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An Insight into the Changing Dynamics of Personal Tax Saving Instruments: Current Trends and Emerging Perspectives

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Abstract: This paper explores the emerging trends in tax saving instruments available to individuals with a special emphasis on understanding various exemptions, deductions, and investment options available under current income tax laws. It aims to provide a comprehensive analysis of how these instruments have evolved and their implications for taxpayers. The study also identifies and analyses new and innovative tax saving tools introduced by the government and financial institutions. It examines how these instruments cater to diverse financial goals and the changing needs of taxpayers in a dynamic economic environment. Through descriptive analysis, the study examines current trends in investor preferences, policy changes and the role of financial literacy in taking their tax planning decisions. It covers detailed explanations of various exemptions u/s10, deductions available under chapter VI-A, specified investments u/s 80C, health insurance premiums u/s 80D and deduction for home loan interest u/s 24(b), PPF, NPS, ELSS and new digital platform investments offering tax benefits. The paper also addresses the challenges associated with these options, such as complexities in compliance, changing regulations, and the need for financial literacy among taxpayers. The paper concludes with recommendations for simplifying tax related processes and enhancing taxpayer awareness to improve the effectiveness of these instruments. It also presents effective tax planning strategies and recommendations for individuals to optimize their tax savings while aligning investments with their long-term financial objectives. It reflects the evolving landscape of personal finance and tax planning. By providing an in-depth look at emerging trends and practical challenges, this study aims to offer valuable insights for both policymakers and individual tax-payers.

Key words: Tax Saving Instruments, Exemptions, Deductions, Financial Planning, Individual Assesses, Tax Awareness, Investment Preference.

1. Introduction:

Taxation is an important aspect of any economy, influencing financial decisions, investment strategies and overall economic growth. Effective tax planning and personal financial management are interrelated to each other. In India, the landscape of income tax laws has undergone significant changes over the decades, reflecting broader economic policies and shifts in fiscal strategies. This study aims to explore the emerging trends in tax saving instruments for individuals, focusing on the historical evolution of tax exemptions, deductions, and investment options as outlined in current income tax laws. Exemptions are specific types of income that are not subject to tax while deductions reduce the total taxable income. The complexity of tax regulations, combined with the dynamic nature of financial markets, necessitates a thorough understanding of the available tax saving instruments.

Historically, India's Income tax regime has seen substantial reforms, starting from the pre-liberalization era to the post-liberalization period. Before the economic reforms of 1991, tax policies were characterized by high tax rates and numerous exemptions intended to stimulate investment and savings. The government introduced various deductions such as provident funds and life insurance premiums, which became popular among taxpayers seeking to reduce their taxable income. The introduction of the National Pension System (NPS) in 2004 offered individuals an additional avenue for retirement savings, with tax benefits u/s 80CCD. Section 80C of the Income Tax Act was introduced in the Budget of 2005 which was a significant development, consolidating various tax saving instruments into a single deduction limit. This provision aimed to simplify the tax saving process while encouraging investment in specified financial products, such as Equity Linked Savings Schemes (ELSS), NSC and contributions to retirement savings.

Recent years have witnessed a shift towards more modern and flexible tax saving options, reflecting changes in individual financial behaviours and investment preferences. The rise of digital financial platforms has facilitated easier access to a range of tax saving instruments, from mutual funds to alternative investment funds. The government's focus has also been on promoting investment in infrastructure and economic development through schemes like the Sukanya Samriddhi Yojana, designed to encourage savings for the future of girl children. Currently, individuals have a diverse array of options to optimize their tax savings such as deductions for health insurance u/s 80D, interest on housing loans u/s 24(b), and deductions for donations to charitable institutions u/s 80G. Further, new tax regime u/s 115BAC was introduced in the Union Budget 2020 in which concessional rates of tax were prescribed with certain conditions. Each of these instruments reflects a strategic approach to encouraging specific types of savings and investments that align with broader economic objectives.

2. Objectives:

- To understand various exemptions and deductions available under current Indian tax laws.
- To evaluate various investment options and their tax benefits.
- To identify and categorize emerging tax saving instruments.

3. Review of Literature:

Bernheim, B.D. (2002) examined how taxation influences personal saving behaviour, analyzing both theoretical models and empirical studies. He found that while tax-advantaged savings instruments can promote saving, much of the response may involve shifting existing assets rather than generating new savings. The study highlighted the complexity of measuring tax policy effects and emphasizes that the success of tax incentives depends on factors like financial literacy and household constraints.

