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**A STUDY ON TAXPAYER AWARENESS AND PERCEPTION OF INCOME COMPUTATION UNDER THE INCOME TAX ACT**

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*Taxpayer awareness and understanding of income computation are essential for ensuring voluntary tax compliance under the Income Tax Act. Although efforts have been made to simplify tax laws, taxpayers are still struggling to understand income computation procedures, deductions, and tax liabilities. This paper investigates the extent of taxpayer awareness and perception about income computation and the factors that affect their understanding and compliance. The primary data was gathered using a structured questionnaire and analysed using descriptive statistical methods like percentages and charts.*

*The results show that although most taxpayers have a basic or partial understanding of income computation, there are major knowledge gaps in understanding certain deductions and exemptions. Reliance on external sources like tax consultants and media is still high. The paper emphasizes the need for tax awareness programs, thereby supporting the need for systematic taxpayer education to improve tax literacy and voluntary compliance.*

**Keywords:** *Taxpayer Awareness, Income Computation, Income Tax Act, Tax Compliance, India.*

**INTRODUCTION**

Taxation is an integral part of a country's economic system, as it is a source of revenue for funding various public services such as education, healthcare, infrastructure, defence, and social welfare. In India, taxes are categorized into direct and indirect taxes, with income tax being the most important direct tax source for the Union Government. The Income Tax Act, 1961, regulates the assessment, calculation, and collection of income tax from individuals and other entities, and plays a pivotal role in maintaining fiscal stability and economic growth.

However, the income tax system, despite its importance, sometimes faces difficulties because of a lack of awareness and negative perceptions among taxpayers. Tax compliance is not only dependent on legal requirements but also on taxpayers' knowledge about income calculation, deductions, exemptions, and perceptions about the fairness and transparency of the tax system. The complexity of provisions, constant changes, and procedural complexities often create confusion, and taxpayers rely heavily on tax consultants or make mistakes while filing taxes, which may have negative consequences on compliance.

According to the Income Tax Act, income is calculated on five heads: Salaries, Income from House Property, Profits and Gains of Business or Profession, Capital Gains, and Income from Other Sources, which are regulated by separate rules and deductions. Although these rules are well-articulated, they are often difficult to understand, especially in the context of changing policies.

To improve compliance and transparency, the Government of India has brought about changes such as e-filing, pre-filled tax returns, faceless tax assessments, and taxpayer awareness programs. However, the success of these measures is largely dependent on taxpayers' awareness and perception. Therefore, the current study focuses on taxpayer awareness and perception about income calculation under the Income Tax Act to analyse compliance behaviour and areas of improvement.

**OBJECTIVE OF THE STUDY**

1. To understand the extent of taxpayer awareness about income computation under the Income Tax Act, 1961.
2. To evaluate taxpayers' knowledge about important features like heads of income, deductions, exemptions, and allowances.
3. To analyse taxpayers' views about the income tax system in respect of fairness, transparency, and complexity.
4. To determine the most important problems encountered by taxpayers in computing their taxable income.
5. To analyse the sources from which taxpayers derive information about income tax provisions and developments.

6. To evaluate the requirement for taxpayer awareness programs and propose ways to enhance taxpayer knowledge and compliance.

### **SCOPE OF THE STUDY**

The scope of the current study is limited to analysing the taxpayer awareness and perception about income computation under the Income Tax Act, 1961. The current study aims to understand the taxpayer knowledge about income computation procedures, deductions, exemptions, and taxpayer perception about the complexity and fairness of the income tax system. The study is limited to the data collected during the study period and the geographical area chosen.

### **RESEARCH METHODOLOGY:**

#### **1. Study Methods**

The study uses a descriptive research design to examine the awareness and perception of taxpayers. This is the most suitable research design because it assists in the systematic description of the characteristics, views, and understanding of the respondents regarding income computation under the Income Tax Act. The study mainly uses a survey-based approach to collect data from taxpayers using a structured questionnaire.

#### **2. Primary Data**

The primary data for this study was collected using a well-structured questionnaire from taxpayers. The questionnaire was designed to collect information on the demographic details of the respondents, awareness of income computation, knowledge of deductions and exemptions, sources of tax information, and perception of the income tax system. The primary data is reliable and relevant to the study findings because it is collected firsthand.

