

Study on Financial Planning for Salaried Employee and Strategies for Tax Savings in North Tongu District, Ghana

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Abstract

Financial planning for salaried employees and attendant tax-saving strategies was conducted by the researcher. The survey was done within the North Tongu District of the Volta Region of Ghana for the period of 3 months (8th April 2022 to 5th July 2022). The researcher correlated financial planning and tax savings of salaried employees. The data was collected through a structured questionnaire by means of hand delivery and a Google form filled out by 250 employees working in different sectors in the district. It was found from the analysis that there is a relationship between Annual savings, Age, Income, and the Sectorial employment designation of people. Analysis has been through percentage analysis, Correlation, One-way ANOVA, T-Test, and Chi-square. Overall findings of the research reveal that tax relief is the most adopted tax savings instrument. The research concludes that salaried employees want to know their tax obligations from the right standpoint and processes of financial planning available to them so that they can make the best use of their earnings by reducing the incidence of tax.

Keywords: Dividend Income, Dividend Income, Financial Planning, Interest Income, Post-Tax Cost, Tax Relief

1. Introduction

Financial planning is a personal commitment by an individual to meet a goal in life. It is necessary for the salaried class to know which components of investments are available and taxes that are to be targeted in order to attain personal economic growth in the financial planning process. Currently, in Ghana, people mainly see financial planning as only a means to invest money in tax-saving instruments. The tax law requires that basic pay and bonuses are fully taxable whilst children's education allowance and transport allowance are partly taxable. Fortunately, there are myriads of tax exemptions and incentives available under various sections and subsections of the Income Tax Act, 2015 (Act 896).

Unfortunately, people do not know about the tax relief available. This has led to a condition where people invest money without actually understanding the reason behind the investments undertaken. It is the process of planning how to avoid paying too much tax, for example by investing in tax-exempt bonds and other investment products (Priya P. Verlekar, 2021). The salaried class should be aware of the income tax laws as it relates to income and the reliefs and deduction that are available. It is anticipated that on becoming familiar with the specifics of the law, employees would be able to plan their affairs in a manner to maximize their take-home pay.

This study therefore compared available investment options and disaggregated various components of direct and indirect taxes salaried employees can take advantage

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of to minimize their tax burdens and realize their financial goals.

2. Problem Statement

A complete understanding of the opportunities available and managing one's finance considering tax liability and the post-tax cost is essential as far as personal finance is concerned. The current study is an effort to evaluate tax planning measures adopted by the salaried income tax assesses of the state in the light of tax administration measures being implemented by the government through the Ghana Revenue Authority (GRA).

3. Objective of Study

- To study the financial planning for salaried employees and strategies for tax savings in North Tongu District.
- To find out the income and savings behaviour of the salaried employee in the North Tongu District.
- To analyze the factors influencing the financial planning and strategies of tax savings decisions of the salaried class.
- To understand tax saving strategies adopted by salaried employees and their impact on their financial planning and investment goals.

4. Review of Literature

George K. Adeyiga. (2018): "Private saving and investment choices are affected by the tax structure, though the magnitude and net direction of the effects are not so clearly seen. There is no clear strategy to use the tax system to increase the rate of private saving in African countries but these packages of effects may be considered". Compulsory payroll savings programs used in Ghana encourage savings; Interest and dividend income often are not fully taxed which encourages savings.

Daniel Armah-Attoh & Mohammed Awal (2019): A study on the Perceived Institutional Challenges Facing Tax Administration in Ghana concluded that the tax burden does not appear to be fairly distributed. The informal sector keeps growing but the tax authorities have still not been able to widen the tax net to cover this category of income earners.

Saravanan, Muthu Lakshmi (2017) "Tax Saving Scheme and Tax Saving Instruments of Income Tax in India" To study the planning of individual income tax and tax saving instruments of individual income tax.

Kwabena Adu-Ababio, Robert Osei and Jukka Pirttilä (2016): The study described tax allowances and expenditures. Tax Reliefs are granted by the government in order to encourage certain forms of actions and behaviour, such as caring for the aged and the education of children. Reliefs are approved for entities or individuals as a way of reducing their tax liability.

Saravanan, Muthu Lakshmi (2017) "Tax Saving Scheme and Tax Saving Instruments of Income Tax in India" To study the planning of individual income tax and tax saving instruments of individual income tax. By doing so they can plan in advance about their Tax savings mechanism. Tax planning is a vital part of financial planning. The purpose of the study is to find out the most popular and suitable tax saving scheme and tax saving mechanism used to save tax and also to analyze the amount saved by using that instrument.

