Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2026): 8.748 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 13 | Issue: 7 | July 2026 -Peer-Reviewed Journal

IMPACT OF FINANCIAL LITERACY, TAX AWARENESS, AND DIGITAL FINANCIAL AWARENESS ON TAX PLANNING BEHAVIOUR AMONG INCOME EARNERS IN INDIA: AN EMPIRICAL STUDY

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ABSTRACT
Financial literacy has become increasingly important for individuals to make informed financial choices, especially in areas like taxes and personal financial management. This study explores how Financial Literacy, Tax Awareness, and Digital Financial Awareness Influence Tax Planning Behaviour among income earners in India. Data were collected from 119 participants using a structured questionnaire through convenience sampling. The data were analysed using IBM SPSS Statistics Version 29, applying descriptive statistics, reliability analysis, correlation analysis, and multiple regression analysis. The results show that Financial Literacy, Tax Awareness, and Digital Financial Awareness are all positively related to Tax Planning Behaviour. Regression analysis reveals that Digital Financial Awareness has the strongest and statistically significant effect on Tax Planning Behaviour, whereas Financial Literacy and Tax Awareness have positive but less strong impacts. The study concludes that improving digital financial skills can greatly enhance tax planning practices among income earners. These findings offer important guidance for policymakers, financial institutions, educational institutions, and tax authorities in developing financial education programs that support responsible tax planning and digital financial inclusion.
KEYWORDS: *Financial Literacy, Tax Awareness, Digital Financial Awareness, Tax Planning Behaviour, Income Earners, India.*

1. INTRODUCTION
Financial literacy has become an essential life skill in today's changing economic landscape. Individuals need to make informed decisions about saving, investing, borrowing, retirement planning, and taxation. Among these, tax planning is particularly important as it helps individuals legally reduce tax liabilities while staying in compliance with government rules. Good tax planning contributes to financial security by allowing taxpayers to take full advantage of available deductions, exemptions, and investment opportunities. Financial literacy enables individuals to make informed financial decisions and improve overall financial well-being **(Huston, 2010; OECD, 2022).**

The rapid growth of digital financial services has changed the way people manage their finances. Online banking, mobile payment systems, digital investment platforms, and e-filing of income tax have made financial transactions easier and increased access to financial information. As a result, digital financial awareness has become a crucial complement to traditional financial literacy. Individuals with strong digital financial knowledge are better able to use online financial tools, understand tax rules, and implement effective tax planning strategies. The increasing adoption of digital financial services has further strengthened the importance of digital financial awareness **(OECD, 2022 World Bank, 2022; Reserve Bank of India, 2024)**

While previous studies have looked at the influence of financial literacy, tax awareness, and digital financial awareness on financial behaviour individually, there is limited research on how these factors together affect tax planning behaviour among income earners in India. Understanding these connections is especially important as digitalisation and financial inclusion initiatives continue to expand. Effective tax planning contributes to improved financial management and voluntary tax compliance **(Income Tax Department, 2024; Ministry of Finance, Government of India, 2024).**

Hence, this study investigates the impact of Financial Literacy, Tax Awareness, and Digital Financial Awareness on Tax Planning Behaviour among income earners in India. The findings are expected to add to existing knowledge and offer practical recommendations for policymakers, financial institutions, and educational organisations to improve financial education and promote responsible tax planning practices.

2. LITERATURE REVIEW
Financial literacy is considered an important factor in making smart financial decisions. Research by Lusardi and Mitchell (2014) shows that people with better financial literacy have a better understanding of budgeting, saving, investing, and taxes, which helps

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them make better financial choices. Chen and Volpe (1998) also found that higher financial literacy leads to better financial planning and investment habits, which in turn improves overall financial well-being. Previous studies have consistently reported that financial literacy positively influences financial behaviour and financial decision-making **(Atkinson & Messy, 2012; Potrich et al., 2016).** Tax awareness means having a good understanding of tax laws, including deductions, exemptions, and tax-saving investment options. Studies have shown that individuals who are more aware of taxes are more likely to follow tax rules and use effective tax planning strategies. Greater knowledge about taxes encourages people to take advantage of lawful tax-saving opportunities while staying in line with government regulations.