#### **3. Secondary Data**

The secondary data for the study was collected from different published and unpublished sources such as textbooks, research journals, government publications, income tax manuals, reports of the Income Tax Department, and official websites. These sources were used to develop an understanding of the theoretical framework, legal aspects, and current developments regarding income computation under the Income Tax Act.

#### **4. Sample Unit**

The sample unit for this research involves individual taxpayers who are required to file income tax returns. The respondents for this research include employed individuals, professionals, and small business owners, as they form a substantial group of income tax assesses who are directly involved in income calculation and return submission.

#### **5. Sample Size**

The research is conducted using a sample size of [insert number, e.g., 50 / 60 / 100] respondents. The sample size was arrived at considering the time constraints, respondent accessibility, and the nature of the research. Although small, the sample size is deemed sufficient to offer valuable perspectives on taxpayer awareness and perception.

#### **6. Sampling Technique**

The respondents for this research were selected using a convenience sampling approach. This approach was considered for the convenience of access, time constraints, and respondent willingness to participate in the research. The approach allowed the collection of valuable data from taxpayers who were readily accessible and well-informed on income tax issues.

### **Hypotheses of the Study**

In order to understand the relationship between taxpayer awareness, taxpayer behavior, and taxpayer preferences regarding the Income Tax Act, the following hypotheses have been developed. The hypotheses are designed in such a way that they can be tested using appropriate statistical methods to arrive at meaningful conclusions.

#### **Hypothesis 1: Relationship between Awareness of Deductions and Tax Savings**

This hypothesis is proposed to test the significance of taxpayers' awareness of deductions and exemptions allowed under the Income Tax Act and their impact on actual tax savings. Awareness of deductions is an important factor in minimizing taxes legally and measuring the success of taxpayer knowledge and awareness programs.

- Null Hypothesis ( $H_{01}$ ): There is no significant relationship between taxpayers' awareness of deductions and their actual tax savings.

- Alternative Hypothesis (H<sub>11</sub>): There is a significant relationship between taxpayers’ awareness of deductions and their actual tax savings.

**Hypothesis 2: Preference between Old and New Tax Regimes**

This hypothesis aims to test the taxpayers’ preference between the old tax regime and the new tax regime introduced by the Government of India. The taxpayers’ preference between the two tax regimes is based on factors such as the level of income, deductions allowed, ease of compliance, and awareness of tax laws.

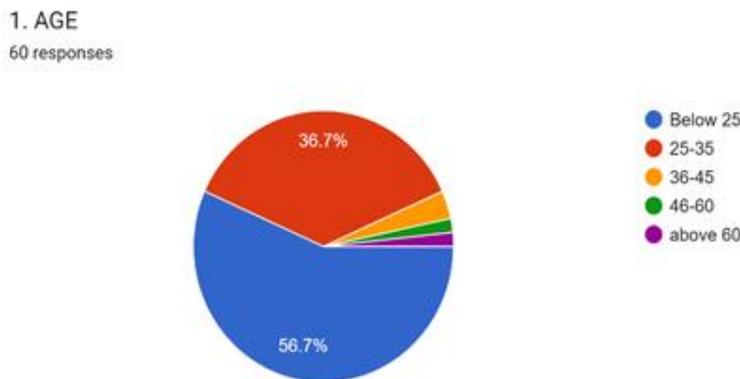
- Null Hypothesis (H<sub>02</sub>): Taxpayers do not show any significant preference between the old tax regime and the new tax regime.
- Alternative Hypothesis (H<sub>12</sub>): Taxpayers show a significant preference between the old tax regime and the new tax regime.

The above hypotheses are designed to analyse the taxpayers’ behaviour and perceptions through statistical analysis. The hypotheses will help in understanding the effect of tax awareness on financial performance and measuring the taxpayers’ response to changes in the income tax system. The outcome of the hypothesis test is likely to provide useful information to policymakers and tax authorities to enhance tax awareness and develop effective awareness programs.