Kumaraswamy & Divakar Velya M, (2020) "Tax Planning – An Analysis on Housing Loans" Housing loans, for sure, makes it possible for an individual to own a house. A steady increase over time in the associated costs of real estate makes a housing loan last for years. Every priority of the Government is to provide shelter to the citizenry, especially the needy; on the other hand, it is reducing housing loan borrowers' tax burden through several Income Tax provisions. The paper focused on these issues in every probable dimension.

Sujatha G.S. (2014) Savings and investment pattern of employees in public sector organizations with innovative financial products. Savings and investment pattern of employees in public sector companies with innovative financial products.

Kugbey Clemence Sepenoo, (2019): Adam Smith in *The Wealth of Nations* (1776) wrote under Benefit theory: "Such things as defending the country and maintaining the institutions of good government are of general benefit to the public". Therefore, it is in order that the whole population should contribute to the tax costs. It is also rational to demand other things of a tax system – for example, that the amounts of tax individuals pay should be linked to their respective abilities to pay. Usually, good tax systems have to meet four major criteria. These are:

Certain rather than arbitrary, proportionate to incomes or abilities to pay, and Cheap to administer and collect. and Payable at times and in ways convenient to the taxpayers

Bharathraj Shetty & M. Muthu Gopalakrishnan (2013) "An Analysis of Investors' Attitude towards Various Tax Saving Schemes" The objective of the study is to study investors' preference towards several tax saving schemes. The tax saving schemes in which investors have invested and to identify patterns of investment in tax saving schemes. Data is required to identify the historical growth of investment in different tax-saving schemes.

Myron S. Scholes, G. Peter Wilson, Mark A. Woolfson (1990) "Taxing Planning, Regulatory capital Planning and Financial Reporting Strategy for Commercial Banks" We test whether banks' investment and financing policies can be explained by tax status. We document changes in bank holdings of municipal bonds in reaction to changes in tax rules relating to the deductibility of interest expense. We also document a relationship between banks' marginal tax rates and their investment and financing decisions, which is consistent with the existence of tax clientele.

Varsha Virani (2013) undertook a study on the "saving and investment pattern of a school teacher in Rajkot city, Gujarat" with a sample of 100 school teachers and concluded that most of the teachers prefer Bank Fixed deposit and government securities as their investment option. Safety as well as high-interest rates have been considered the main criteria for investment. It also revealed that tax benefit and high rate of return has influenced the investment decision of the respondents. There was a lack of awareness about equity and mutual fund as opportunities for investment. It also discovered that most of the teachers are saving their money for marriage, education of children and fulfilling the other goals of life.

Savita and Lokesh Gautam (2013), Tax Planning: A Study of Tax Saving Instruments, International Journal of Management and Social Sciences Research (IJMSSR) Volume 2, No. 5, ISSN: 2319-4421, The paper studied the options for investments for tax savings, the object of the study was to find the most popular form of investment for tax savings. It was observed that investment using a premium paid for a life insurance policy, followed by provident fund contribution and fixed deposit savings were the most popular forms of investment followed by other forms of investment. The paper also discovered that the savings for tax purposes were the maximum in the age group 50-60 and least in the age group 20-30. It also states

that as income increases the investment for tax saving increases.

Cadence, "Encounter user guide," (2008): explained how people can use a professional guide in choosing investment, insurance and tax saving packages that have been proven and tested though not fully resistant to risk.

Chaturvedi and Sood on the topic "Insights into awareness level and investment behaviour of salaried individuals." Overall results suggested that people must be educated about new investment opportunities, so that they can learn how to earn high returns.

Volpe *et al.*, (2002) examined the investment literacy of 530 online investors. They found that level of investment literacy varied with people's education, experience, income, age and gender. Women had much lower investment literacy than men and older participants performed better than young participants.

Shweta Rokde, "An Analysis on Investment and Saving Pattern of Salaried Employees (2020): Men choose higher-risk investment options than women. Their choice made them higher gainers and losers of the outcome of the investment.

Suchithra P, Vidhya C (2019), conducted a study on the Awareness of Tax Saving Instruments of Individual Tax Payers. They concluded that salary earners get interested in tax savings to the extent that they can acknowledge how close they are to retirement.

5. Research Design

- Type of Research: Descriptive
- Sampling Unit: Public and Private Salaried employees
- Sample Size: 250 for convenience
- Sampling Technique: Convenient sampling
- Instrument: Questionnaire
- Sample location: North Tongu District, Volta Region. Ghana
- Sampling frame: All employees having professional qualifications in selected organizations who have worked for at least 5 years in the private or public sector or both.
- Data Collection Methods/Source of Data: The Google form survey, emails and hand delivery
- Primary Data: Collected through the questionnaire and observation.

