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## “Taxability of tax savings investments and inclination to MF”

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### ABSTRACT:

*Mutual fund is a risky investment scheme known to everyone. Specially, people engaged in service get afraid of investing their money in mutual fund as they want to live at risk aversion zone in the model of market portfolio. These people basically want to invest in savings account in different commercial banks, post offices, P.F, P.P.F, R.D, F.D, LIC schemes, etc. Out of these schemes, P.F, P.P.F are very attracting schemes to the investors as investors can save tax through the investment in P.F, P.P.F. If these schemes are brought under taxability, people would be inclined to invest in MF. In MF, there is a cluster of investment schemes like shares, debentures, Pref. Shares, stock, etc. Each scheme has immense risk and volatility. Through this research paper it has been shown that inclination to MF can revitalize business field and monetary circulation in market may be at a rapid speed.*

**Keywords:** Tax savings investments, P.F., P.P.F, M.F. risk aversion, market portfolio, etc.

### REVIEW OF LITERATURE:

Before this paper, other experts and research scholars have shown the moderate movement in between Tax saving scheme and mutual funds. It is needless to say that the segment of employees engaged in various services highly depends on the investment in P.F. and P.P.F as the interest earned from this investment is totally tax free. If these schemes are taxable, micro investors i.e. the part of employees will not lie in risk aversion zone and they may switch over to the investment in MF. This is why, we have tried to show the impact of moving in monetary Market from one safe investment to a risky investment. We have also tried to show the change in scenario of capital formation of financial institutions and markets.

**Findings:** From our research work the following findings are relevant.

- a. For last some years, the commercial banks have provided huge rate of interest (9.05%, 9%, 9.25%, etc.) because of the inflationary situation and in those days, banks or post offices collected huge deposits from the depositors to reduce the qty. of consumable money In the hands of consumers.
- b. At present, inflation has been controlled to some extent and the situation is better than that of previous. The prices of gold, petroleum oil have been reduced. Now consumers are not required to reduce their money at hand by depositing at the previous rate in bank, P.O, etc. Furthermore, the revenue of govt. in the way of tax should be increased to bring equilibrium in the distribution of wealth and resources among different classes of people in this country. Govt has taken various attempts like giving up of subsidy for gas, Jan Dhan Yogna, Term LIC in C.Bs, etc. to bring equilibrium among different classes.

- c. As P.P.F is coming under the purview of tax, employees i.e. depositors will not be interested for investment in this scheme in bank and P.O. Consequently, there may be some downfall in the total revenue generation of CBs and P.Os. in some discreet activities like net banking facility to the customers, introduction of green card for depositing money into account, Govt. indirectly wants to reduce its internal cost through the concept of utilitarianism applicable to these financial institutions. There may be a chance of liquidating some areas of banks and the periphery of banks may be shortened.
- d. Customers are directly inclined to the investment in private companies (like in their shares, debentures, etc.).
- e. Employment or circulation of money may be faster in economy in this revised concept of tax.
- f. Risk-averse attitude of investors may be diluted and risky investments should be welcome, which is needed to strengthen market economy.

### Graphical representation & comparative analysis:

Suppose market economy =  $M_e$

Mutual fund =  $M_f$

Tax savings schemes =  $T_{sc}$

Now  $M_e = (M_f)$

If  $M_e \uparrow$   $M_f \uparrow$  ( $M_e \uparrow$  indicates good position of market)

