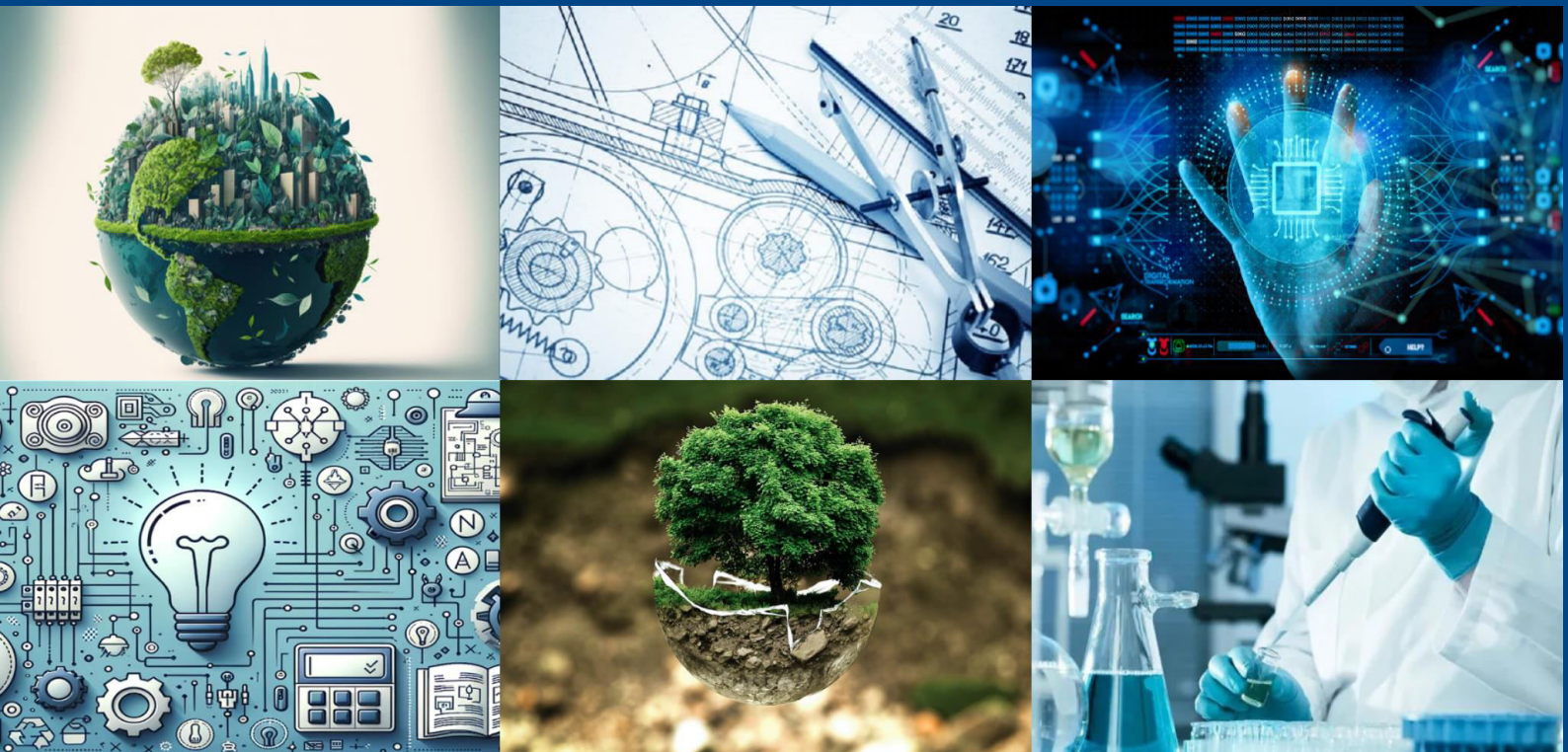




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## International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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# Understanding Taxation and its Impact on Personal Finances

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**ABSTRACT:** This study explores tax awareness and its impact on personal financial decisions. It examines how knowledge of tax policies influences financial behaviour, savings, investments, and compliance. The research highlights the necessity of tax education in fostering responsible financial planning and reducing tax evasion. Understanding tax structures enables individuals to optimize their financial resources effectively, making informed choices about income management and long-term financial security.

