

Financial Management of Individuals with Various Perspectives of Tax Planning

Author

Ms. Ayushi Rawal

Research Scholar,

Institute of Management Studies, DAVV

Indore (M.P.) India

Email ID: aaushi.22feb@gmail.com

Co-Author

Dr. Sanjay Sharma

Principal & Professor

IMI Business School

Indore (M.P.) India

sanjay.crim29@rediffmail.com

Abstract:

This study focuses on an individual's activity (individual financial management behaviour) when making financial decisions in order to investigate how living expenses and financial literacy relate to one another. More of everything and a strong focus on consumption define the modern era. Many people believe that this tendency is a representation of the hyper-materialization of modern life, which unavoidably places more strain on our financial resources. While adults are no longer satisfied with two pairs of shoes—rather, we need at least half a dozen—our children are requesting more in the way of apparel, activities, and other items. This implies that in order to maintain our level of consumption, or rather to meet

our material needs, we must earn more money. Here, the goals and tactics will be covered. This paper looks into how financial issues affect the financial and tax reporting choices made by individuals.

Keywords: *Financial management, financial knowledge, financial resources, personal finance.*

1. Introduction:

Despite being taught as distinct subjects, economics and finance are connected fields that have a lot in common and impact one another. Among social sciences is economics. Along with more general subjects like supply and demand, inflation, and recession, it examines the production, consumption, and distribution of products and services. The way the government taxes and spends is explained. It imparts knowledge about how events and policies might affect an individual's circumstances. People forecast interest rates, growth, inflation, and other factors. When economists discuss the markets, some people pay close attention, while others don't. Finance is a branch of economics in many ways. Those with backgrounds in economics have accomplished some of the most noteworthy things in the banking industry. Studying pricing, interest rates, money flows, and financial markets is all part of finance. The cost of loans, investments, and insurance products might involve billions of dollars. The tools to comprehend pricing and future cash flow valuation are provided by finance. The financial management that an individual or family does to budget, save, and spend money over time while accounting for different financial risks and future life events is known as personal finance. When making financial plans for themselves, people would think about whether a variety of banking products (credit cards, checking and savings accounts, consumer loans, and savings accounts) were appropriate for their needs. Investments in private equity, securities (stock market, bonds, mutual funds), insurance (life, health, and disability), participation in and oversight of employer-sponsored retirement plans, social security benefits, and income tax management are among the financial services offered. In the past, economics has focused more on the broad picture, such as the state of a nation, whereas finance has concentrated on specific businesses and sectors. Both are significant and have legitimate purposes and applications. Students majoring in economics are trained in economic analysis, which has an impact on nearly every facet of life. Students may comprehend how corporations, governments, institutions, and even individuals make decisions about spending and policy by studying economic theory, trade-offs, pricing, and choices. Finance is merely one area of study within the larger field of economics, which covers macro and microeconomics. A finance major, on the other hand, has a more limited concentration, primarily on how people and

organisations use and account for financial resources. Although more general, a major in economics may offer a student the benefit of deeper understanding.

1.1 Need of the Study

Resolving tax disputes with municipal, federal, state, or foreign tax authorities is the process of minimizing litigation. Tax collectors and taxpayers frequently clash over who is trying to get the most money out of the former and how to minimise the latter's tax obligation. Reducing litigation shields the tax payer against lawsuits. In order to lower tax obligations: All taxpayers want to save money for the future and pay less in taxes. By allocating your investments among the many advantages provided by the Income Tax Act of 1961, you can lower the amount of tax that you owe. The Act provides a plethora of investment plans for tax planning that can drastically lower your tax liability. To maintain economic stability: The nation is improved with funds provided by taxpayers. Efficient tax planning and administration facilitate a robust influx of white-collar income, which leads to the steady advancement of theeconomy. Leveraging productivity: Transferring money from taxable sources to various income- generating schemes is one of the main goals of tax planning. This guarantees the best possible use of donations for worthwhile projects

1.2 Research Objectives:

- To study focuses on an individual's activity.
- To investigate how living expenses and financial literacy relate to one another.
- To look into how financial issues affect the financial and tax reporting choices made by individuals.

2. Review of Literature

Eriksen, K., & Fallan, L. (1996), It was investigated how particular tax information affected people's perceptions of taxes. According to the study, there have been notable shifts in people's perspectives on tax evasion and the fairness of the tax system. As respondents' understanding of taxes rose, they also viewed taxation to be more fair, took their own tax evasion more seriously, and became more judgmental of others who evaded taxes. These tax views have an impact on reinforced inclinations towards tax evasion and tax compliance, which is consistent with earlier findings.