Mansuri, S., & Dalvadi, Y. (2012) studied general awareness of income tax among 100 respondents, with mostly familiar with the Income Tax Act and deductions, and 76% aware of available reliefs. However, deeper understanding appears limited as 15% were unaware of penalties and around half of them cannot distinguish between tax avoidance and evasion or are unaware of penalties for late payments. While 79% understand tax planning areas and tax saving techniques, detailed knowledge across different income heads is lacking for many.

Gautam, S., & Gautam, L. (2013) emphasized the importance of tax planning in financial management and seeks to identify the most popular and effective tax saving tools. This study aimed to identify the most preferred and effective tax saving instruments among individuals and assess the extent of savings achieved through their use. The results of the study indicated that life insurance policies are the most commonly chosen tax saving option, followed closely by provident funds.

Vyas, Y., & Gondaliya, V. R. (2020) examined the relationship between individuals' tax planning knowledge and demographic factors, using data from 250 salaried taxpayers in Bardoli. It highlighted that income and education levels influence tax awareness as higher earners often seek professional help, while educated individuals manage taxes independently. Most respondents are familiar with deductions under Sections 80C and 80D, though fewer utilize deductions related to education loans or donations.

Dastan et al. (2022) provided a focused analysis of income tax planning strategies and tax saving measures available to individual taxpayers in India for the Assessment Year 2021–2022. It explored various components of personal tax planning, emphasizing legal methods to minimize tax liability through deductions, exemptions, and investment-linked savings options. Their research highlights the importance of informed financial decision-making and compliance with tax regulations to optimize personal finances.

Umar et al. (2023) examined 30 studies on personal income tax planning from 2012 to 2022. It found that most research focused on unincorporated businesses and their owners, including entrepreneurs and sole proprietors, as well as the regulatory role of tax authorities. The review highlighted key areas such as wealth transfers i.e. inheritance, gifts etc. and strategies for maximizing disposable income through tax planning. It also identified the most commonly used tax saving tools, with life insurance policies leading, followed by provident funds, tax saving deposits, and other instruments. Additionally, it notes that government measures like fostering cooperation, reducing uncertainty, and discouraging aggressive tax tactics have influenced tax planning practices.

Dinkar, E. A., & Amar, E. V. (2024) investigated the most preferred and effective tax saving instruments among salaried individuals in Kolhapur City. Focusing on awareness levels and investment patterns, it highlighted that salaried individuals prioritize safety, regular income, and retirement benefits. Survey-based analysis revealed a strong preference for secure options like Life Insurance and Public Provident Fund. The findings indicate that while investors are aware of various instruments, safety remains the dominant factor in decision-making.

Deshpande, M., & Rakshe, A. (2025) explored investor behaviour in selecting between the Old and New Tax Regimes, influenced by income, financial goals, and tax planning awareness. It found that the New Regime, which lacks deductions under Sections 80C and 80D, leads investors to favour mutual funds and stocks over traditional tax saving tools. The Old Regime benefits those with structured investments, while the New Regime appeals to individuals prioritizing lower rates and simpler compliance.

Kumar et al. (2025) empirically explores factors influencing income tax evasion behaviour in India's National Capital Region. The model explained over 50% of the variance in both intention and actual evasion behaviour. Key influencing factors include high tax burden, corruption, and tax system complexity. In contrast, digitalization and tax morale had minimal impact. Importantly, individuals' behavioural intentions are strongly linked to their actual tax evasion actions.

4. Research Methodology:

It aims to systematically explore and describe the evolving landscape of tax saving instruments under current income tax laws. The methodology is designed to provide a comprehensive understanding of exemptions, deductions, and investment options available to individuals. This study employs a descriptive research design to capture and describe the current trends and features of tax saving instruments. In this study, mainly secondary data was evaluated using relevant keywords and criteria by analysis of Income tax act, amendments in Finance Acts, review of existing literature and articles. Ethical considerations related to use of secondary data was addressed by ensuring proper citation and referencing all sources.

5. Analysis and Discussion:

The analysis section aims to examine how various exemptions, deductions and investment options function, their benefits and their relevance. Exemptions allow individuals to exclude certain types of income from their taxable income, whereas deductions reduce the taxable income after once included in gross total income. Key exemptions and deductions include:

Agricultural Income u/s 10(1): Income derived from agricultural activities is exempt from tax but it is included in total income for the purpose of calculation of slab rates of tax.

Basic Exemption Limit under the new tax regime is ₹4 lakh from Financial Year 2025-26 as per Union Budget 2025. Furthermore, the increasing slab rates of 5%, 10%, 15%, 20%, 25 % and 30% will apply to income exceeding ₹4 lakh, ₹8 lakh, ₹12 lakh, ₹16 lakh, ₹20 lakh and ₹24 lakh respectively. A salaried employee can save more after changes in Budget 2025. An individual is not required to pay tax if his income is up to ₹12 lakh after taking rebate u/s 87A which has increased to ₹60,000. Even, income up to ₹12.75 lakh of a salaried person will be entirely tax-free due to standard deduction.