- Secondary Data: Data available on the internet, articles in the newspaper, financial industry reports, financial planning board reports and articles, reports and laws published by the government of Ghana.
- Period of Study: April 2022 to July 2022
- Tools Used for Analysis: SPSS tools used were T-Test, Chi-square (Test of independence) and correlation was done in the statistical method.

6. Limitations of the Study

- The analysis of the study was carried out centred on the information collected from salaried employees.
- Due to time and resource constraints, only 250 respondents were considered.
- The result fully depends on the information given by the respondents which may be biased.

7. Data Analysis and Interpretation

Table 1. Frequency Analysis for gender of the respondents

NO	GENDER	FREQUENCY	PERCENTAGE
1	Male	119	54.3
2	Female	100	45.7
TOTAL		219	100

Source: Primary data

Inference: Table 1 indicates that 54.3% of respondents are male and 45.7% of respondents are female indicating the majority of respondents were males. Two hundred and nineteen (219) made up of 119 and 100 people answered the questionnaire respectively.

Table 2. Frequency Analysis for Income Taxable by the respondents

NO	INCOME TAXABLE	FREQUENCY	PERCENTAGE
1	Income from salary	78	35.3
2	Income from house property	56	25.3
3	Profits and gains of business, profession	32	14.5
4	Capital gain	17	7.7
5	Income from other sources	38	17.2
TOTAL		221	100

Source: Primary data

Inference: Table 2 indicates in which heads of income become taxable, 35.3% of respondents are marked as Income from salary, 25.3% of respondents are marked as income from house property, Therefore, 78 respondents are majority marked as income from salary, 17 respondents are least marked as capital gains respectively.

Table 3. Frequency analysis for exemptions of the respondents

NO	EXEMPTIONS	FREQUENCY	PERCENTAGE
1	Insurance Premium	32	24.8
2	Payment to Pension Scheme	12	9.3
3	Medical Insurance Premium	38	29.4
4	Educational Loan Repayment	24	18.6
5	Donations	6	4.7
6	Investment in Mutual Funds and Unit Trusts	17	13.2
TOTAL		129	100

Source: Primary data

Inference: Table 4 indicates the tax exemptions, 29.4% of respondents applying for medical insurance premiums, and 4.7% of respondents are least likely to apply for donations respectively.

Table 4: Frequency Analysis for Exemptions of the Respondents

NO	EXEMPTIONS	FREQUENCY	PERCENTAGE
1	Insurance Premium	32	24.8
2	Payment to Pension Scheme	12	9.3
3	Medical Insurance Premium	38	29.4
4	Educational Loan Repayment	24	18.6
5	Donations	6	4.7
6	Investment in Mutual Funds and Unit Trusts	17	13.2
TOTAL		129	100

Table 5. Frequency analysis for tax savings instruments of the respondents

NO	EXEMPTIONS	FREQUENCY	PERCENTAGE
1	Insurance Premium	32	24.8
2	Payment to Pension Scheme	12	9.3
3	Medical Insurance Premium	38	29.4
4	Educational Loan Repayment	24	18.6
5	Donations	6	4.7
6	Investment in Mutual Funds and Unit Trusts	17	13.2
TOTAL		129	100

Source: Primary data

Inference: It can be inferred that 20.19% of respondents strongly agreed that they regularly analyze their tax savings instruments while 27.78% are neutral about the subject. It is good to know that only 4.92% confirmed low interest in the analysis of their tax savings instruments. Table 5 indicates the instruments of tax savings, 102 respondents are majority neutral deposit in HL Interest/Principal, and 75 respondents are the least deposit in NSC but they have marked strong as well as for NSC respectively.

Table 6. Significant difference between satisfaction with current tax planning strategies and income tax deduction benefits

Group Statistics					
	Gender	N	Mean	Std. Deviation	Std. Error
Satisfied with your current tax planning strategies	Female	100	2.23	0.92	
	Male	119	2.43	1.176	
Income Tax benefits, example. Deductions from salary/income, etc.	Female	100	1.32	0.469	
	Male	119	1.44	0.498	

Independent Samples Effect Sizes				
		Standardizer ^a	Point Estimate	95% Confidence Interval
				Lower
Satisfied with your current tax planning strategies	Cohen's d	1.067	-0.186	-0.452
	Hedges' correction	1.07	-0.186	-0.451
	Glass's delta	1.176	-0.169	-0.435
Income Tax benefits, example. Deductions from salary/income, etc	Cohen's d	0.485	-0.241	-0.508
	Hedges' correction	0.487	-0.24	-0.506
	Glass's delta	0.498	-0.235	-0.502

Inference: Paired T-Test - (Independent Sample) is a statistical technique that is used to compare two tax planning and tax strategies means in the case of two samples are connected. We accept the null hypothesis and reject the alternative hypothesis.

