

“A STUDY ON EFFECT OF BEHVIORAL BIASES ON INVESTOR’S PREFERENCE REGARDING 80C TAX SAVING INSTRUMENTS IN SURAT CITY”

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ABSTRACT:

Behavioural finance is a new theoretical field which seeks to apply the understandings of the psychologists to recognize the behaviour of both investors and financial markets. It concentrates upon how investor is aware and acts on information to take investment decisions and that their behaviours reason them to make changed Selection about their financial decisions. Investors do not act sensibly in taking verdicts relating to investment. They have positive weaknesses like cognitive and emotional which take a predominating function in taking investment decision of individuals. They have behavioral biases in the event of taking investment decision. In this present paper researchers examines “Effect of Behavioral Biases on Investor’s Preference Regarding 80C Tax Saving Instruments in Surat City.”. Researcher has studied behavioral biases of investors investing in 80C tax saving instruments by conducting the survey with sample size of 100 investors through a well-structured questionnaire in Surat city. The sampling method used was convenient sampling through personal survey method by contacting investors of Surat city. The purpose of this study was to find out behavioral biases of investors while investing in tax saving 80C instruments in Surat City.

Keywords: Behavioral Biases, 80C Tax Saving Instruments, Tax Planning.

I. INTRODUCTION

Income Tax: The word 'Tax' derived from the 'Taxation' which mean 'Estimate.' Hence, 'Income Tax' mean 'Income Estimate,' which benefits the government to know the actual economic strength of a person. It helps the Government to recognize the distribution of money among country's people. Income Tax has been in power in different forms since years. If we go through the history of India, we get relevant evidence regarding the taxation system of India. In ancient history, it is mentioned about such system which was imposed on the

income, expenditure and other subject. Income tax in India is a tax you pay to the government based on your revenue. The government uses this tax money for numerous purposes including public services, defence spending, infrastructure development and subsidies among other options. If you earn income beyond a certain boundary, it is obligatory to pay income tax every year. There are two kinds of taxes – direct taxes and indirect taxes. If tax is levied directly on the income or capital of an individual, then it is a direct tax. If tax is forced on the price of a service or good, then it is called an indirect tax. In the case of indirect taxes, the individual paying the tax passes on the occurrence to another person.

Section 80C Tax Deduction: Under section 80C of the income tax, investors are entitled to claim deductions up to ₹1, 50,000 on taxable income from 80c tax-saving instruments and investments. An individual or Hindu Undivided Family (HUF) is qualified to claim deductions under this section.

Behavioral Biases: Behavioral biases lead to bounded rationality where investors fail to evaluate the alternatives available to them so as to select the optimal alternative. This is for decision making is affected by feelings, emotions and intuition, rather than rational considerations. There are several behavioral biases which human beings' exhibit.

II. LITERATURE REVIEW

Sahi, S. K. (2017) The study aims to explore the investor biases and try to find out the relationship with investor biases and financial satisfaction. The results concludes that from 8 (Overconfidence bias, Categorization tendency, Budgeting tendency, Adaptive tendency, socially responsible investing bias, Spouse effect and Self-control bias) investor biases only 3 (Overconfidence bias, Self-control bias and Budgeting tendency) biases showed positive and significant association with financial satisfaction level. One of the biases which was having negative relationship had further more studied individually with regression and ANOVA testing. Hence positive relationship was found out when tested individually.

Aydemir, S. D., Aren, S., & Tüfekçi, S. (2017). The study result of the factor analysis shows that two behavioral biases out of six have negatively related to risky investment avenues (intention). Other four biases were not found to have any significance relationship with risky investment behavior. Further, the other

test result of correlation analysis shows that only two behavioral biases have a nomological validity. Women were found to have lower risky investment.