Gratuity u/s 10(10): is exempt up to a maximum limit of ₹ 20 lakhs in case of non-government employees. It is fully exempt in case of government employees.

Pension u/s 10(10A): Uncommuted pension is fully taxable, whereas commuted pension is exempt up to 1/3rd of total pension in case employee has received gratuity otherwise ½ of total pension.

Leave Salary u/s 10(10AA): It is exempt up to maximum of ₹ 3 lakhs in case of non-government employee.

House Rent Allowance (HRA) u/s 10(13A): HRA is partially exempt from tax for individuals who live in rented accommodations. The exemption is calculated as least of the Actual HRA received, rent paid minus 10% of salary or

50% of salary in case accommodation is in metro city (40% for any other city). It provides financial relief to employees living in rented houses by reducing their taxable income.

Long-Term Capital Gains on Equity Investments u/s 10(38): LTCG from the sale of equity shares and mutual funds, held for more than one year, are exempt up to ₹1.25 lakh per annum. Gains beyond this limit are taxed at 12.5% without indexation benefits. This exemption promotes investment in equity markets and mutual funds, contributing to increased participation in the stock market and long-term wealth creation.

Standard Deduction has been increased to ₹75,000 under the new regime for salaried class in Union Budget 2024. Deduction on family pension has also been increased to ₹25,000.

Deductions u/s 80C: It allows for deductions up to ₹1.5 lakh per annum for investments in specified financial instruments, such as Employee Provident Fund (EPF) and Public Provident Fund (PPF) for long-term savings with a fixed interest rate and tax benefits, Life Insurance Premiums, National Savings Certificates (NSC) for fixed-income investment, tuition fees of maximum two children, principal payment on home loans, post office time deposits, senior citizen savings scheme etc. These deductions provide a significant tax relief, especially for salaried individuals.

Deductions u/s 80D: It provides deductions for premiums paid on health insurance policies. The limit is ₹25,000 for premiums paid for self, spouse, and children, and an additional ₹25,000 for insurance of parents (₹50,000 if parents are senior citizens).

National Pension System u/s 80CCD(1B): Contributions to NPS qualify for an additional deduction up to ₹50,000 per annum, over and above the ₹1.5 lakh limit of Section 80C. This scheme is aimed at retirement planning and provides both tax benefits and retirement savings. Employer's contributions is exempt up to 14 percent of basic salary. At the time of withdrawal, 60 percent corpus is tax-free and 40 percent which is used to purchase an annuity plan is taxable.

Deduction for Interest on Education Loans u/s 80E can be claimed for loans taken for higher studies by individual himself or spouse or children.

Donations or Charity u/s 80G: can be claimed as deductions up to 50% or 100% of amount donated with or without some limits.

Deduction on House Rent Paid u/s 80GG: Individuals living in rented house and not receiving HRA can claim deduction of rent up to ₹5,000 per month.

Interest on Housing Loan u/s 24(b): Deduction up to ₹2 lakh per annum is available on interest paid on housing loans for self-occupied properties. For rented properties, the entire interest amount can be claimed without any limit. This deduction reduces the effective cost of borrowing for purchasing or constructing a home, making home ownership more affordable.

Other deductions include Donations to Political Parties u/s 80GGC, Interest from saving bank u/s 80TTA up to ₹10,000, Interest from savings and FDs for Senior Citizens under section 80TTB, Royalty income of authors u/s 80QQB up to ₹3 lakh and Royalty on patents u/s 80RRB up to ₹3 lakh etc.

Recent trends highlight the growing importance of digital tools and investment platforms in managing tax saving instruments. Advancements in technology have facilitated easier access to financial products, streamlined tax filing processes, and enhanced the efficiency of tax planning. Following new investment options and updated tax regimes offer individuals more flexibility and opportunities for optimizing their tax savings:

Equity Linked Savings Schemes (ELSS): Equity Linked Savings Schemes (ELSS) are mutual funds that invest primarily in equities and offer tax benefits u/s 80C. ELSS investments offer the potential for higher returns compared to traditional tax saving instruments due to their equity exposure.

Tax-Free Bonds: These are issued by government-backed entities and offer tax-free interest income with low risk. These bonds are often issued by institutions like the National Highways Authority of India (NHAI) and the Rural

Electrification Corporation (REC). The interest income from these bonds is exempt from tax, providing a steady income stream without tax liabilities. Other than these bonds, Tax-saving FDs also provides fixed returns with a lock-in period of 5 years.

