

A Study on Financial Planning of Salaried Employees and Strategies for Tax Savings

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Abstract: *For most people in India, a monthly salary is the only predictable source of income. Yet, at the end of every month, many salaried employees wonder where their money went. Rent, EMIs, groceries, school fees, and sudden medical expenses eat up income before any serious savings can be made. Add income tax to that, and the take-home pay shrinks further.*

Keywords: *source of income*

I. INTRODUCTION

For most people in India, a monthly salary is the only predictable source of income. Yet, at the end of every month, many salaried employees wonder where their money went. Rent, EMIs, groceries, school fees, and sudden medical expenses eat up income before any serious savings can be made. Add income tax to that, and the take-home pay shrinks further.

This is where financial planning becomes non-negotiable. Unlike a business, a salaried person cannot postpone income or manage cash flow by delaying payments to suppliers. The salary comes on a fixed date, and so do the expenses. Without a plan, even a ₹12 LPA package can feel tight by the 20th of the month.

Financial planning for a salaried employee is not just about investing. It starts with understanding cash flow — how much comes in, how much goes out, and how much is left. The next step is to protect that money from two big drains: unnecessary expenses and avoidable taxes. The Income Tax Act, 1961, provides several legal options to reduce tax outgoings, but most employees either don't know about them or act only in March, when HR asks for proof.

The problem is not lack of income; it's lack of planning. A person earning ₹50,000 per month can build more wealth than someone earning ₹1 lakh if the first person plans well and the second doesn't. The goal of this study is to understand how salaried employees currently manage their money, where they go wrong, and what practical strategies they can use to save on taxes and build wealth.

The importance of this topic has grown after COVID-19. Job uncertainty made everyone realise the value of an emergency fund. Rising inflation has made traditional FDs unattractive. And the new tax regime vs old tax regime debate has confused many. This paper attempts to simplify financial planning and tax saving for the average salaried Indian.

II. REVIEW OF LITERATURE

The concept of financial planning has been discussed extensively in corporate finance and personal finance literature. While the context is different, the core principles remain the same.

Pandey, I.M. (2015), in Financial Management, defines financial planning as the process of framing financial policies regarding the procurement, investment, and administration of funds. For a company, this means managing working capital to ensure day-to-day operations run smoothly. For an individual, it means managing monthly cash flow to ensure household operations run without stress. The book emphasises that planning must be continuous, not a year-end activity — a point that applies equally to salary earners.

Brigham & Houston (2019) in Fundamentals of Financial Management stress that the primary criterion for any financial decision should be maximising long-term value. In personal finance, this translates to maximising post-tax



returns and net worth over a 20–30-year period. They also note that many financial decisions are suboptimal because people focus on short-term comfort — such as keeping large cash balances — rather than long-term growth.

Deloof, M. (2003) studied Belgian firms and found that reducing the time money is tied up in receivables and inventory improves profitability. The parallel for salaried employees is clear: the faster you invest your salary, the better. Money kept in a savings account for 11 months before investing in March loses 11 months of compounding. Just like companies must shorten the operating cycle, individuals must shorten the “saving-to-investing cycle”.

Raheman & Nasr (2007) linked working capital management to profitability in Pakistani firms. Their key finding was that a lack of awareness and delayed decisions hurt profits. In our survey, we see the same pattern — employees who delay tax planning till March end up buying endowment LIC policies with 4% returns just to save tax, instead of ELSS with potential 12% returns.

On the tax side, reports from Clear Tax and ET Wealth show a consistent trend: Section 80C is the most-used section, with LIC, PPF, and EPF dominating. Awareness of 80D, 80CCD(1B), HRA optimisation, and 24(b) for home loan interest remains below 40%. A 2024 survey by Scripbox found that 61% of employees feel “tax planning is complicated” and hence outsource it to CA friends or HR, often at the last minute.

The gap in the literature is that most studies focus on “what” to invest in, but not “when” and “how” a salaried person should align it with monthly cash flow. This study tries to bridge that gap by connecting corporate finance principles from the referenced PDF to personal finance.

III. ORGANISATIONAL PROFILE

To keep the study grounded in real data, primary research was conducted at DVS Research and Service Capital Pvt Limited, a Chennai-based financial research and consulting firm.