The growing use of digital financial services has made digital financial awareness more important than ever. Digital financial awareness helps individuals use online banking, digital payment systems, e-filing platforms, and digital investment apps effectively. Recent studies show that people with higher digital financial awareness feel more confident managing their financial transactions and tax matters through digital channels. Tax awareness plays an important role in encouraging responsible tax planning and compliance (Ministry of Finance, Government of India, 2024; OECD, 2023)."

Tax planning behaviour refers to the process of arranging financial activities in a legal way to reduce tax liability while following tax laws. Good tax planning involves choosing suitable tax-saving investments, claiming eligible deductions, keeping proper financial records, and submitting income tax returns on time. Previous research consistently shows that financial knowledge and awareness play a positive role in responsible tax planning behaviour. Digital financial capability has become an essential component of financial inclusion in the digital economy (OECD, 2023; World Bank, 2022)."

Research Gap

While previous studies have looked at financial literacy, tax awareness, and digital financial awareness separately, there is limited research on how these factors together affect tax planning behaviour among income earners in India. Also, with the increasing digitalisation of financial services, it is important to understand how digital financial awareness affects tax planning decisions. Therefore, this study aims to fill this gap by examining the combined effect of Financial Literacy, Tax Awareness, and Digital Financial Awareness on Tax Planning Behaviour among Indian income earners.

Conceptual Framework

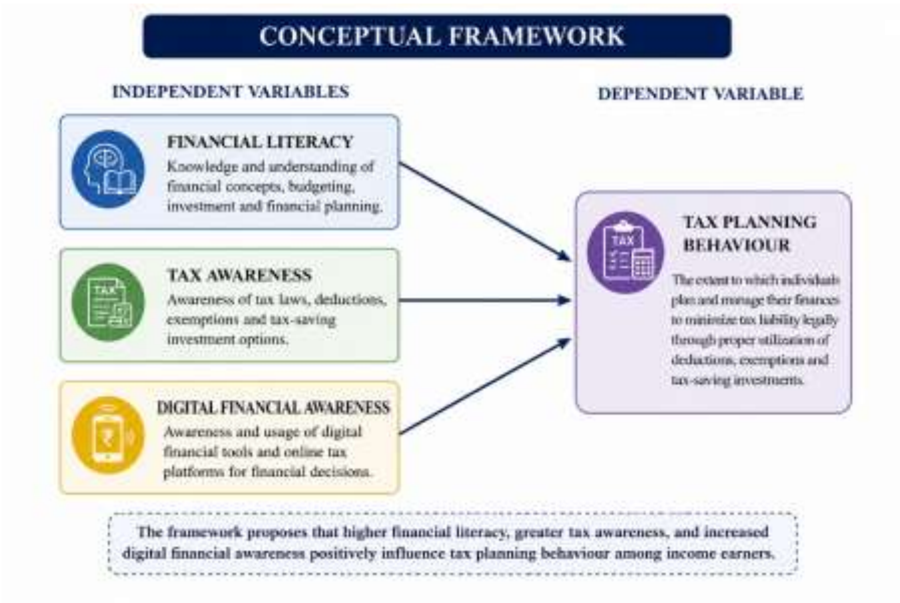

Figure 1. Conceptual Framework

3. OBJECTIVES OF THE STUDY

The study was conducted with the following aims:

1. To explore the influence of Financial Literacy on Tax Planning Behaviour among income earners in India.
2. To evaluate the impact of Tax Awareness on Tax Planning Behaviour.
3. To assess the effect of Digital Financial Awareness on Tax Planning Behaviour.
4. To identify the most important factor influencing Tax Planning Behaviour among the variables studied.