Unit Linked Insurance Plans (ULIPs): ULIPs combine investment (in equity, debt or hybrid) and insurance. Premiums paid towards ULIPs are eligible for deductions u/s 80C, and the maturity proceeds are tax-free u/s 10(10D), subject to certain conditions.

Sukanya Samriddhi Yojana (SSY): It is a savings scheme aimed at the financial empowerment of the girl child. Contributions up to ₹1.5 lakh per annum are eligible for deductions u/s 80C., and the interest earned at the current rate of 8.50% is tax-free.

Other than these, government has abolished the 'angel tax' from Financial Year 2024-25, which used to levy charges on startup investments exceeding their fair market value, thus promoting greater investment in early-stage ventures. The Gujarat International Finance Tec-City (GIFT City) provides a 10-year tax holiday along with zero taxation on overseas fund transfers, making it an attractive destination for international capital and financial institutions. From Financial Year 2025-26, individual assesses can now enjoy zero tax liability on income up to ₹12.75 lakh when accounting for the standard deduction. The new regime features simplified tax slabs, significantly reducing the compliance burden for taxpayers. Additionally, the government has increased exemption limits for senior citizens and pensioners, offering them greater financial relief. To further streamline the system, the new tax regime has been made the default option, encouraging wider adoption among taxpayers.

The financial landscape is rapidly evolving with the rise of AI-powered financial planning tools that dynamically incorporate tax regulations to offer real-time, personalized advice. Personal finance ecosystems like INDmoney and Jupiter are increasingly integrating tax analytics, helping users make smarter, tax-efficient decisions. Cross-border investing is also gaining traction, with international fund platforms enabling tax-efficient global diversification. Meanwhile, regulators such as SEBI and the RBI are exploring the introduction of green and ESG-focused tax-saving bonds, signalling a shift toward sustainable investment options with potential tax benefits.

The emerging tax saving instruments reflect a growing emphasis on encouraging savings, investment, and financial planning. These instruments offer various benefits, including tax deductions, exemptions, and potential for higher returns. Understanding and leveraging these options can significantly enhance financial planning and tax efficiency for individuals in India.

The government is accelerating financial digitization through reforms like e-KYC, Aadhaar integration, and real-time PAN-Aadhaar linking to simplify onboarding and automate tax processes. TDS/TCS rules are also being streamlined for easier digital compliance.

6. Implications of the study:

The study will provide individuals with a clearer understanding of available tax saving instruments, exemptions, and deductions. This will enable them to make informed decisions about their investments and savings strategies to maximize tax benefits. Financial advisors and tax consultants can use the study to stay informed about the latest trends and changes in tax saving instruments. This will enhance their ability to offer up-to-date advice to clients, improving client satisfaction and compliance.

7. Limitations and future scope:

The study may be limited by the availability and accuracy of data on tax saving instruments and their adoption. Tax laws and regulations are subject to frequent changes due to new budget announcements or policy reforms. The study may not account for the most recent changes or updates in tax saving instruments. The complexity and variety of tax saving instruments can pose challenges in providing detailed explanations and comparisons. Some deductions have intricate rules and conditions.

There is growing interest in technological innovations, so future scope involves exploring impacts of new advancements in digital fintech platforms, influencing the adoption and management of tax saving products. Comparative analysis between different stakeholders and countries can offer valuable perspectives. Behavioural analysis can also reveal insights into the decision-making processes of individuals and the factors driving their choices regarding tax saving instruments.

8. Conclusion:

The study highlights a dynamic landscape shaped by evolving tax laws and financial instruments. The comprehensive analysis of various exemptions, deductions, and investment options reveals that taxpayers have a broad spectrum of tools available to optimize their tax liabilities. Exemptions such as those u/s 10 and deductions including those provided u/s 80C, 80D, and 24(b) are integral to reducing taxable income. The study underscores the importance of staying informed about these provisions as they frequently undergo amendments, reflecting changes in governmental policy and economic priorities. Furthermore, emerging investment options like ELSS and NPS have gained prominence, offering not only tax benefits but also opportunities for financial growth and retirement planning. By understanding and utilizing the available exemptions, deductions, and investment avenues, taxpayers can effectively manage their financial obligations and achieve their long-term financial goals. It highlights that while traditional instruments such as LIC, Provident Fund and NPS continue to play a significant role, newer avenues like ELSS, SSY and tax-free bonds are gaining prominence. The findings also reveal that the complexity and frequent amendments to tax laws necessitate ongoing vigilance and adaptability from taxpayers. It is evident that the government's focus on promoting long-term investments and social welfare has led to the introduction of various exemptions, deductions, and investment avenues. Individuals must stay informed about the latest regulatory changes and leverage tax saving instruments that best align with their financial goals and risk tolerance.

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