Russo, F. (2019), according to the study more of everything and a strong focus on consumption define the modern era. Many people believe that this tendency is a representation of the hyper-materialization of modern life, which unavoidably places more strain on our financial resources. While adults are no longer satisfied with two pairs of shoes—rather, we need at least half a dozen—our children are requesting more in the way of apparel, activities, and other items. This implies that in order to maintain our level of consumption, or rather to meet our material needs, we must earn more money. We'll talk about personal finance and their contributions in this piece. Here, the goals and tactics will be covered.

Cullis, J., & Lewis, A. (1985), The UK national quota sample of 900 adults is discussed in the article. The sources of government funding for paying for services, whether taxes should be raised to improve services, and whether any more taxes should be placed on incomes or the commodities that people purchase were among the topics covered in the questions. Overall, the findings indicated that most people were unaware of the government's funding sources. The majority favoured maintaining current levels of taxation and spending, but if taxes were going to be raised, they ought to be imposed on commodities rather than incomes. The consequences of the differing success of predictions of the aggregate and disaggregated results from economic theory and previous survey research are examined.

Yohana, E., & Masdupi, E. (2023, June), By focusing on individual behaviour (individual financial management behaviour) in the financial decision-making process, this study seeks to investigate the relationship between living expenses and financial literacy in generation Z residents of Padang. Using a purposive sample technique, this study is causal in nature. 341 Generation Z students from the city of Padang made up the research sample. Using Amos.24, the Structural Equation Modelling (SEM) approach was used to analyse the data. The study's

findings show that tax literacy is significantly and favourably impacted by financial knowledge. The behaviour of individual financial management has a favourable and noteworthy influence on tax literacy as well. Individual Financial Management Behaviour is positively and significantly impacted by financial knowledge.

2.1 (a) Fundamental Concept:

The phrase "personal finance" refers to money management, investing, and saving. Planning for retirement, banking, insurance, mortgages, investments, taxes, and estates are all included. It frequently refers to the entire sector of the economy that offers financial services and investment advice to people and households. Achieving personal financial objectives, such as saving for your child's college education, retirement planning, or fulfilling immediate necessities, is the focus of personal finance. Everything is dependent upon your income, spending, standard of life, as well as your personal objectives and preferences, and developing a strategy to meet those demands while staying within your means. However, in order to maximise your earnings and savings, it's critical to develop financial literacy so you can differentiate between good and bad advice.

2.1 (b) Tax Literacy

According to Fallan's (1996) research, tax literacy is not affected by location but rather by gender, age, education, income, type of job, and place of work. According to a study by Madi (2010), one's work and expertise have an impact on their tax literacy. According to research by Ramona and Nikita (2014), tax knowledge affects tax literacy. According to Moukova's (2018) research, knowledge of taxes—more specifically, income tax (which affects tax literacy) and value-added tax (VAT)—has an impact on tax literacy.

2.1 (c) Financial Knowledge

Masdupi et al. (2020) proposed a number of hypotheses regarding financial literacy. Financial knowledge is described by Bowen as "the comprehension of important financial terms and concepts required for day-to-day functioning." "A person's comprehension of financial concepts is referred to as financial knowledge." (Y. Nam, M. S. Sharpden, and J. Huang). According to J. Huang, Y. Nam, and MS Sherraden, there is another perspective that

characterises financial knowledge as "people's knowledge of/his financial situation, not basic financial concepts and treats it as a prerequisite for making effective financial decisions." According to YK Halim and D. Astuti, financial knowledge is the capacity to comprehend, analyse, and manage finances in order to make the best financial decisions and prevent financial difficulties in the future. The field of finance is seeing rapid advancement and is being taught at different educational levels. In addition, financial education is closely related to daily living, covering topics like managing one's income and how to use it for investments or daily expenses. Therefore, early financial education instruction is beneficial, so that a person can effectively apply the knowledge he has acquired when he grows older. Thus, it can be said that having a solid understanding of finance is beneficial in many facets of life, both short-term and long-term.