Correlations Coefficient

Inference: The value of the Correlation coefficient (r) is .058. As the two variables were put into Pearson correlation, we infer the Pearson correlation value to be 0.58 which is greater than 0.5 and hence there is a significant relationship between Income Earnings and

Salary savings from financial planning and tax savings and thus accept the null hypothesis and reject the alternative hypothesis.

Table 7. Associate between yearly income earned and monthly salary saving

Correlations			
		Income Details	What percentage of your monthly salary do you save
Income Details	Pearson Correlation	1	0.058
	Sig. (2-tailed)		0.387
	N	221	221
Percentage \of your monthly salary do you save	Pearson Correlation	0.058	1
	Sig. (2-tailed)	0.387	
	N	221	221

ANOVA

Table 8. Income tax payment by salaried people and businessmen

Salaried people are paying more income tax than businessmen.					
	Sum of Squ	df	Mean Squa	F	Sig.
Between G	10.294	4	2.573	1.526	0.196
Within Gro	364.159	216	1.686		
Total	374.452	220			

Salaried people are paying more income tax than businessmen		
	N	Subset for alpha = 0.05
Main objective factors of investment		1
Safety	64	1.89
Liquidity	59	2
Inflation	14	2.21
Tax Benefit	32	2.31
Higher Return	52	2.42
Sig.		0.146
Means for groups in homogeneous subsets are displayed.		
a. Uses Harmonic Mean Sample Size = 32.366.		
b. The harmonic mean of the group sizes is used.		

Inference: Since the p-value (0.146) is greater than 0.05 at a 5 per cent level of significance we accept the null hypothesis and reject the alternative hypothesis. Hence there is no significant difference between the objective factor of investment and the salaried employee paying more tax than businessmen.

Chi Square

A chi-square statistic is a test that measures how expectations compare to actual observed data.

Table 9. Associate between income becomes taxable and awareness of tax deduction exempted

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	46.099a	3	.000
Likelihood Ratio	52.249	3	.000
Linear-by-Linear Association	0.2	1	0.655
N of Valid Cases	221		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.08.

Inference: As the value, Pearson Chi-square (0.000) lesser than 0.05 H₀ is rejected and hence proved there is a significant relationship between income becoming taxable and awareness of tax deduction exempted.

8. Findings

- Majority (54.3%) of the respondents are male.
- Majority (43%) of the respondents fall in the age category of 36-45 years
- Majority (52%) of the respondents are saving less than 20% of their monthly salary.
- Majority (39.4%) of the respondents repay the loan in less than 20%.
- Majority (61.5%) of respondents are utilizing income tax benefits.
- Majority (46.6%) of respondents are slightly satisfied with their strategies
- Majority (27.1%) of the respondents selected neither agree nor disagree with investing the factors.
- Majority (58.4%) of respondents are aware of deduction exempted.
- Majority (28.68%) of respondents are highly investing in all the instruments of tax savings.

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9. Suggestions

- Financial planning for salaried employees is not just a compelling process; it is a basic need for every individual and his/her family. It is a complete

cycle starting from monthly budget to retirement planning. The process comprises Budgeting, Insurance, Goal-Based Investments, Getting out of debt, and Retirement.

- It is important to spread your financial planning to include investments such as Equity-Linked Savings Schemes (ELSS), Long-Term Capital Gains from the Sale of Long-Term Assets, and Agricultural Income because of the tax savings they give.
- Public Provident Funds, Educational loans, Voluntary donations, Home loans, Interest Income on Savings Accounts, and Unit-Linked Insurance Plans are all some of the tax savings strategies for salaried employees.
- Not all tax savers are the same in terms of asset class, so one should choose to use the instrument that best suits their individual needs. The safety, liquidity and returns of the tax savings instrument should be taken into consideration. No financial decisions should be made based on the returns to be gained. Your goal is not only to save on taxes but also to achieve different goals you have set for yourself. Hence, one should always have definite objectives and should link their tax instruments to the desired goal.

10. Conclusion

Salary employees spent their whole lives working, spending the money they earn and hopefully saving a little for the future. When you retire, everything you have ever experienced about managing your finances gets turned upside down. You no longer earn as much or any money from work to have much energy to do so. You have to figure out how to make do with and maximize what you already have. Instead of saving as much as possible, the new objectives include developing retirement income strategies by creating predictable retirement income out of what you have. This study aims to analyze tax saving strategies adopted by salaried employees and their impact on their financial planning and investment goals for a comfortable life during retirement.

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