4. RESEARCH HYPOTHESES

The following hypotheses were developed to achieve the study's objectives:

H_{01}: Financial Literacy does not significantly affect Tax Planning Behaviour among income earners.

H_{02}: Tax Awareness does not significantly affect Tax Planning Behaviour among income earners.

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H_{03}: Digital Financial Awareness does not significantly affect Tax Planning Behaviour among income earners.

5.RESEARCH METHODOLOGY

This study used a quantitative research approach to explore how Financial Literacy, Tax Awareness, and Digital Financial Awareness influence Tax Planning Behaviour among income earners in India. Primary data were gathered through a structured questionnaire distributed via Google Forms. A convenience sampling method was used, which resulted in 119 valid responses.

The questionnaire was divided into two parts. The first part collected demographic data, while the second assessed Financial Literacy, Tax Awareness, Digital Financial Awareness, and Tax Planning Behaviour using a five-point Likert scale, where 1 = Strongly Disagree and 5 = Strongly Agree.

The data were analysed using IBM SPSS Statistics Version 29. Various statistical techniques were used, including frequency analysis, descriptive statistics, Cronbach's Alpha for reliability, Kaiser–Meyer–Olkin (KMO) and Bartlett's Test for validity, Pearson correlation analysis, and multiple regression analysis to examine the relationships between the study variables. The statistical analysis followed the procedures recommended by **Hair et al. (2019)** and **Pallant (2020).**

6. RESULTS AND DISCUSSION

6.1 Demographic Profile of Respondents

A total of 119 valid responses were collected from income earners in India. The demographic profile of the respondents is presented in Table 1.

Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	55	46.2
	Female	64	53.8
Age (Years)	Below 25	74	62.2
	25–35	17	14.3
	36–45	21	17.6
	Above 45	7	5.9
Educational Qualification	Undergraduate	40	33.6
	Postgraduate	55	46.2
	Others	9	7.6
	Professional	2	1.7
	Puc	13	10.9
Occupation	Private Employee	51	42.9
	Government Employee	7	5.9
	Self-employed	4	3.4
	Others	50	42.9
Monthly Income	Below ₹25,000	72	60.5
	₹25,001–₹50,000	30	25.2
	₹50,001–₹75,000	12	10.1
	Above ₹75,000	5	4.2
Work Experience	Less than 2 years	77	64.7
	2–5 years	17	14.3
	More than 5 years	24	21.0
ITR Filing Status	Yes	28	23.5
	No	91	76.5
Awareness of Tax-Saving Investment Options	Yes	84	70.6
	No	35	29.4

Table 1. Demographic Profile of Respondents

Interpretation: The demographic analysis shows that most respondents were female (53.8%), while 46.2% were male. A large number of respondents were in the below 25 years age group, showing a mostly young working population. Most of the respondents were postgraduates, and the majority were working in the private sector. The income analysis shows that most earned below ₹25,000 per month, and 64.7% had less than two years of work experience. Although only 23.5% had filed Income Tax Returns (ITR), 70.6% reported awareness of tax-saving investment options, showing relatively high tax awareness even with limited tax filing experience.

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6.2 Descriptive Statistics
Descriptive statistics were calculated to examine the mean and standard deviation of the study variables.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
digital_fianacialmean	119	.81	4.06	3.0074	.80834
financial_literacy1	119	1.00	5.00	3.5567	.97122
Tax_awareness	119	1.00	5.00	3.4916	1.01103
Taxplanning_behaviour	119	1.18	5.00	3.5936	.86307
Valid N (listwise)	119				

Table 2. Descriptive Statistics

Interpretation: The descriptive statistics show that Tax Planning Behaviour had the highest mean score (Mean = 3.59), followed by Financial Literacy (Mean = 3.56), Tax Awareness (Mean = 3.49), and Digital Financial Awareness (Mean = 3.01). The standard deviation values show moderate variability among respondents, suggesting differences in financial knowledge, tax awareness, and tax planning practices.