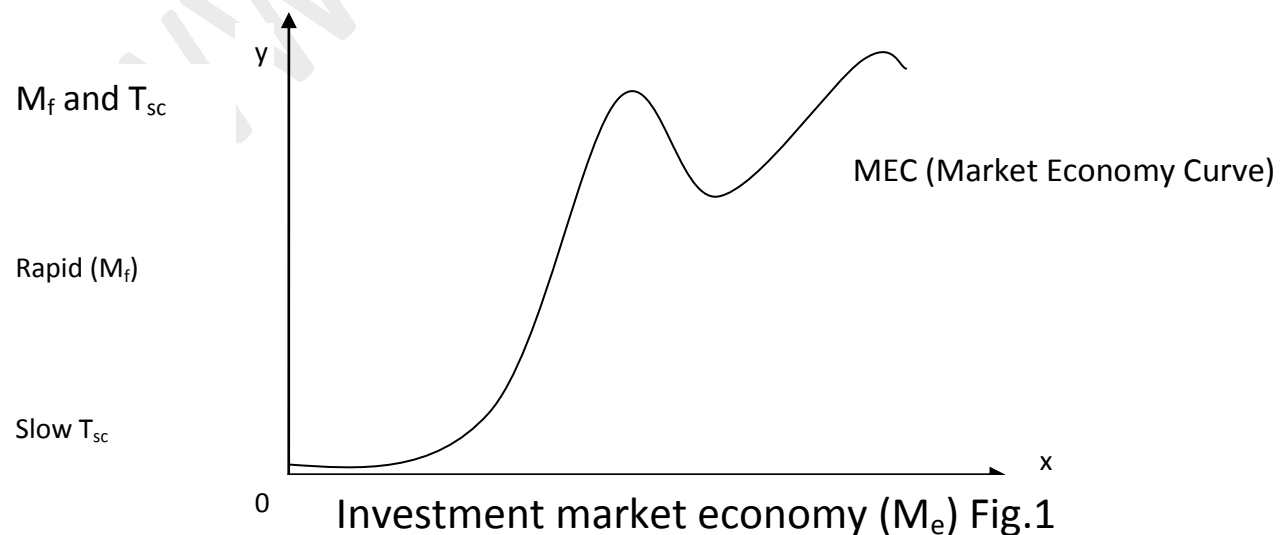
If  $M_e \downarrow$   $M_f \downarrow$  ( $M_e \downarrow$  indicates bad position of market)

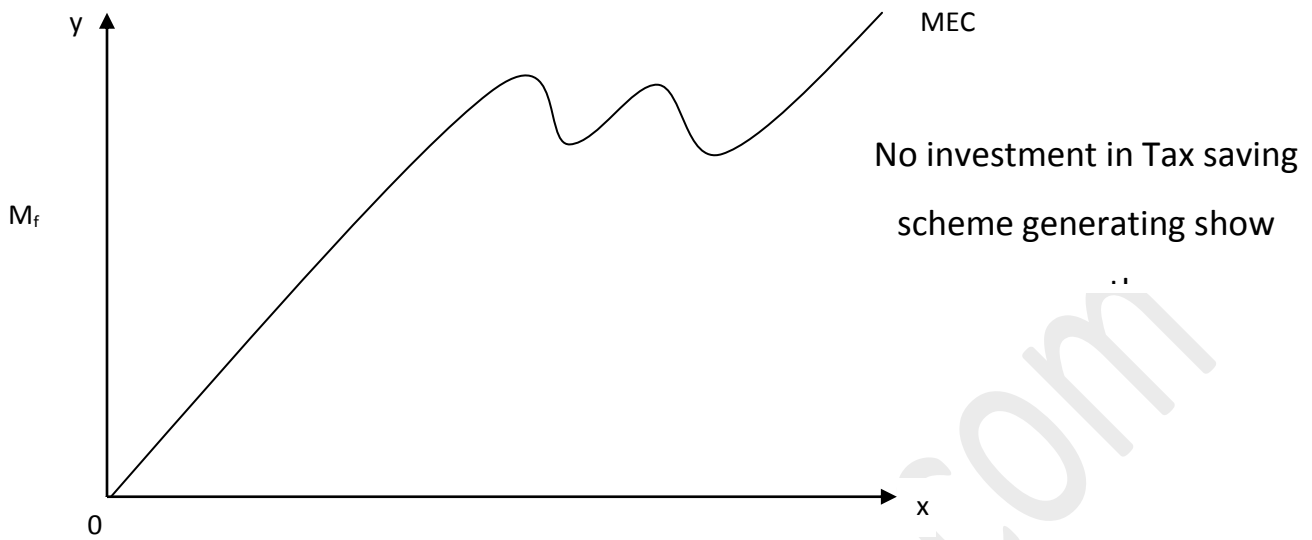
But,  $M_e = T_{sc} + M_f$  (where  $T_{sc}$  includes slow growth and  $M_f$  includes rapid growth)