### I. INTRODUCTION

This paper looks at how understanding taxes impacts people's financial decisions, especially when it comes to budgeting, saving, and investing. While taxes are essential for both personal financial health and government revenue, many people don't fully grasp the rules around them. Without this knowledge, they can make poor financial choices or even run into legal problems. The study explores whether having a better understanding of taxes helps people make smarter decisions, like choosing the right tax-saving products or managing their money more effectively. It also looks at how tax awareness influences long-term financial planning. By considering factors such as age, income, and education, the research shows how different groups are impacted by their level of tax knowledge. The results suggest that those who know more about taxes are better at using tax benefits, staying compliant, and making smarter financial choices. The paper calls for more tax education, arguing that increasing awareness can lead to better financial decisions, higher tax compliance, and greater financial stability. It stresses the importance of expanding tax education programs to help close the knowledge gaps and empower individuals to manage their finances more confidently and effectively.

### OBJECTIVES OF THE STUDY:

1. To assess the level of tax awareness
2. To analyze the impact of tax knowledge on financial planning
3. To evaluate the influence of tax awareness on savings and expenditure patterns
4. To identify the relationship between tax awareness and tax

### II. REVIEW OF LITERATURE

**Role of tax awareness and financial literacy in an emerging economy undergoing tax reform by Novoa-Hoyos et al. (2014)** This article examines the literature on financial literacy and its effect on financial decision-making, with special emphasis on the role of tax awareness. It explains how poor financial decisions result from a lack of financial awareness, including tax awareness. **The Impact of Tax Knowledge on Tax Compliance: Evidence from a Developing Country by Mikesell et al. (2018)** The paper examines the connection between tax knowledge and tax compliance in a developing economy. It discovers that increased tax knowledge has its correlation in increased tax compliance. This implies that enhanced tax awareness can result in better tax compliance. **Tax Misperception and its Effects on Decision Making – Literature Review and Behavioral Taxpayer Response Model by Kirchgässner and Wöhlbier (2020)** This review looks at what shapes people's awareness of taxes, diving into factors like age, income, and even mindset. It shows how things like your background and personal beliefs can affect how well you understand tax laws. Ultimately, it explains how these factors influence how people think about and respond to taxes. **Taxing the Disposition Effect: The Effect of Tax Salience on Investor Behavior by Bazley, Moore, and Vosse (2020)** In this



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study, the authors analyze the effect of tax awareness on investor behavior, in particular, the disposition effect (selling successful stocks too early and holding unsuccessful stocks for too long). The authors conclude that raising tax salience decreases the disposition effect and results in greater portfolio balances. This implies that tax awareness enhances financial decision-making. **A Study on Tax Awareness in Public and Private Sector Organizations by Meetu Agrawal (2021)** This research delves into the extent of tax awareness among those employed in the public and private sectors in India. It looks at the interaction between demographic factors and tax awareness. The study emphasizes the role of tax literacy in proper personal financial management. **A Study on Tax Awareness in Public and Private Sector Organizations. Source: Vision Journal of Indian Taxation, 2021.** Summary: This article explores the tax awareness of employees in public as well as private sector firms. It concludes that awareness of taxes has a great effect on the financial planning of employees and their ability to make use of tax-saving tools efficiently. **Awareness and Preference for Old and New Tax Regime. Source: Taylor & Francis Online, 2022.** Summary: The study analyzes taxpayers' awareness and preferences for the old and new tax regimes proposed in the Indian 2020 budget. It offers insights into taxpayers' understanding of the two systems and what drives their decisions, which can assist in making informed choices. **Assessment of Tax Literacy Level among Individual Taxpayers in India. Source: Vision Journal of Indian Taxation, 2023.** Summary: This research assesses the tax literacy levels of individual taxpayers in India, with a focus on the need to know tax rights and obligations. It identifies that a greater level of tax literacy allows taxpayers to effectively file returns and make sound financial choices. **Awareness and Perception Regarding Tax Planning Measures among Salaried Individuals. Source: Journal of Emerging Technologies and Innovative Research, 2024.** Summary: The research investigates the perception and awareness of tax planning strategies among salaried employees in urban India. It finds that although most are aware of simple tax-saving strategies, there is a requirement for greater awareness to maximize personal financial management. Financial literacy and awareness of tax effects in an emerging economy undergoing tax reform. **Amalia Novoa-Hoyos, Lucie Depoo, Enrique Jiménez-Rodríguez. Economics & Sociology 15 (1), 222-240, 2022.** This study looks at financial literacy in Bogotá, Colombia, and how things like age, education, and marital status affect people's understanding of tax reforms and economic policies. By combining surveys and interviews, it reveals that mid-aged men tend to have the most awareness, while low-educated single women are the least informed. It highlights the need for better financial education, especially in a city facing significant economic changes.