6.3 Reliability Analysis
The reliability of the research instrument was checked using Cronbach's Alpha.

Construct	Cronbach's Alpha
Financial Literacy	0.850
Tax Awareness	0.839
Digital Financial Awareness	0.921
Tax Planning Behaviour	0.928

Table 3. Reliability Analysis

Interpretation: The Cronbach's Alpha values for Financial Literacy (0.850), Tax Awareness (0.839), Digital Financial Awareness (0.921), and Tax Planning Behaviour (0.928) were all above the recommended threshold of 0.70, indicating good internal consistency.

6.4 Validity Analysis
To check if the data were suitable for factor analysis, the Kaiser–Meyer–Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity were conducted.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.927
Bartlett's Test of Sphericity	Approx. Chi-Square	2641.620
	df	253
	Sig.	.000

Table 4. KMO and Bartlett's Test

Interpretation: The KMO value showed that the data were adequate for the study. Bartlett's Test of Sphericity was statistically significant ($p < 0.05$), confirming that the variables were sufficiently correlated for multivariate statistical analysis.These findings show that the collected data are appropriate for further analysis.

6.5 Correlation Analysis
Pearson's correlation analysis was performed to look at the relationships among Financial Literacy, Tax Awareness, Digital Financial Awareness, and Tax Planning Behaviour.

Correlations					
		financial_literacy1	digital_fianacialmean	Tax_awareness	Taxplanning_behaviour
financial_literacy1	Pearson Correlation	1	.700**	.933**	.781**
	Sig. (2-tailed)		.000	.000	.000
	N	119	119	119	119
digital_fianacialmean	Pearson Correlation	.700**	1	.650**	.794**
	Sig. (2-tailed)	.000		.000	.000
	N	119	119	119	119
Tax_awareness	Pearson Correlation	.933**	.650**	1	.756**
	Sig. (2-tailed)	.000	.000		.000
	N	119	119	119	119

Taxplanning_behaviour	Pearson Correlation	.781**	.794**	.756**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	119	119	119	119

Table 5. Pearson Correlation Analysis

Interpretation: The correlation coefficients show strong positive connections between the study variables. These observed relationships suggest the need for further regression analysis.. Financial Literacy, Tax Awareness, and Digital Financial Awareness were all positively connected with Tax Planning Behaviour, showing that improvements in financial knowledge and awareness may lead to better tax planning practices among income earners. "The correlation analysis indicates significant positive relationships among the study variables, supporting further regression analysis."

6.6 Multiple Regression Analysis

Multiple regression analysis was done to examine how Financial Literacy, Tax Awareness, and Digital Financial Awareness Influence Tax Planning Behaviour.

Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.858[a]	.736	.730	.44886

Table 6. Model Summary

Interpretation: The regression model shows a strong link between the independent variables and Tax Planning Behaviour. The coefficient of determination (R^2) shows that a large part of the variation in Tax Planning Behaviour is explained by Financial Literacy, Tax Awareness, and Digital Financial Awareness.

ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	64.728	3	21.576	107.092	.000[b]
	Residual	23.169	115	.201		
	Total	87.898	118			

Table 7. ANOVA

Interpretation : The ANOVA results show that the regression model is statistically significant ($p < 0.05$), confirming that the independent variables together explain Tax Planning Behaviour among income earners.

Regression Coefficients

Coefficients[a]

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**95.0% Confidence Interval for B**		**Correlations**			**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Lower Bound**	**Upper Bound**	**Zero-order**	**Partial**	**Part**	**Tolerance**	**VIF**
(Constant)	.632	.171		3.705	.000	.294	.970					
financial_literacy1	.210	.125	.236	1.671	.097	-.039	.458	.781	.154	.080	.115	8.697
digital_fianacialmean	.518	.072	.485	7.239	.000	.376	.660	.794	.559	.347	.510	1.962
Tax_awareness	.188	.113	.221	1.662	.099	-.036	.413	.756	.153	.080	.130	7.677

Table 8. Regression Coefficients

Interpretation: The regression coefficients indicate that **Digital Financial Awareness** has a **statistically significant positive effect** on Tax Planning Behaviour (**$p < 0.001$**). Although **Financial Literacy** and **Tax Awareness** showed positive coefficients, **their effects were not statistically significant** (**$p = 0.097$** and **$p = 0.099$**, respectively) after controlling for the other variables. Therefore, **Digital Financial Awareness emerged as the strongest and only statistically significant predictor** of Tax Planning Behaviour among the respondents.