**DATA INTERPRETATION AND ANALYSIS**

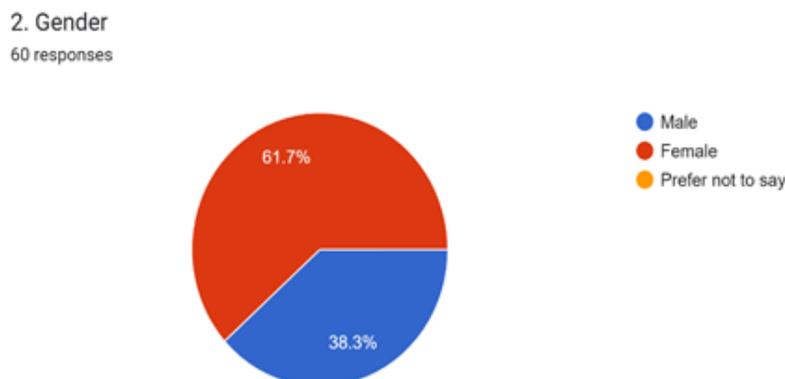
This chapter deals with the interpretation and analysis of data collected through a structured questionnaire survey among taxpayers. The objective of this study is to evaluate the awareness and perception of taxpayers about the income computation process as per the Income Tax Act. The data collected has been analyzed through percentage analysis.

**1. Age**



From the graph, it is evident that a large number of respondents (56.7%) are below the age of 25 years, followed by 36.7% in the 25-35 years age group, out of a total of 60 respondents.

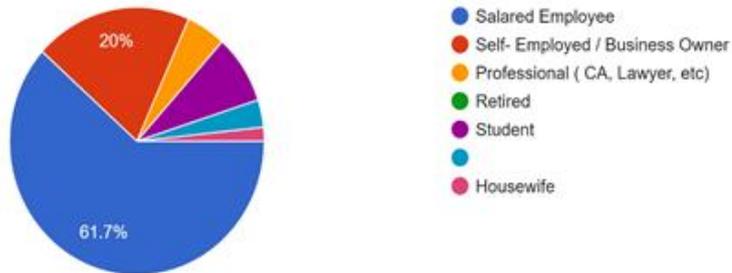
**2. Gender**



The gender-wise analysis of the 60 respondents reveals that females constitute 61.7% of the sample, while males account for 38.3%.

**3. Occupation**

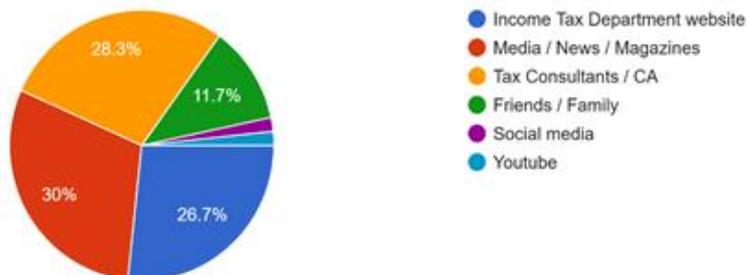
3. Occupation:  
60 responses



From the graph, it can be seen that the largest number of respondents (61.7%) are paid employees, followed by those who are self-employed (20%). Students make up 8.3% of the respondents, while professionals like Chartered Accountants and lawyers make up 5%.

**4. How do you usually get information about income tax rules and updates**

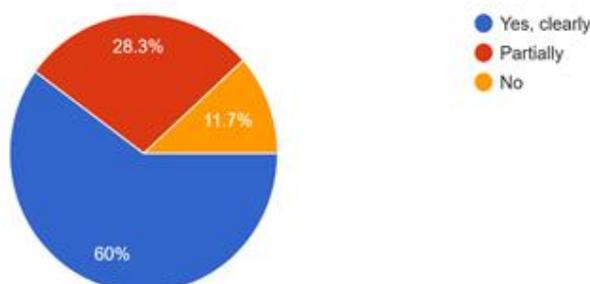
7. How do you usually get information about income tax rules and updates?  
60 responses



The graph shows that among the 60 respondents, 30% rely on media, news, and magazines for information about income tax rules and updates, 28.3% depend on tax consultants or chartered accountants, 26.7% depend on the Income Tax Department’s website, and 11.7% depend on friends and relatives.