$\Rightarrow M_e = \text{slow growth} + \text{rapid growth}$

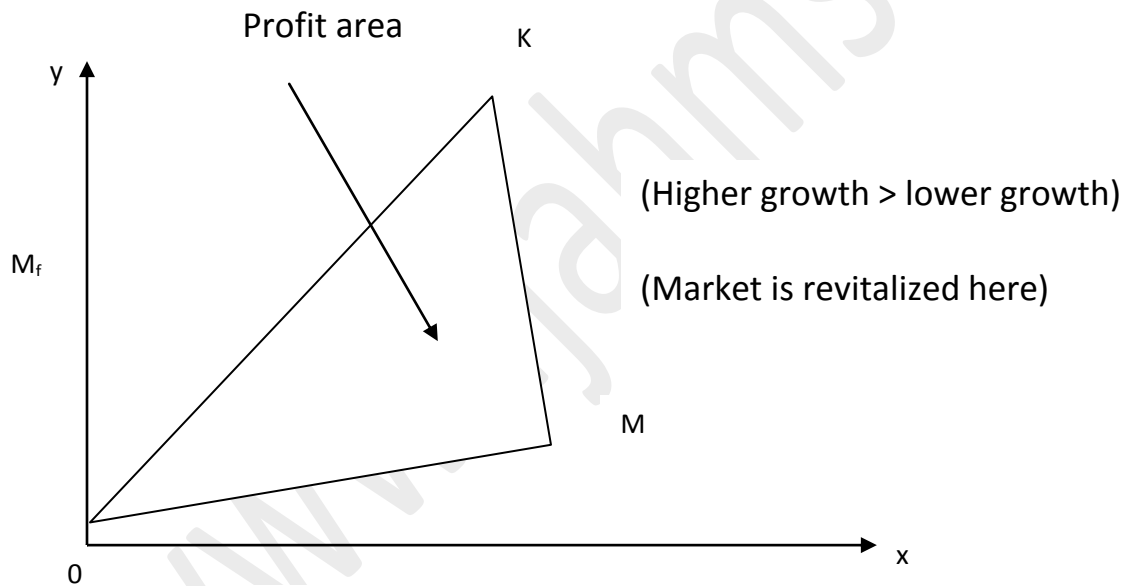
Now if investment becomes low in slow growth and is applied to rapid growth market economy will be improving.

Comparative analysis:-





Investment Fig.2



Investment Fig. 3

In the above diagram (Fig.3) o KM area is depicting profit area because of the switching over from tax savings schemes to MF. This profit segment is generally obtained at the initial stage i.e. short term where cost is of two types, fixed and variable but in long term, cost becomes variable and there remains no trace of fixed cost. In short term, each firm prevailing in an economy fights hard to compensate fixed cost. Therefore, economy should be favorable to these firms. Movement from tax savings scheme to MF can generate such favorable market economy depicted by okm (o.k. market)

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**Positive impact on revenue generation:**

If tax savings schemes (like P.F. P.P.F) are taxable, revenue of govt. will be generated which is required to Protect domestic industries from the jaws of foreign companies. But this system, 'taxability of tax savings schemes' should be implemented slowly by which people or employees get accustomed with their new habit.

**CONCLUSION:**

Taxability of tax savings investments and inclination to MF may be a useful tool for the enhancement of business, industrial sector and mobility of domestic market especially when FDI is marking time to swallow the markets of developing countries. When people will earn any income providing tax, the productivity will be increased and misdistribution of wealth and resources may be limited to a great extent which will ultimately lead to the well-being of nation.

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