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6.7 Discussion of Findings

The findings of this study show that Financial Literacy, Tax Awareness, and Digital Financial Awareness are positively linked with Tax Planning Behaviour among income earners in India. The correlation analysis indicates significant positive relationships among the study variables.

These findings are consistent with Lusardi and Mitchell (2014), who reported that financial literacy improves financial decision-making. Similarly, Chen and Volpe (1998) found that financially literate individuals exhibit better financial planning behaviour. These findings are also consistent with the results reported by Xiao and Porto (2017), who found that financial education improves financial behaviour. The present study further highlights the growing importance of digital financial awareness in influencing tax planning behaviour among Indian income earners.

This finding highlights the growing importance of digital financial services, online banking, electronic tax filing systems, and digital investment platforms in shaping financial decisions. Individuals with greater digital financial awareness are better equipped to use digital financial resources, understand tax regulations, and adopt effective tax planning strategies.

Although Financial Literacy and Tax Awareness were found to have positive links with Tax Planning Behaviour, their impact was not statistically significant in the regression model once other factors were taken into account. On the other hand, Digital Financial Awareness had a statistically significant positive effect, showing that digital financial capability plays a more important role in influencing tax planning behaviour among income earners.

7. CONCLUSION

This study examined the influence of Financial Literacy, Tax Awareness, and Digital Financial Awareness on Tax Planning Behaviour among income earners in India. Based on responses collected from 119 participants, the study found that all three variables were positively associated with Tax Planning Behaviour. The findings indicate that individuals with higher financial knowledge and greater awareness of taxation and digital financial services are more likely to adopt effective tax planning practices. The regression analysis revealed that Digital Financial Awareness was the most significant predictor of Tax Planning Behaviour. This finding highlights the growing importance of digital financial knowledge in enabling individuals to access online financial services, utilise digital tax filing platforms, and make informed tax-related decisions. The study concludes that improving digital financial capability can enhance responsible tax planning behaviour among income earners.

The findings contribute to the existing literature by providing empirical evidence on the combined influence of Financial Literacy, Tax Awareness, and Digital Financial Awareness on Tax Planning Behaviour in the Indian context.

7.1 Practical Implications

The findings of this study have important implications for policymakers, educational institutions, financial organisations, and tax authorities. Financial literacy programmes should integrate digital financial education to improve individuals' ability to use digital financial services and online tax filing systems. Financial institutions should conduct awareness programmes that educate customers about tax-saving investment opportunities and responsible financial planning. Educational institutions can strengthen financial capability by incorporating financial and digital literacy into academic curricula. These initiatives may encourage better tax planning behaviour and improve voluntary tax compliance among income earners.

7.2 Limitations of the Study

The study has certain limitations. It was based on a sample of **119 respondents** selected through convenience sampling, which may limit the generalisability of the findings. The study relied on self-reported responses that may be influenced by respondent bias. Additionally, the research examined only three independent variables, whereas other behavioural, economic, and demographic factors may also influence tax planning behaviour.

7.3 Future Research

Future research may consider larger and more diverse samples across different regions of India to improve the generalisability of the findings. Researchers may also include additional variables such as financial attitude, financial self-efficacy, risk tolerance, or FinTech adoption to obtain a more comprehensive understanding of tax planning behaviour. Comparative studies across different demographic groups or countries may further enrich the existing literature.

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