



## TAX LITERACY AND THE ROLE OF FINANCIAL KNOWLEDGE: A STUDY OF GOVERNMENT INITIATIVES AND INDIVIDUAL INVESTORS FROM DELHI NCR

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### ABSTRACT

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*Taxes are the economic values that are received by the government and is an important source of its income. As such, the government takes various initiatives and approaches to strengthen tax awareness and increase tax compliance. Financial knowledge, which is usually provided by a more structured educational format has important implications. The aim of this research is to understand the financial knowledge in context of tax literacy and the role the government plays in this regard. The study aims to highlight important measures adopted by the government, leading to enhancement of financial knowledge and ultimately tax literacy. It provides steps that it should take for further development in the context of financial education and tax literacy*

**KEYWORDS:** Tax Literacy, Financial Education, Government Initiatives

### INTRODUCTION

The priority in government spending through different schemes “such as Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Vaya Vandana Yojana, etc.” and incentives to the weaker section of the society over a past few years has led to an improvement in the financial abilities of masses. However, low level of financial education acts as “a barrier to participation in the financial system.” As such, this part of education is of utmost importance to the economy. Financial

education, among many other aspects also includes knowledge of taxation.

“Unlike many other skills, taxation is an area which is not directly taught at any stage in the educational system (unless being undertaken as part of a specialised degree), yet it is an area which has an impact on each individual.”

Tax literacy potentially impacts an individual’s overall financial position. It is therefore imperative, that this issue of tax literacy be explored. This paper will therefore explore financial education in the context of tax literacy and the governments’ role in this regard.

Tax literacy may be defined as “the knowledge necessary to manage the issues concerning personal taxation effectively.” (Bhushan & Medury, 2013) Tax literacy is defined as “the possession of specific tax oriented financial knowledge and numeracy skills, required for managing tax calculations. Tax literacy is intended to help individuals receive information about taxes, to explain them taxes within a domestic system as well as regional and international system.” (Cvrlje, 2015)

Financial knowledge, on the other hand, is also an important element for the financial well-being of an individual. financial knowledge encompasses:

- The knowledge of finding reliable information to make financial and investment decisions;
- The knowledge of processing information to make sound financial and investment decisions; and
- The knowledge of executing financial decisions, and adapting to necessary changes in order to stay on track

Thus, tax literacy forms an important part of the overall financial management ability of an individual. “If taxation issues are not seriously considered, there could be significant risks for both individual wealth and the economy.” (Cvrlje, 2015)

## LITERATURE REVIEW

Baby J. (2021) in “An Investigation on the Direct Tax Literacy of Indian Citizens in the Present Scenario” aims to examine the direct tax literacy rate of Indian citizens. The study reveals that even though a major proportion of the population are regular taxpayers, they lack proper literacy in terms of tax and its laws. The paper suggests education as a tool to make a tax literate society.

Cvrlje, D. (2015) in “Tax literacy as an instrument of combating and overcoming tax system complexity, low tax morale and tax non-compliance”. The paper aims to understand “the complexity of the taxation system, low tax morale and low tax compliance in combating implementation of tax literacy initiatives and programs.” This paper examines “the importance of tax literacy and possible consequences and negative outcomes that might occur due to the low levels of citizens’ tax literacy.”

Latiff et. al (2005) in “Tax literacy rate among taxpayers: Evidence from Malaysia” highlight “the importance of taxation knowledge by measuring taxpayers’ literacy rate” among the respondents from Malaysia. The results of the study highlight that “although more than 60% of respondents are tax literate, a significant number of them are actually functionally tax illiterate.” Functionally tax illiterate are those who have the ability to perform the required tasks but are deficient in tax knowledge. Thus, the information is potentially useful to the tax authorities for developing effective compliance enhancement policies

Koretskaya & Garmash, V. A. (2017) in “Taxation awareness and its impact on financial literacy” deliberates on “the concept of tax awareness and its relation to the concept of tax culture.” The researchers discuss “the measures necessary to raise tax awareness in the society, which involves increasing the population’s knowledge about tax legislation.” The author is of the opinion that raising tax awareness will enhance financial literacy.

Stephen & Chakraborty (2019) in their work in “Understanding Tax Literacy of Individuals” attempts to determine the tax literacy levels of the respondents. Tax Literacy was assessed taking into consideration a Likert Type scale. ANOVA was used to test the hypothesis of the study for the sample size of 700 respondents. The findings of the study portray lower tax literacy levels.