Prosad, J. M., Kapoor, S., & Sengupta, J. (2015) The study explores the presence and impact of four behavioral biases i.e., herding, optimism, overconfidence & the disposal effect. The behavioral biases are dependent on investors demographic as well as their trading sophistication. Women are found to be less confident and more pessimistic than men with stock market. Even they feel gold price will improve in near future. The respondent considers opinion of peer and in additional they feel good when discussed with colleagues. The other parameter on other biases are annual income, profession and trading experience. On ranking these biases in their order of occurrence, overconfidence comes out to be the most significant bias in the Indian equity market. Another, researchers found that men engage in more risk taking as they are more overconfident than women. Women invest majority of their savings in safe or low risk-low return investments. The researchers also suggested that there is no difference in information processing and accumulation styles of women and men (**Mittal & Vyas, 2011**).

Kumar, S., & Goyal, N. (2014). The study states the literature review on behavioral biases from 1980 to 2013 in investment decision making. The paper highlights the major gaps in the studies on behavioral biases. There is limited research in emerging economies, herd behavior, home bias, etc.

(Lascu, Babb, & Phillips, 1997) The study reveals gender difference influencing individual investment strategies. It focuses on comparison between male and female financial brokers, investors, attitude, behavioral biases, safer investment, risk return attributes, etc. The study further reveals that female investors are increasing in this field and making equal entry and opportunities.

RESEARCH GAP

➤ The research gap in the present study is very less research has been done on behavioral finance i.e., behavioral biases in country like India. The concept is mostly applied on stock market all over the world and investment decision is done through it. But very little research is done on investment avenues or investment alternatives. There is no research done on 80C tax saving instruments and behavioral biases yet. So, the researcher focus is **to find the gap**

in behavioral biases of investor in 80C tax saving instruments while making investment decisions. Very scarce studies have been conducted on 80 c with behavioral biases in Gujarat, and no research has been conducted in Surat city.

III. RESEAAARH METHODOLOGY

OBJECTIVES OF THE STUDY

Primary Objectives:

“A Study on Effect of Behavioral Biases on Investor’s Preference Regarding 80C Tax Saving Instruments in Surat City.”

Secondary Objectives:

1. To identify the factors of behavioral biases while investing in 80C tax saving instruments in Surat City.
2. To Measure the Relationship Between Behavioral Biases Factors and Gender.

RESEARCH METHODOLOGY

- **Research Design:** In this paper Descriptive Research design has been used to find out the answer to who, what, when, where, and how questions.
- **Collection of Data:** Here there is a collection of data through primary source by using questionnaires.
- **Sampling Size:** In this paper, sample size i.e., 100 respondents.
- **Sampling Method:** In this paper the method is convenience sampling, non-probability sampling.
- **Target Population:** The sampling frame is Surat City and its 7 SMC Zones. Since the population is Income tax payer.
- **Sampling Unit:** In this paper, Income tax payer living in Surat city who are investing in 80c tax saving instrument, age from 18 years and above. The sampling unit are Service Sector, Professional, Retired
- **Survey Tool:** In this paper, personal survey through Structure Questionnaires is used.

- **Data Analysis:** In this paper, the data collected through questionnaire are analysed by following techniques:

1. Tables 2. Factor Analysis 3. Mann-Whitney U test.

LIMITATION

- The study is limited to only Surat city of Gujarat. Hence the results cannot be generalized to greater extent in conditions of their applicability.
- The sample population is only 100 and the opinions of the respondents may not synchronize with the opinions of the whole population.
- Few respondents are not willing to express their opinion and views on their investment.
- The time limit for completing the project will be limited.
- The responses may be biased.
- Only salaried investors are taken into considered.

IV. ANALYSIS AND INTERPRETATIONS

1. To identify the factors of behavioral biases while investing in 80C tax saving instruments in Surat City.

Based on Literature Review, various variables identified by researcher on behavioral biases and to reduce all the variables in to factors, factor analysis technique is adopted.

The data was analysed using SPSS software with the help of factor analysis technique to identify important factors and to measure the level of behavioral biases while investing in 80C tax saving instruments in Surat City. The sample size is 100 investors and variable used were 40 statements.

From the table 1.3 researcher can compute that as KMO value is more than 0.5, i.e., 0.630 therefore it is meaningful to run factor analysis. Moreover, the Bartlett's Test of Sphericity whose significance value is 0.000 which is less than 0.05 and therefore we reject H_0 which shows that interrelated matrix is not identity matrix.