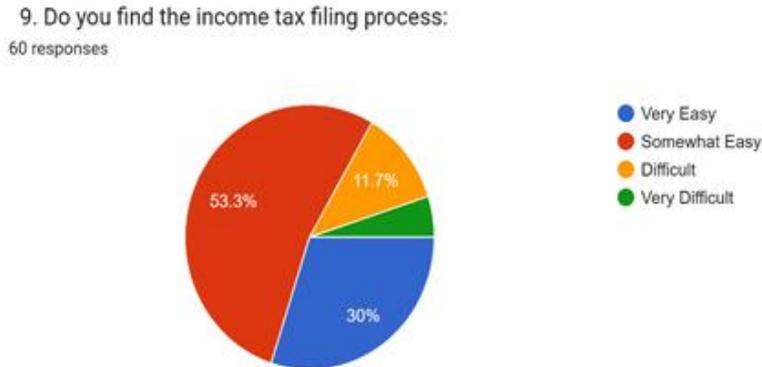
**5. Do you understand how your income is computed for tax purpose?**

8. Do you understand how your income is computed for tax purposes?  
60 responses



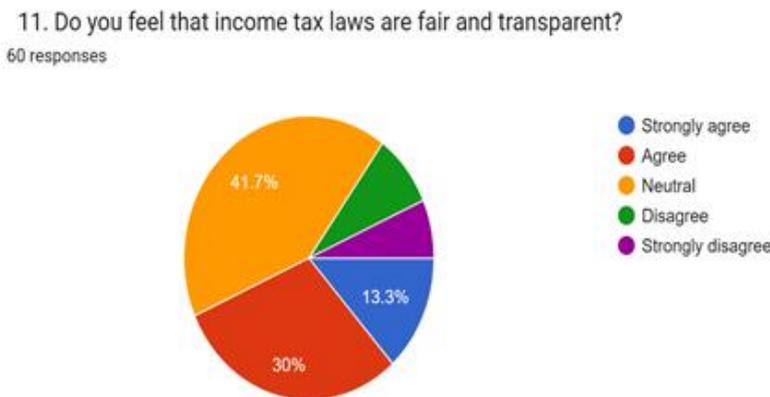
From the graph, it is clear that out of the 60 respondents, the majority of 60% have a clear understanding of how their income is computed for tax purposes, 28.3% have a partial understanding, and 11.7% have no understanding.

**6. Do you feel that income tax laws are fair and transparent?**



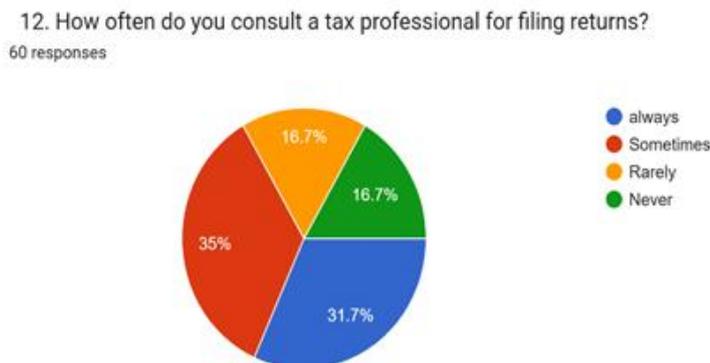
From the graph, it is clear that 41.7% of the 60 respondents had a neutral attitude towards the fairness and transparency of income tax laws, while 30% agreed and 13.3% strongly agreed. However, 8.3% of the respondents disagreed and 6.7% strongly disagreed with the statement.

**7. How often do you consult a tax professional for filing returns?**



From the graph, it is clear that 41.7% of the 60 respondents had a neutral attitude towards the fairness and transparency of income tax laws, while 30% agreed and 13.3% strongly agreed. However, 8.3% of the respondents disagreed and 6.7% strongly disagreed with the statement.

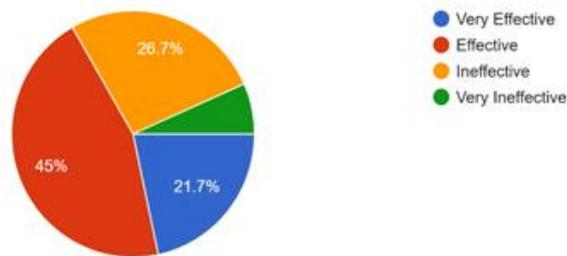
**8. In your opinion, how effective are government awareness programs in educating taxpayers?**



From the graph, it is observed that 45% of the 60 respondents felt that the government awareness programs were effective, and 21.1% of them felt that the programs were very effective. On the other hand, 26% of the respondents felt that the programs were ineffective, and 6.7% of them felt that the programs were very ineffective.