Bhushan & Medury (2013) in “Determining Tax Literacy of Salaried Individuals - An Empirical Analysis” attempts to examine the “tax literacy level of salaried individuals based on various demographic and socio-economic factors.” This was done with the help of 13 statements on “personal income tax.” The statements formed part of “the basic concept of income tax, computation of tax liability, assessment rates, deductions, etc.” This was done to “assess how knowledgeable the respondents are about the concepts and issues relating to personal taxation.” The results of the study indicate that the “overall tax literacy level of respondents is not very high.” The finding of the study also indicates that “the level of tax literacy varies significantly among respondents.” Besides, it was also observed that “the tax literacy level gets affected by gender, age, education, income, nature of employment and place of work, whereas, it does not get affected by geographic region.” The result of the study indicates that “the government should adopt more aggressive approaches to educate taxpayers, thereby raising the level of tax literacy among them.”

Chardon, et al (2017) in “Tax and superannuation literacy: Australian and New Zealand perspectives” discusses the importance of the National Financial Literacy Strategy of Australia and the National Strategy for Financial Capability of New Zealand through which financial literacy is being provided by the respective Governments to its population. The authors argue that taxation consequences play a major part in investors’ decision-making. This is important for overall decision-making and financial literacy. Irrespective of the differences in tax policy between the two countries, the basic understanding of taxation concepts plays an important role in building the overall financial capability of citizens in both the countries.

Kaur A. (2018) in “A study on tax literacy level among Taxpayers: A case study of Derabassi City” aimed to examine tax awareness among taxpayers of Derabassi city. The research work aims

to study the tax planning measures and general tax awareness of the taxpayers. The study also aimed at assessing the “influence of tax awareness on voluntary tax compliance decision of taxpayers.”

Literature review suggests that not much work has been done in the area of tax literacy. Not much data is available to suggest any conclusive step taken by the government to uplift the morale of the masses and to support with financial education programs to create financial literacy. Thus, on the basis of the research gap, the following research objective were decided.

**RESEARCH OBJECTIVES**

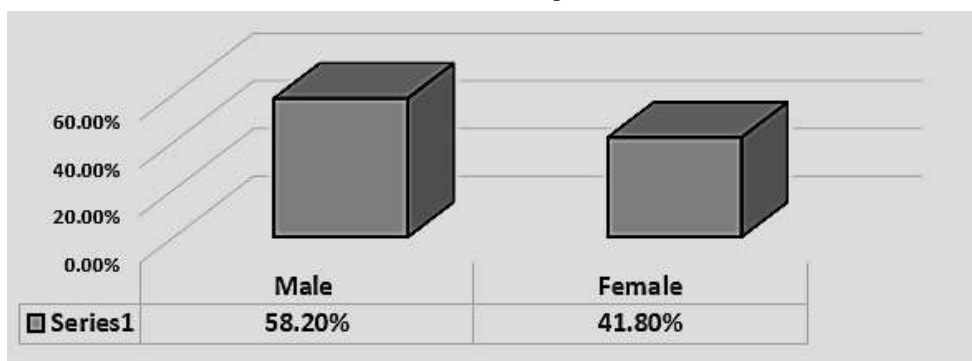
- To understand the financial knowledge of individuals in Delhi NCR leading to tax literacy
- To understand the role the government in providing financial knowledge and to achieve desired tax literacy level

**RESEARCH METHODOLOGY**

In order to achieve the objectives of the study, primary data was collected by means of questionnaire. The questionnaire was designed, taking into consideration past research. A scale was developed to measure the financial knowledge leading to tax literacy. Data was collected from 215 respondents residing in Delhi NCR on convenience sampling method technique. Factor analysis was used for data reduction and summarization. Mean score was used instead of correlation or regression, as the aim of the study was not assessing any relation or causality, but to simply assess the financial knowledge leading to tax literacy. Secondary data was obtained from articles and reports published in journals, magazines and other publications. Besides, other appropriate descriptive statistical techniques were used to describe the data.

**DATA ANALYSIS & INTERPRETATION**

Data was collected from 215 respondents. Data was collected on different parameters and characteristics concerning the profile of the respondents.



**Fig: 1 Gender of the Respondents**

Figure 1 (above) presents the gender profile of the respondents. The data was almost in the ratio of 60:40 between males and females.

Table 1 (below) presents the educational qualification of the respondents. It is clearly visible that the respondents belong to different educational levels.

**Table 1: Educational Qualification of the Respondents**

Educational Qualification	Frequency	Percentage
Up to Higher Secondary	12	05.4
Graduate	63	28.3
Post Graduate	102	46.1
Doctorate	32	17.9
Others	6	02.3
Total	215	100%

There is a fair representation of respondents of various educational backgrounds, but the majority of the respondents were postgraduates. A good number of respondents were graduates.

**Factor analysis:** Factor analysis was performed and two factors were retrieved, which were named as financial knowledge and tax literacy

**Table 2: Financial Knowledge and Tax Literacy Components Rotated Component Matrix**

Factors	Statement No.		
		1	2
Financial Knowledge	FK1	.928	
	FK2	.883	
	FK3	.871	
	FK4	.910	
	FK5	.789	
Tax Literacy	TL1		.816
	TL2		.745
	TL3		.847
	TL4		.842
	TL5		.860

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization <sup>a</sup>

a. Rotation converged in 10 iterations

**Cronbach’s Alpha:** “Cronbach’s Alpha” was applied to check the “reliability of the instrument”.

Table 3 presents the reliability statistics of the items of the scale.