### III. RESEARCH GAP

1. Tax Reforms and Financial Literacy: How do big changes like tax reforms affect people's financial literacy, especially in growing economies?
2. Tax Knowledge and Compliance Over Time: Once people learn about taxes, does it keep them compliant long-term, or do they start slipping up?
3. Psychology in Tax Decisions: How do emotions like stress, fear of making mistakes, or overconfidence impact how people plan for taxes?
4. Tax Awareness Across Demographics: Does tax awareness vary depending on things like age, education, or income?

**RESEARCH METHODOLOGY:** In case of the literature review on perception of taxation and its effect on personal finance, the main form of data gathering has been followed. Google forms have been sent to mixed populations of adults and an average number of 30 responses has been gathered. Remaining information about literature review and gap in research has been gathered through the secondary sources. The research shall employ a quantitative method, in the form of quantitative survey with the aim to acquire a holistic understanding of tax awareness and how it influences individuals' financial decision-making. The survey would include questions pertaining to: **1)** Familiarity regarding tax policies, rules, as well as tax incentives (i.e., tax brackets, deductibles, tax-deferred investments). **2)** Financial habits regarding savings, budgeting, investment decisions, and consumption patterns. **3)** Tax compliance perceptions and tax attitude.

**SAMPLING METHOD:** A random sampling method has been used for this study. The sample size comprises an average of 30 participants of mixed group of adults. **ETHICAL CONSIDERATION:** All participants has been provided with a consent form outlining the study's purpose, data collection procedures, confidentiality, and their right to



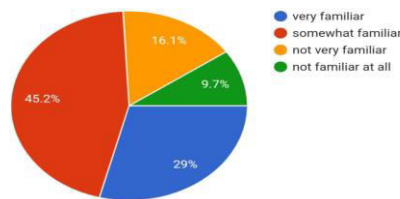
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withdraw at any time. Participants’ personal information will be kept confidential and used only for research purposes. Data will be anonymous to protect the identity of individuals. Participation in the survey is voluntary, and participants were given the option to withdraw without any consequences.

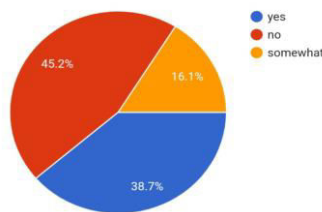
### IV. ANALYSIS: A STUDY ON TAX AWARENESS AND ITS EFFECTS ON PERSONAL FINANCIAL DECISIONS

#### 1. How familiar are you with the basic concepts of taxation (e.g., income tax, sales tax, etc.)?



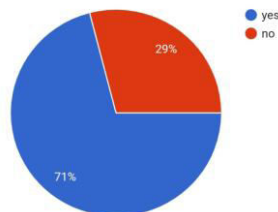
Most people are familiar with basic concept of taxation that is 45.2% while a very familiar with taxation are 29% and not familiar are 9.9%.

#### 2. Do you understand how taxes are calculated in your country?



Maximum people understand how taxes are calculated in your country that is 45.2% while on the other side 18.1% people are not understand how taxes are calculate in your country.

#### 3. Have you ever taken any formal education or course to learn about taxes?



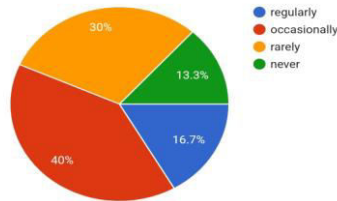
Most of the people have taken formal education to learn about taxes that is 71% whereas 29% people did not take any formal education or courses to learn about taxes.