2.1 (d) Individual Financial Management Behaviour

studies of human behaviour in financial management, with a focus on understanding how psychology influences financial decisions, businesses, and financial markets. According to Wicksono and Divarda (2015), financial behaviour is a theoretical framework that explains how people make investments or manage their finances in relation to psychological aspects. Financial behaviour is a subject in which the interplay of several disciplines is imbedded and continuously integrated, meaning that the topic cannot be isolated, according to Ricciardi (2005). Economic behaviour and financial behaviour are based on rather distinct presumptions and concepts. The relationship between feelings, characteristics, tastes, and other attributes that are intrinsic to humans as social and intellectual creatures will influence how decisions to act are made.

People who can make wise financial judgements will not face financial difficulties down the road, develop sound financial habits, and identify what needs come first, claim Chinen et al. (2012). Effective actions include keeping accurate financial records, tracking cash in-out flow, budgeting, paying utility bills, managing credit card usage, and saving for the future are examples of good financial behaviour (Zaimah et al., 2010).

2.2 Personal Financial Aspects:

- **Individual Choice Making** -When making decisions on the roles of employees, consumers, and citizens, use reason.
- **The Earning and Reporting money**- Achievement Standard requires individuals to recognise different sources of money and evaluate income-related issues while making professional decisions.
- **Managing Finances and Budgeting**- Create and assess a plan for spending and saving.
- **Savings and Investing**- Assess choices for investments and savings to fulfil both short- and long-term objectives.
- **Purchasing Goods and Services** - Utilise a decision-making framework to optimise customer contentment during the purchasing process.
- **Sufficient Safety**- Knowing what to do to keep a home safe during emergencies like natural disasters and fatalities.
- **Tax Planning**- Reducing tax expenses by use of tax offset schemes.
- **Investment and Accumulation Goals**- Investing and planning for financial objectives, such as buying a new home or making a specific amount of money in stocks.
- **Retirement Planning**- Making plans for your own or your family's future while ensuring that you will have enough money to retire when you choose.
- Understanding how to set up a budget, balance a chequebook, get money for big expenditures, save for retirement, pay taxes, get insurance, and make investments are some examples of personal finance.
- A personal financial example would be sitting down with your spouse and budgeting for the kids' college tuition or the mortgage.
- Choosing whether to save five dollars or use it for a cup of coffee is an example of personal finance.
- **Financial standing**- Your net worth, which is the sum of your household's assets less obligations, and your household cash flow (your expected yearly income minus your expected yearly expenses).

2.3 Why it is important to learn

Planning might help you handle your income more skillfully. Understanding how much money you'll need for savings, other monthly expenses, and tax payments comes from managing your income. Improve cash flows by keeping a close eye on your spending habits

and out-of-pocket costs. Making cautious budgets, spending wisely, and arranging your taxes will help you keep more of your hard-earned money. Capital can rise as a result of increased cash flow. enabling you to think about making investments to enhance your overall financial health.

An essential component of financial planning is making sure your family is financially secure. You and your loved ones might feel more at ease knowing that you and your family have the right insurance coverage and plans in place. In lean times, the savings generated by careful planning may come in handy.

2.4 (a) Personal Finance Education

Reading personal finance blogs is a fantastic way to get started learning about personal money. Rather than reading personal financial articles for broad guidance, you will understand exactly what problems real people are having and how they are solving them. With his unusual lifestyle choices, Mr. Money Moustache has hundreds of blogs full of sardonic insights on how to get out of the rat race and retire quite early. Cent Sai uses first- person perspectives to guide you through a variety of financial decisions. Additionally, Fare Compare assists you in locating the greatest airfare offers, while The Points Guy and Million Mile Secrets teach you how to use credit card rewards to travel for a fraction of the retail price. These websites frequently have links to other blogs, so as you read, you'll find more websites.

In this category, of course, we can't resist blowing our own trumpet. A plethora of free personal financial education is available on Investopedia. Start by reading through our guides on setting up a budget, purchasing a home, and making retirement plans. You can also read through the thousands of other articles in our personal finance department.

2.4 (b) Personal Finance Education and Library

After obtaining a library card—which may require an in-person visit—you may check out eBooks and audiobooks on personal finance online without ever leaving your house. Your local library might have copies of some of these best-selling books: "I Will Teach You to Be Rich," "The Millionaire Next Door," "Your Money or Your Life," and "Rich Dad Poor Dad." There are audiobooks available for well-known personal finance books like "Personal Finance for Dummies," "The Total Money Makeover," "The Little Book of Common Sense Investing," and "Think and Grow Rich".