**9. Do penalties and fines influence you to file your taxes on time?**

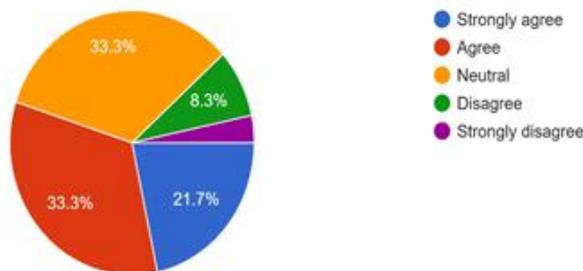
13. In your opinion, how effective are government awareness programs in educating taxpayers?  
60 responses



From the graph, it is observed that out of 60 respondents, 33.3% agreed and another 33.3% had a neutral opinion on the impact of penalties and fines on the timely submission of taxes, while 21.7% strongly agreed with the statement. On the other hand, 8.3% of the respondents disagreed with the statement, while 3.3% strongly disagreed.

**10. How confident are you in computing your taxable income correctly without professional help?**

16. Do penalties and fines influence you to file your taxes on time?  
60 responses

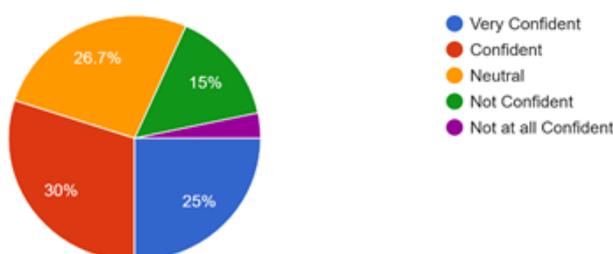


From the graph, it is shown that out of 60 respondents, 30% were confident and 25% very confident in computing their taxable income without professional help. On the other hand, 26.7% of the respondents showed a neutral level of confidence, while 15% were not confident and 3.3% were not at all confident.

**11. Which medium would you prefer for income tax guidance? (Select one or more)**

17. How confident are you in computing your taxable income correctly without professional help?

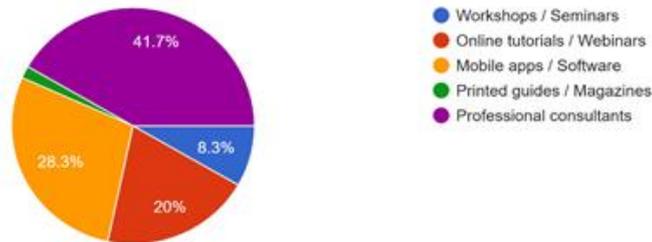
60 responses



The chart indicates that the majority of the 60 people sampled have a preference for consulting professionals as source material, at 41.7 percent. The second choice, at 28.3 percent, is mobile applications or software. Tutorials or webinars follow at 20 percent. Eight percent prefer workshops or seminars, while the lowest, at 1.7 percent, is printed guides or magazines.

**12. Do you think the income computation process is easy to understand?**

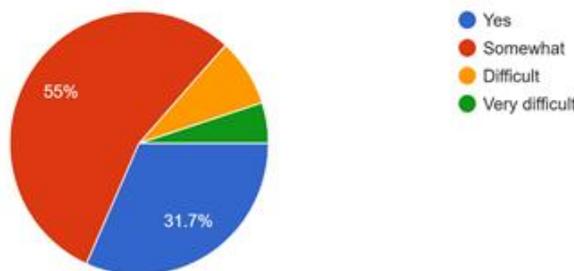
19. Which medium would you prefer for income tax guidance? (Select one or more)  
60 responses



The chart demonstrates that, out of 60 respondents, most viewed the income calculation process as somewhat easy to understand at 55%, while 31.7% found it easy. Conversely, 8.3% viewed the process as difficult, while 5% found it very difficult.