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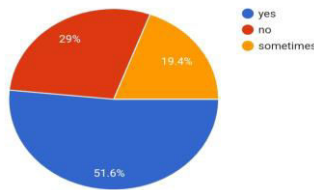
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### 4. How often do you keep up with changes in tax laws (e.g., new tax brackets, deductions, etc.)?



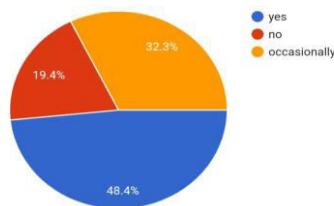
40% people agree that keep up with change in tax laws while 16.7% people agree that tax laws changes on regular basis and remaining believes tax laws changes rarely or never.

### 5. Do you consider taxes when making major financial decisions (e.g., purchasing a home, investing, saving for retirement)?



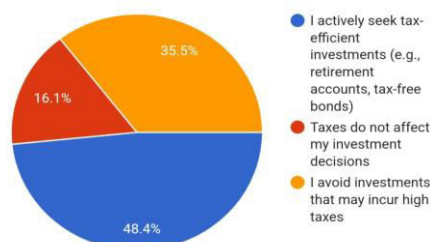
Around 51.6% people consider taxes while making major financial decisions while 29% don't and 19.4% consider taxes only sometimes.

### 6. Do you actively look for ways to minimize the tax impact on your personal finances (e.g., tax planning, tax deductions, credits)?



Around 48.4% of the sample population look into minimizing the impact of taxes on their personal finances, while 19.4% don't and 32.3% do it occasionally.

### 7. How do taxes influence your investment decisions?



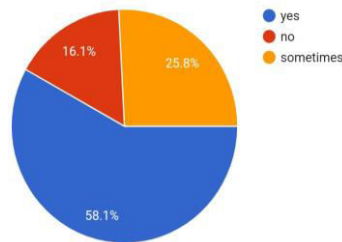


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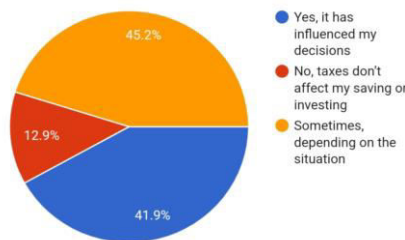
From the above we can see that 48.4% of the sample population seek tax efficient investments while for 16.1% of the population revealed that taxes do not affect their investment decisions and 35.5% avoid investments that occur high taxes.

### 8. Do you plan your annual budget considering the impact of taxes (e.g., withholding, savings for tax payments)?



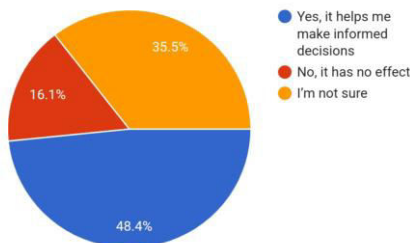
For 58.1% of the sample population taxes affect their annual budgeting while for 16.1% it does not and 25.8% it does sometimes.

### 9. Has your awareness of taxes ever affected your decision to save or invest money?



For 41.9% of the sample population their awareness on taxes has affected their decisions regarding personal finances while for 12.9% it did not and 45.2% experienced it sometimes.

### 10. Do you feel that your tax knowledge affects your ability to reach your financial goals (e.g., homeownership, retirement savings)?



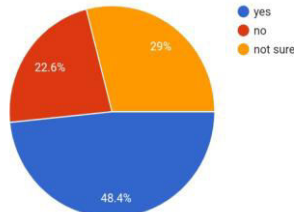
Around 48.4% of the sample population feels that tax knowledge helps them to take informed decisions regarding their financial goals, while 16.1% of them do not feel that tax knowledge actually has effect on their financial goals and 35.5% are not sure about it.