Approach:

It's best to begin financial planning as soon as possible, but it's never too late to set financial objectives to provide financial security and independence for your family and yourself. The following are guidelines and recommendations for personal finance: Living within your means and saving enough to achieve your long-term objectives require a budget.

2.5 (c) Managing Your Personal Finances

- **Create a budget-** Making a budget is essential to sound personal finance management. A cost and income tracking plan is called a budget.
- **Put money aside for retirement-** the moment to begin saving was yesterday, even if you have decades until you retire.
- **Monitor your expenditures-** Keeping a spending log could assist you in staying within your budget and preventing overspending.
- **Debt -**A debt is an agreement that requires money borrowed or withheld from another party (the creditor) by one party (the debtor). A sovereign state or nation, a local government, a business, or an individual may all be in debt.
- **Establish financial objectives-** Determine your financial goals for the short, medium, and long terms first.
- **Control your credit-**They are an excellent method of keeping tabs on your expenses and are essential for determining your credit score.
- **Establish a contingency fund-** You should set aside money in an emergency fund in case you are unable to work, experience financial difficulties, or incur unforeseen bills.
- **Making Investments-** Put Your Money into It. A strategy for generating revenue from investments is a component of financial management.
- **Evaluate your financial circumstances-** Managing your budget and figuring out the best way to use your funds to achieve your financial objectives and financial independence are key components of personal finance.

2.6 The 50/30/20 Rule

A useful framework for budgeting is provided by the 50/30/20 technique. This is how it dissects:

- a) 50% of your take-home salary, or net income (after taxes), is allocated to necessities for daily life, including housing, utilities, groceries, and transportation.
- b) A portion of 30% is set aside for lifestyle costs, such eating out and clothing purchasing.
- c) 20% goes towards future expenses, such as debt repayment and emergency and retirement savings.

2.7 Keep Tracks of Your Personal Finances

Although managing your own money can be difficult, time-consuming, and even depressing, most individuals view this process as a necessary evil. Spending more than you make is a surefire way to rack up debt, and if you're not careful with where your money is going, you can find yourself unable to afford basic basics like groceries. Fortunately, it's not hard to learn how to manage your own finances, although it does take some time and dedication. Either of the following approaches will assist you in improving your financial management.

Establish a system. Consistency is key when it comes to managing your funds. You must be able to quickly and accurately review your transaction logs, regardless of the method you use.

Don't forget to include crucial details with every entry, such as the date, the amount gained or spent, and the spending category. Make sure your recording is consistent as well. You can log transactions, for instance, as soon as they take place, each time you get home, or even once a week. Hold onto a notebook. Making a note of every transaction in a notebook is the most straightforward method of keeping track of your money. You will always be able to track the exact origin and destination of every dollar if you have this notepad with you. To make the data more accessible, you may also export it to a computer spreadsheet at the conclusion of each period (week or month). Maintain a chequebook. Even though it could be viewed as

outdated, keeping a chequebook of your transactions is nevertheless an easy and dependable approach to monitor your money. To record a transaction, all you have to do is write down how much it is, describe it (here is a nice spot to write down the category), and then add or deduct the amount from account balance.