In present study, out of 40 statements only 15 statements values were more than 0.50 or higher, so other statements were excluded. Researcher has observed from the table 1.4 that majority of the communality values are more than 0.5 and nearer to 1 so it indicates validation of factor analysis.

From the above 1.5 table researcher can compute the SPSS output of the total variance explained by the component extracted from the input data. The 5 components explain 74.55% of the total variance in the variable which are included in the component. From the table researcher can observed that the Eigen value of first 5 components is more than 1.000 thus these components are significant for the analysis of as it contributes positive in analysis. So, it's reasonable to go with the analysis.

Table 1.6 is helpful to extract the relevant variables to be loaded on each factor. Researcher attributes variables which have loading more than 0.500 to a particular factor.

The new factor will be named from above **Rotated Component Matrix^a**

Factor 1 as Herding

Factor 2 as Reliance on expert

Factor 3 as Loss aversion

Factor 4 as Confirmation

Factor 5 as Overconfidence.

2. To Measure the Relationship Between Behavioral Biases Factors and Gender.

H₀: There is no significant difference in relationship between Herding and Gender.

H₁: There is significant difference in relationship between Herding and Gender.

H_{0a}: There is no significant difference in relationship between Reliance on Expert and Gender.

H_{1a}: There is significant difference in relationship between Reliance on Expert and Gender.

H_{0b}: There is no significant difference in relationship between Loss aversion and Gender.

H_{1b}: There is significant difference in relationship between Loss aversion and Gender.

H_{0c}: There is no significant difference in relationship between Confirmation and Gender.

H_{1c}: There is significant difference in relationship between Confirmation and Gender.

H_{0d}: There is no significant difference in relationship between Overconfidence and Gender.

H_{1d}: There is significant difference in relationship between Overconfidence and Gender.

The mean rank (i.e., the “mean rank” column in the rank table 1.7) of Behavioral Biases Factors has been used to compare the effect of it with demographic factor i.e., Gender. Whether of Behavioral Biases Factors have effect with Gender has been assessed using the Test Statistics table which presents the result of Mann-Whitney U test.

From the table 1.8 Result of Mann Whitney U test reported that for the 05 Behavioral Biases Factors and Gender out of 05 Behavioral Biases Factors and Gender null hypothesis is failed to reject as significance value is above 0.05. Therefore, it is said that for 05 Behavioral Biases Factors and Gender, there is no significant difference in relationship between Behavioral Biases Factors and Gender.

V. CONCLUSION

It can be concluded that Behavioral biases plays important role. From the findings it can be said that from 40 behavioral biases statement, researcher has found 5 factors were Herding, Reliance on expert, Loss aversion, Confirmation and Overconfidence. This Behavioral Biases factor effect the investors while investing in different 80C Tax Saving Instruments. Another finding concludes that there is no significant difference in relationship between Behavioral biases factor and Gender. Hence, the awareness level is needed to be increased as

people are still having doubts for their investment instruments. Government should start giving knowledge for investing from school level. There should be an institution, which should be start with expertise people for betterment of investors.

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Figures and Tables

Figure 1 Behavioral Biases



Table 1.1 Tax Saving 80 C Instruments

Tax Saving 80 C Instruments	Lock in Period	Returns (Per Annum)	Risk
ELSS	3 years	15-18%	High
Fixed Deposit	5 years	8.25%	Low
NSC	5 years	8%	Low
PPF	15 years	7.9%	Low
ULIP	5 years	Varies	High
Life Insurance	2 years	Varies	Low
Sukanya Samriddhi Yojana (girl child)	10 years	8.5%	Low
Senior Citizen Scheme	5 years	8.7%	Low
Tuition Fees	10 years	-	Low

Source: www.paisabazaar.com & www.cleartax.com

Table 1.2 Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.742	.831	40

Table 1.3 KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.630
Bartlett's Test of Sphericity	Approx. Chi-Square	700.468
	Df	105
	Sig.	.000

