the need to consider income levels when understanding the current tax rebate system and formulating future policy options. By prioritizing income rather than professional status or salary, policymakers can more effectively address the needs of individuals eligible for tax refunds, leading to more targeted and effective tax reduction strategies.

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Conflict of Interest

Regarding the publication of this research paper, the author(s) declare that they have no conflicts of interest. No personal, professional, or financial ties have influenced the research methodology, analysis, or findings reported in this study, which was carried out independently.

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