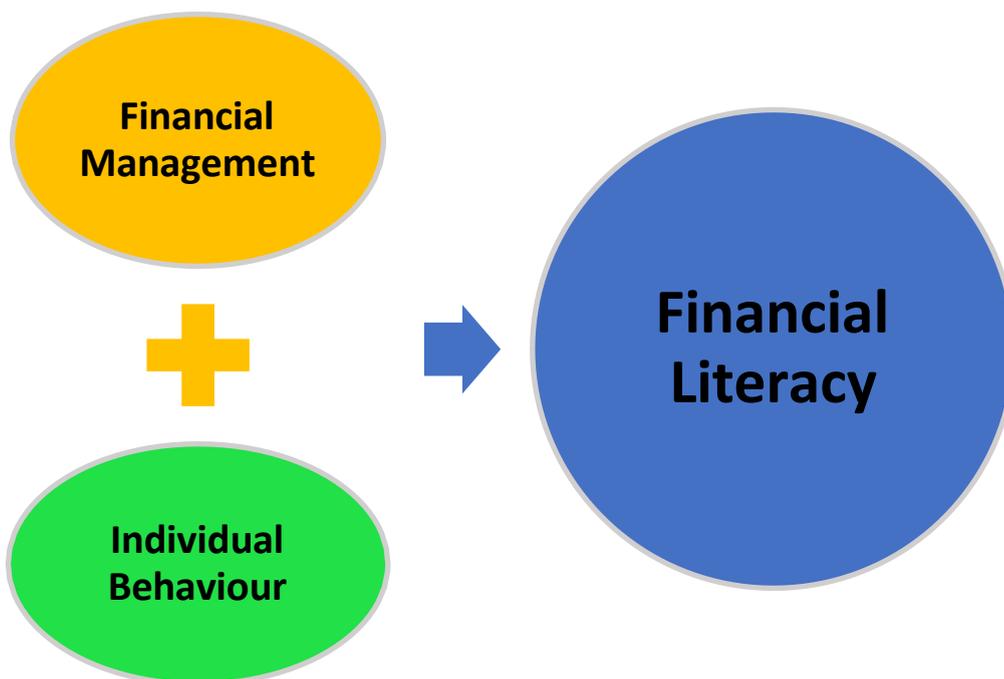


Fig. 1

3. Research Methodology

The present study is a review-based paper. Literature reviews have been used to review the required data and methods.

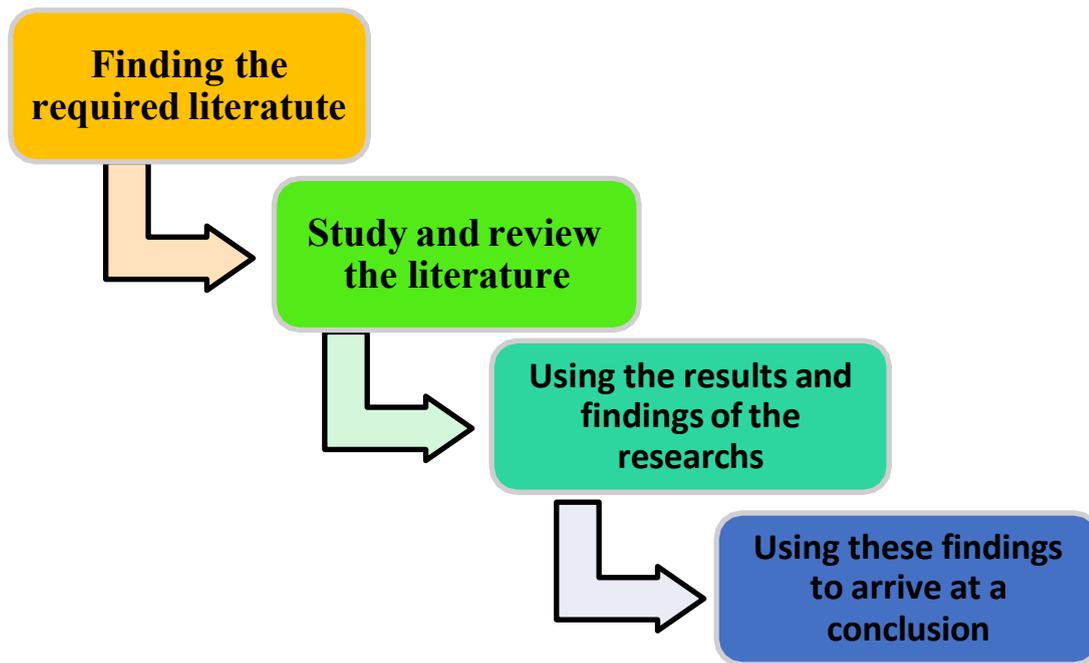


Fig-2

4. Findings

It studies the focuses on an individual's activity and investigate how living expenses and financial literacy relate to one another. In various perspectives how financial issues affect the financial and tax reporting choices made by individuals.

5. Limitations

As Individual behaviour is different, sometimes it becomes tough to cope up with each and every factors and attributes to be balanced. So there is no defining factor which perfectly match the earning of the general public comparative with their financial management and Income tax planning.

6. Conclusion

The battle to survive can sometimes be mistaken for the meaning of your existence, and you might not even be aware that continuing. Living is but a portion of who you are. If surviving is not the primary purpose of your existence, then you don't want this obligation to play a big part, do you? But as we all know, money and basic necessities play a significant role in the decisions we make every day. The irony is that, while being aware of how difficult it is to make ends meet and/or afford the lifestyle you lead, you typically don't give much thought to planning how you will spend the money you earn, or if you do, you don't account for all the considerations which might affect you.

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