**13. How satisfied are you with the information provided by the government on income tax computation?**

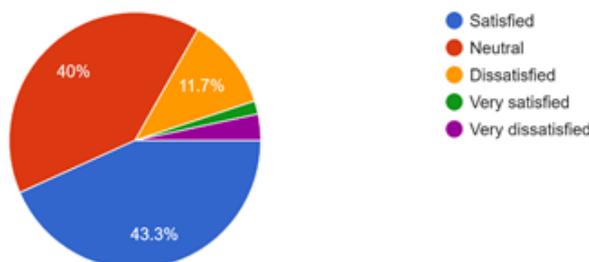
20. Do you think the income computation process is easy to understand?  
60 responses



The chart reveals that out of 60 respondents, 43.3% were satisfied with the government’s information on how to calculate income taxes, 40% were neutral, 11.7% were dissatisfied, 1.7% were very satisfied, and 3.3% were very dissatisfied.

**14. Do you feel the tax system is transparent and easy to follow?**

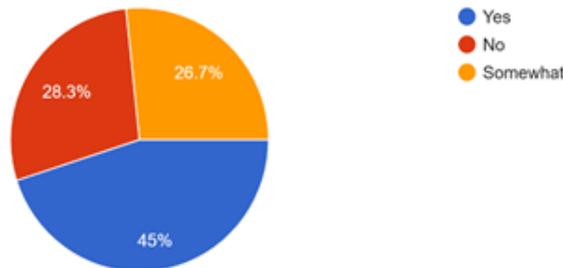
22. How satisfied are you with the information provided by the government on income tax computation?  
60 responses



The chart shows that out of 60 people surveyed, 45% find the tax system easy to understand; 26.7% find it somewhat transparent, while 28.3% do not find the system transparent or easy to follow. Therefore, nearly half of the respondents find the tax system transparent, while the rest find it not easy to understand, thus partially supporting the assumption that taxpayers find the system transparent.

**15. What is your overall perception of income computation under the Income Tax Act?**

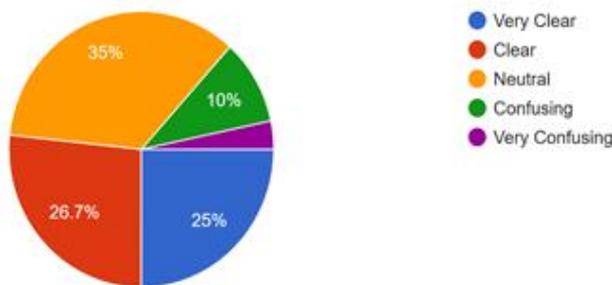
23. Do you feel the tax system is transparent and easy to follow?  
60 responses



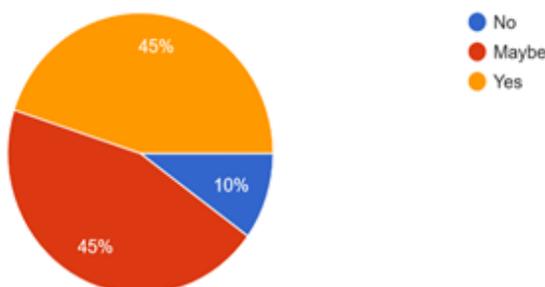
This chart describes the overall response from 60 people. This chart shows us that 25% think income calculation under the ITA is very clear. 26.7% think it is very clear, and 35% think income calculation under ITA is neutral. In contrast, 10% find it confusing and 3.3 think it very confusing. To sum up, it seems most people are at least neutral or positive regarding this issue, although a significant number still encounter some troubles regarding this matter. This shows some support for the argument that taxpayers’ understanding of income computation is not very clear.