Table 1.4 Communalities

Communalities		
	Initial	Extraction
Before making investment decision, I will collect full information.	1.000	.752
I will review my investment frequently.	1.000	.845
I am at par with the knowledge of financial expert.	1.000	.795
I can make more accurate 80C investment decisions, than others.	1.000	.790
I consult an investment expert before making an investment decision.	1.000	.625
I let my investor expert make my investment decision for me.	1.000	.766
Investment goes well, if guided by my expert.	1.000	.833
I get convinced only if an expert tells me that an investment option is worth of investing the money.	1.000	.704
When market condition is not good, I will invest my money in fixed deposit, National Saving Certificate, Public Provident Fund, etc.	1.000	.769
I prefer to grow slowly in my investment rather than taking a chance of losing my money in attempt of higher return.	1.000	.679
I make investment where there is no loss in capital.	1.000	.706
I will invest in those 80C tax saving instruments, where my friends will invest.	1.000	.671
When invested in same 80C instruments like my friends, I will be accepted in group.	1.000	.851
It will make my social status high, if I invest according to my friends.	1.000	.776
I feel disappointed if I go against the crowd.	1.000	.622

Table 1.5 Total Variance Explained

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.970	26.467	26.467	3.970	26.467	26.467	2.925	19.502	19.502
2	2.306	15.370	41.837	2.306	15.370	41.837	2.898	19.318	38.820

3	2.01 9	13.459	55.296	2.01 9	13.459	55.296	1.86 9	12.461	51.281
4	1.70 5	11.367	66.663	1.70 5	11.367	66.663	1.83 1	12.206	63.487
5	1.18 4	7.891	74.555	1.18 4	7.891	74.555	1.66 0	11.068	74.555
6	.760	5.064	79.618						
7	.599	3.993	83.611						
8	.559	3.723	87.335						
9	.446	2.972	90.307						
10	.369	2.458	92.765						
11	.295	1.964	94.729						
12	.289	1.923	96.652						
13	.230	1.533	98.185						
14	.162	1.083	99.268						
15	.110	.732	100.000						

Table 1.6 Rotated Component Matrix^a

Rotated Component Matrix ^a					
	Component				
	1	2	3	4	5
When invested in same 80C instruments like my friends, I will be accepted in group.	.905				
It will make my social status high, if I invest according to my friends.	.832				
I will invest in those 80C tax saving instruments, where my friends will invest.	.796				
I feel disappointed if I go against the crowd.	.760				
Investment goes well, if guided by my expert.		.895			
I let my investor expert make my investment decision for me.		.830			
I get convinced only if an expert tells me that an investment option is worth of investing the money.		.790			
I consult an investment expert before making an investment decision.		.763			
When market condition is not good, I will invest my money in fixed deposit, National Saving Certificate, Public Provident Fund, etc.			.810		
I make investment where there is no loss in capital.			.763		

I prefer to grow slowly in my investment rather than taking a chance of losing my money in attempt of higher return.			.736		
I will review my investment frequently.				.906	
Before making investment decision, I will collect full information.				.848	
I can make more accurate 80C investment decisions, than others.					.881
I am at par with the knowledge of financial expert.					.857

Table 1.7 Ranks

Ranks				
	GENDER	N	Mean Rank	Sum of Ranks
Herding	MALE	65	50.23	3265.00
	FEMALE	35	51.00	1785.00
	Total	100		
Reliance on expert	MALE	65	50.09	3256.00
	FEMALE	35	51.26	1794.00
	Total	100		
Loss aversion	MALE	65	53.09	3451.00
	FEMALE	35	45.69	1599.00
	Total	100		
Confirmation	MALE	65	50.95	3312.00
	FEMALE	35	49.66	1738.00
	Total	100		
Overconfidence	MALE	65	51.78	3365.50
	FEMALE	35	48.13	1684.50
	Total	100		

Table 1.8 Test Statistics^a

Test Statistics ^a			
	Mann-Whitney U	Wilcoxon W	Asymp. Sig. (2-tailed)
Herding	1120.000	3265.000	.899
Reliance on expert	1111.000	3256.000	.847
Loss aversion	969.000	1599.000	.215
Confirmation	1108.000	1738.000	.822
Overconfidence	1054.500	1684.500	.541

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