**Table 3: Individual Reliability Statistics**

Factors	No. of Items	Cronbach's Alpha
Financial Knowledge (FK)	5	<b>.878</b>
Tax Literacy (TL)	5	<b>.896</b>

Table 3 presents the reliability statistics of individual items of the scale. The Cronbach’s Alpha value of all the items was found to be above 0.6, which implies that the measurements were reliable. (Shelby, 2011)

the respondents. The mean values were combined and calculated for both the factors as well as for the whole scale. The mean score was calculated based on the scores of the respondents.

**Mean Score:** Mean score was calculated, in order to ascertain the financial knowledge and tax literacy of

**Table 4: Impact Assessment through Mean Value (A)**

Mean Value	Impact
Less than 2	very low
Above 2 but less than 3	Low
Above 3 but less than 4	Moderate
Above 4 but less than 5	High
Exactly 5	very high

Table 4 (above) presents the criteria for segregation of the mean value score of the respondents.

**Table 5: Assessment of Financial Knowledge and Tax Literacy**

Factors	Variables	Mean Values	Impact	Combined Mean Values	Impact
FK	FK1	4.065693	High	4.153285	High
	FK2	4.094891	High		
	FK3	4.299207	High		
	FK4	3.064864	Moderate		
	FK5	4.092873	High		
TL	TL1	3.836983	Moderate	4.040795	High
	TL2	4.065693	High		
	TL3	3.919708	Moderate		
	TL4	4.125344	High		
	TL5	4.045765	High		
<b>Total</b>				<b>4.0570214</b>	<b>High</b>

Table 5 (above) presents the assessment of Financial Knowledge and Tax Literacy based on mean values. Financial Knowledge had a mean score of 4.153285 (High Impact). That means respondents are considered as having high financial knowledge. The mean score for Tax Literacy was found to be 4.040795 (High Impact). That means respondents are considered as having high tax literacy. Overall, the combined mean score of the two factors, FK and TL was found to be 4.0570214 (High Impact). Respondents are considered as having high financial knowledge as well as high tax literacy.

## DISCUSSION & CONCLUSION

Tax literacy is a new concept, which is a part of financial literacy and still in developing stage. “Discussions on tax literacy are not widespread and the concept is also not discussed widely nor is it generally defined or accepted. Nevertheless, tax ignorance and illiteracy are dangerous not only for the economy but also for individuals and their personal budgets.” (Cvrlje, 2015) Review of literature suggests that tax literacy should be treated with urgency and importance. Otherwise, it may result into problems affecting not just an individual but the entire economy. “An individual should have thorough knowledge of various aspects of taxes and tax policies, which should help him to better understand how much he can save even after paying taxes.” (Cvrlje, 2015). As per Bracklin (2007), “The ability to meet tax liabilities on time, prepare returns accurately and claim all the possible entitlements for sure impacts one's overall financial situation” (Cvrlje, 2015).

Review of literature indicates that lack of financial knowledge is one of the major reasons behind exclusion of large number of people from any financial programs for the upliftment and inclusion into the main stream. (Verma, 2017) RBI in the year 2020 launched the 5Cs program viz “Content, Capacity, Community, Communication and Collaboration” for promoting financial education under the National Strategy on Financial Education initiative. But there is no conclusive result from the NSFE program, launched in 2012 to spread awareness among masses. “It is evident from the fact that of the 24.67 crore households in the country, 10.19 crore still don't have access to the banking services. In rural areas, 44% households and in urban area, 33% still don't have bank accounts.” Under the PFRDA scheme, “the government of India has also implemented several schemes in order to increase financial inclusion such as, Pradhan Mantri Jan Dhan Yojana, Jivan Jyoti Beema, Atal Pension Yojana etc. These schemes are introduced for the ease of banking services, awareness, and general insurance awareness.” But, apart from few steps taken by the RBI, SEBI or IRDA, which are sector specific, India is yet to see a full-scale financial inclusion initiative taken by the government. (Verma, 2017)

In a population of over a billion India has only 8.22 crore tax payer (AY 2020-21), which includes corporates, besides Individuals Under such a scenario, tax literacy is only a dream, yet to come true. In a recent interview, CBDT Chairman J B Mohapatra, acknowledged the fact that India is yet to see a literacy initiative in the tax domain. He further said “the Income Tax department is working to improve the ‘abysmally poor’ tax literacy in the country so that the number of tax paying people and entities can be increased leading to enhanced collections.”

The study suggests adoption of a multi-stakeholder approach to include wide participation, parallel to a pan-India initiative by the government. It is also suggested to adopt an outreach program with the help of social media and information technology to create tax literacy.

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