**16. Would you like more awareness programs/workshops on income tax computation?**

24. What is your overall perception of income computation under the Income Tax Act?  
60 responses



25. Would you like more awareness programs/workshops on income tax computation?  
60 responses



The chart indicates that out of the 60 respondents, 45% want more awareness programs or workshops on income tax calculation, and 45% replied “maybe,” while 10% think they do not need any such programs. In either case, it shows that the respondents are mostly positive and open to the idea, which fits well with the contention that “taxpayers are seeking guidance to understand income tax computation

**FINDINGS OF THE STUDY**

The research work focused on the awareness and perception of taxpayers regarding the computation of income as per the Income Tax Act, 1961. The primary data collected from 60 respondents was analyzed by using descriptive and inferential statistics. The major findings of the research work are presented in the following table:

<b>Finding</b>	<b>Observation</b>	<b>Linked Hypothesis</b>
Awareness of Income Computation	54% had clear understanding, 34% partial, 12% no awareness	Supports H <sub>11</sub> (awareness affects tax savings)
Knowledge of Deductions & Exemptions	40% well-informed, 36% partially aware, 24% unaware	Supports H <sub>11</sub> (awareness affects tax savings)
Sources of Tax Information	34% media/news, 26% tax consultants, 22% official websites, 14% friends/family	Provides context for awareness and perception
Preference Between Old and New Tax Regimes	60% preferred new regime, 40% old regime; chi-square test significant	Supports H <sub>12</sub> (awareness influences regime choice)
Impact of Awareness on Tax Savings	There exists a strong correlation between the tax savings and the overall awareness of the taxpayer with regard to the amount deducted.	Supports H <sub>11</sub>
On how people view the Tax System	50% found system easy to understand, 30% complex, 20% neutral	This explains the reasoning of taxpayers as far as the issue is concerned.

**Summary**

The study reveals that the degree of awareness may have a significant influence on the savings that taxpayers make. It will also influence whether taxpayers switch to the old system or the new system. The awareness is present; however, the level of awareness is average. As a way to enhance awareness, awareness campaigns and digital campaigns are advisable.

**SUGGESTIONS TO COMPANIES**

Utilizing insights gained from taxpayer awareness as well as the perception of the computation of income based on the conclusions in the study, the following are some of the recommendations that can be employed by organizations to enhance taxpayer compliance as well as support their customers/employees in the best possible manner:

**a) Organize Tax Awareness Programmes**

Conducting regular workshops, webinars, and training sessions on income tax rules, deductions, exemptions, and filing procedures can help maximize awareness while minimizing errors in tax calculations.

**b) Provide Guidance on Deductions and Exemptions**

Provide clear, simplified information on the most common deductions, such as Section 80C, Section 80D, Section 24(b), etc., to assist the employees in making the most of the exemptions for the tax filing.

**c) Facilitate Use of Digital Tools**

Encourage the usage of online tax calculators, e-file facilities, and pre-filled returns, and render such facilities with the maximum level of convenience into consideration.

**d) Maintain Transparent Salary Structures**

Present salaries in such a manner which clearly indicates allowances, perquisites, and deductions like HRA, LTA, and Professional Tax so that employees understand the tax liabilities.

**e) Engage Tax Consultants or Professional Advisors**

Providing access to in-house or external tax professionals for complex calculations, especially for those with multiple sources of income, to prevent compliance issues.

**f) Encourage Feedback and Queries**

Establish clear facilities for forwarding queries on taxation matters and responses from workers to help dispel myths and enhance their general understanding.

**g) Promote Awareness of Government Initiatives**

Keep the staff abreast of reforms in initiatives such as the new tax regime, online filing, faceless assessment, and pre-filled returns. The aim will be to eliminate the need for intermediaries and enhance voluntary compliance.

**h) Periodic Evaluation of Employee Awareness**

Provide regular questionnaires to understand employees' level of awareness with regard to the calculation and compliance related to tax, which would indicate if this program of training needs modification or adjustment to bring about an effective awareness creation.

**CONCLUSION**

The study aimed to investigate the understanding and perception of taxpayers about the process of computing the income according to the "Income Tax Act of 1961," as well as factors that affect compliance. Findings in the study revealed that the majority of the taxpayers have only a basic or partial understanding of the computation of income, with some still unaware of deeper knowledge regarding the deductions, exemptions, and other relevant provisions. There is a positive relationship between taxpayers' awareness of tax-saving opportunities and actual savings.

The study emphasizes how awareness as well as perception contributes to taxpayers' behavior. By increasing tax literacy levels and promoting active participation in the tax system, tax compliance could be improved, tax return inaccuracies could be reduced, and a better tax administration system could be made in India.

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