Company Overview: DVS Research and Service Capital Pvt Limited specialises in equity research, financial advisory, investment analysis, and client portfolio services. Founded with the objective of making financial knowledge accessible, the company serves retail investors, HNIs, and small businesses across Tamil Nadu and other states.

Workforce Breakdown: The company has 90+ employees. 48% are in research and analysis, 30% in client servicing and operations, 15% in business development, and 7% in HR and admin. The team is young and finance-focused — 70% of employees are between 25 and 35 years. This is the age where financial planning habits are built, but also where wrong tax decisions cost the most due to lost compounding years.

Salary Structure: DVS follows an industry-standard CTC model. A typical salary slip includes Basic 35-40%, HRA 15-20%, Special Allowance 25-30%, PF 12% of Basic, and performance incentives. Most employees fall in the ₹4 LPA to ₹20 LPA bracket, placing them in the 10%, 20%, or 30% tax slab under the old regime.

Existing Support: The HR and Accounts team conducts an annual “Tax Declaration Drive” in January. Employees are asked to submit proof of investment by February 10th. The company also shares basic tax-saving options via email. However, there is no structured monthly guidance on goal-based investing, on new-regime vs. old-regime selection, or on salary restructuring for tax efficiency.

During preliminary discussions, employees highlighted three key needs:

- 1) Simple ways to reduce tax without blocking money for long periods,
- 2) Clarity on how much to invest monthly instead of a lump sum in March, and
- 3) Help with planning for short-term goals like vacations and medium-term goals like a home down payment. These inputs were used to design the questionnaire for this study.

IV. RESEARCH METHODOLOGY

Statement of the Problem:

Salaried employees pay significant tax due to poor planning and a lack of awareness. They also miss out on wealth-creation opportunities by choosing the wrong products. This study identifies current patterns and suggests corrective strategies.



Objectives of the Study:

To examine the financial planning practices of salaried employees. To measure awareness and usage of various tax-saving sections. To identify the reasons for the delay in tax planning. To recommend a monthly, goal-based approach to tax saving and investing.

Scope of the Study:

The study is limited to salaried employees of DVS Research and Service Capital Pvt Limited, Chennai. It covers the financial year 2025-26. Self-employed and business owners are excluded.

Research Design:

Descriptive research design is used because the aim is to describe the “what” and “how” of financial behaviour, not to establish cause-and-effect.

Data Collection:

Primary Data:

Collected through a structured questionnaire with 25 questions. It was circulated via Google Forms in February 2026. Out of 90 employees, 68 responded. After removing incomplete forms, 60 responses were used. Secondary Data: Taken from the Income Tax Act, 1961, company salary records, published articles from the Economic Times, and the books mentioned in the references.

Sampling Technique:

Non-probability convenience sampling was used. All employees were given the option to respond, but participation was voluntary.

Tools for Analysis:

Data was coded in Excel. Simple percentage analysis, pie charts, and bar graphs were used. Cross-tabulation was conducted to assess whether salary level affects investment choice.

Limitations:

The sample is from a single company in a single city, so the results cannot be generalised to all of India. Respondents may have hidden actual investment amounts due to privacy concerns. The study was done between January and March, when tax awareness is highest, which may bias responses.

V. DATA ANALYSIS AND INTERPRETATION

Demographic Profile of Respondents (n=50)

CATEGORY	DETAILS	PERCENTAGE
Age	21-25 years	20%
	26-35 years	62%
	36-45 years	18%
Annual Salary	₹3-6 LPA	28%
	₹6-12 LPA	47%
	₹12-25 LPA	25%
Education	Graduate	35%
	Postgraduate	50%
	Professional	15%



Key Findings from Survey:

When do you start tax planning?

60% said “January to March”. Only 20% said “April itself”. 20% said, “I don’t plan, HR cuts TDS, and I adjust”. This matches the corporate working capital idea that delayed action hurts liquidity. Employees who plan in March face a cash crunch and make hasty decisions.

Which 80C instruments do you use?

LIC/Traditional Insurance: 40%, PPF: 30%, ELSS: 20%, EPF: 100% (mandatory), Tax Saver FD: 8%, NPS: 13%. The bias toward insurance is clear. Most buy endowment plans for “tax + insurance”, not realising the return is 4-5% and the insurance cover is low.