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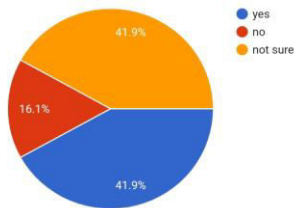
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11. Do you take advantage of tax-saving schemes available in your country (e.g., tax-deferred accounts, tax credits, deductions)?



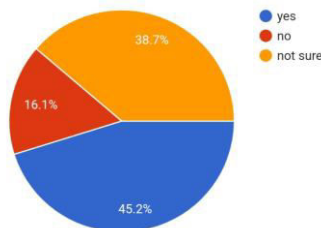
Majority people say yes to take advantage of tax saving scheme available in the country that is 48.4%, while 29% people not sure about it and 22.6% do not.

12. Do you believe that understanding taxes is important for making sound financial decisions?



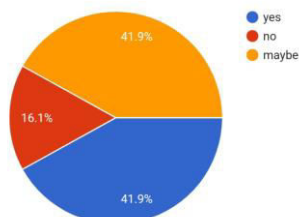
Majority of the sample population agrees that understanding taxes is important for making sound financial decisions while 41.9% are not sure and 16.1% do not.

13. Do you think the current tax system in your country is fair?



Majority of the sample population feels that tax system in our country is fair while 38.7% are not sure about it and 16.1% do not feel it is fair.

14. Would you be interested in learning more about tax-saving strategies and how taxes impact your personal finances?



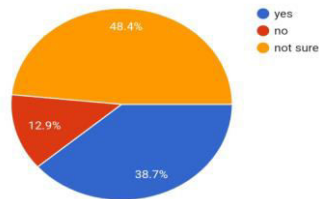


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Out of the sample population 41.9% are interested in learning more about tax-saving strategies and how taxes impact their finances and an equal percentage of people might consider it while 16.1% do not consider it.

**15. In your opinion, should the government do more to educate citizens on taxes and their effects on personal financial decisions?**



Majority of the sample population feels that government should do more to educate the citizens on taxes and their effects on personal financial decisions while a very little percentage of the population feels it is not necessary.

**FINDINGS AND SUGGESTIONS: Tax Awareness:** 45.2% of people understand basic tax principles, but 9.9% are completely unaware. **Impact of Education:** Most (71%) have learned about taxes formally, though only 40% stay up-to-date with tax law changes. **Financial Planning & Taxes:** Nearly half (48.4%) focus on tax-efficient investments, and over half (58.1%) factor taxes into their budgeting. **Tax-Saving Habits:** 48.4% regularly use tax-saving methods, but 32.3% only do so occasionally. **Financial Goals:** 41.9% think tax knowledge is key to long-term saving and wealth-building. **Fairness of the Tax System:** While many see the system as fair, 38.7% are unsure, and 16.1% disagree. **Need for Better Education:** 41.9% are eager for more info on tax-saving opportunities, showing a clear need for better awareness. **Government's Role:** Many feel the government should be more active in educating citizens about taxes and their financial impact.

**SUGGESTIONS:** To improve tax awareness and help people make better financial decisions, tax education should be part of school and university curriculums. Government-run workshops and online courses can give people practical tips on tax-saving and staying compliant. Employers and financial institutions can also play a role by offering tools to help with smart tax planning. Encouraging the use of digital tax calculators can make it easier for people to optimize their tax strategy. The government should use social media and public forums to make tax information simpler and more accessible. Offering incentives like early filing rebates and easy online filing options can motivate people to get involved. It's also important to address the tax knowledge gap across different age groups, income levels, and sectors, especially for those who are less educated or in lower-income communities. By doing so, we can ensure that everyone is equipped to navigate the tax system.

### V. CONCLUSION

Tax awareness is key to making smarter financial choices, from saving and investing to budgeting and staying compliant with taxes. People who understand taxes tend to make better financial decisions, while those who don't may miss out on tax-saving opportunities or end up paying more. The research shows that while formal education helps, there's still a lack of ongoing updates about tax policies. It's important for governments, schools, and financial institutions to work together to improve tax literacy through educational programs and easy access to information. In the end, fostering better tax awareness not only helps individuals manage their finances but also supports a healthier economy and encourages long-term growth.

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