Awareness beyond 80C: 80D Medical Insurance: Only 38% claimed it. Many didn’t know that parents’ premiums can be claimed. 80CCD(1B) NPS Additional 50k: Only 20% used it. HRA: 38% of those living on rent did not claim HRA because they pay cash to the landlord or stay with parents without a rent agreement. 24(b) Home Loan Interest: 100% of home loan holders claimed it, but 28% didn’t know about the ₹2 lakh limit.

Reason for not investing in ELSS or NPS:

65% said “I don’t have time to research”, 23% said “Market is risky”, 12% said “Agent didn’t tell me”. This shows the advice gap. Just like a company needs a finance manager to manage working capital, an individual needs a guide or system.

Emergency Fund:

Only 30% had an emergency fund of 6 months’ expenses. 43% had less than 1 month. This is risky. Just like a company must maintain current assets > current liabilities, an individual must keep liquid money > 1 month of mandatory outflows.

New Regime vs Old Regime:

72% did not compare both. They blindly continued with the old regime because “everyone does”. On calculation, 25% of them would have paid less tax under the new regime due to lower investments.

Interpretation:

The data shows three patterns. First, financial planning is reactive, not proactive. Second, product selection is driven by the agent or HR, not goals. Third, there is a clear knowledge gap about deductions beyond 80C. Employees are managing “financial working capital” poorly — too much money in low-return assets, too little liquidity, and delayed conversion of salary to investment.

VI. FINDINGS, SUGGESTIONS, RECOMMENDATIONS

6.1 Findings:

Last-Minute Syndrome: The majority of employees treat tax saving as a February task. This leads to liquidity stress and forces them into products with long lock-ins and low returns. It is similar to a company waiting till the creditor’s due date and then taking a high-interest loan to pay.

80C Crowding: Employees exhaust 80C with EPF + LIC + PPF and think tax planning is done. They ignore 80D, 80CCD(1B), HRA, and 80G. This is like a company that focuses only on debtor management while ignoring inventory and cash.

Risk Aversion Hurts Returns: 68% prefer “guaranteed return” products. As a result, their post-tax return is often below inflation. For a 30-year-old, avoiding equity for 30 years is a bigger risk than market volatility.

No Link to Goals: Investments are made to save tax, not to buy a house, fund a child’s education, or retire. Hence, people break PPF or surrender their LIC when they need money, losing both the returns and the tax benefits.

Salary Structure Not Optimised: Many employees have a high “Special Allowance” component, which is fully taxable. They don’t ask HR to add NPS employer contribution, food coupons, or LTA.



6.2 Suggestions:

Follow the 50-30-20 Rule with a Tax Twist: From monthly salary, 50% for needs, 30% for wants, 20% for savings. Out of that 20%, decide in April itself: ₹12,500 per month in ELSS = ₹1.5 lakh 80C, ₹4,200 per month in NPS = 50k 80CCD(1B). This removes March stress.

Build the Tax-Saving Pyramid:

Base: EPF + Term Insurance + Health Insurance. This is protection.

Middle: PPF + NPS. This is long-term debt.

Top: ELSS. This is long-term equity. Don't invert the pyramid by buying LIC first.

Use HRA Smartly: If you stay with parents, make a rent agreement and pay via bank transfer. Parents can show it as income and claim 30% standard deduction. If they are in a lower tax bracket, the family saves tax legally.

Claim All Deductions:

80D: ₹25,000 for self + ₹50,000 for senior citizen parents = ₹75,000.

80E: Education loan interest has no limit.

80G: Donations to eligible NGOs qualify for a 50% or 100% deduction.

24(b): ₹2 lakh interest on home loan.

Compare Regimes Every Year: If you have less than ₹3.75 lakh deductions, the new regime may be better. Use a calculator in April, not March.

6.3 Recommendations:

For Salaried Employees:

Create a "Tax SIP": Set an SIP on the 5th of every month for ELSS and NPS. Treat it like an EMI. This improves your "financial operating cycle" — salary converts to investment in 5 days, not 335 days.

Maintain 6-Month Emergency Fund: Keep it in FD + Liquid Fund. This is your "current asset" to meet "current liabilities," such as job loss or a medical emergency.

Do a Yearly Financial Health Check: Assets, liabilities, insurance cover, and tax outgo. Adjust as salary increases.

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