FINANCIAL PLANNING FOR SALARIED EMPLOYEES AND STRATEGIES FOR TAX SAVINGS IN LAGOS STATE, NIGERIA

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Abstract
In Nigeria, where the economic landscape is dynamic and the tax system intricate, salaried employees face significant challenges in optimising their financial planning and minimising tax liabilities. This research sheds light on the financial planning for salaried employees and strategies for tax saving in Lagos, Nigeria. Data was collected from 200 respondents using a survey design and convenience sampling. Analytical tools such as descriptive statistics, frequency distribution tables, and correlation analysis were employed. The findings indicate a high financial literacy rate among salaried employees and substantial awareness and use of financial instruments. However, a significant portion of the respondents do not engage in tax-saving measures. The study also reveals a strong positive correlation between income levels and retirement planning practices. The study concludes that there is a pressing need to enhance financial planning education in Nigeria, particularly in terms of using tax-saving instruments. It recommends improving financial literacy among salaried employees and suggests that employers provide tailored retirement planning services based on income levels.

Keywords: Financial Planning, Financial Literacy, Tax-saving strategies, Investment instruments, Income level, and Retirement.

1.0 Introduction

In contemporary society, the financial landscape is evolving rapidly, and individuals, particularly salaried employees, struggle to manage their finances effectively. The challenges are diverse, from meeting day-to-day expenses to planning long-term goals, such as homeownership, education, and retirement. For salaried professionals, whose income streams are often consistent but fixed, astute financial planning becomes paramount to ensure stability and prosperity (Farooqi et al., 2022).

Tax management is one of the pivotal components of financial planning, especially for salaried individuals. Taxation, with its myriad regulations and annual changes, significantly impacts disposable income. Effective tax planning ensures compliance with legal obligations and provides an avenue for maximising savings and investment. It involves carefully examining available exemptions, deductions, and credits to minimise the tax burden while being law-abiding. (Micah, Ebere & Umobong, 2012).

However, the Nigerian workforce, which includes many salaried employees, experiences a unique blend of opportunities and challenges. On one hand, the stability of a fixed income provides a foundation for financial planning. On the other hand, economic uncertainties, inflation rates, and changing tax policies contribute to the complexity of financial decision-making. Furthermore, the complexity of the tax environment creates a pressing need for effective strategies in financial planning for salaried individuals in Nigeria (Ebirim & Ochai, 2015). The existing literature reveals a gap in comprehensive studies that specifically address the financial planning instruments and tax-saving strategies tailored for salary earners in Nigeria. The absence of a consolidated body of knowledge on tax-saving strategies in the context of Nigerian salaried employment further hampers the ability of individuals to make informed decisions. This knowledge gap impacts the financial well-being of salaried employees and limits the development of effective policies and guidelines by financial institutions and regulatory bodies.

Therefore, the ultimate goal is to empower salaried employees with the information and instruments necessary to manoeuvre the intricacies of financial planning and tax optimisation. With an understanding of their complex financial challenges and practical solutions, this research endeavours to foster financial resilience and success among salaried professionals in the dynamic context of Nigeria's evolving economy. In this context, the significance of financial planning and tax saving cannot be overstated. Shukla et al. (2023) posit that understanding financial planning and tax-saving strategies empowers salaried employees to take control of their financial futures. Financial planning helps individuals accumulate wealth over time by guiding them on how to save and invest wisely. Effective tax-saving strategies contribute to increased disposable income, allowing for more significant opportunities for savings and investments (Lusardi & Mitchell, 2014; Anthony-Orji et al., 2020). Additionally, the study of financial planning for salaried employees and tax-saving is significant for individual well-being, economic stability, government revenue, and overall development. It has implications for both micro and macroeconomic factors and contributes to building a more resilient and prosperous society.

2.0 Literature Review

Kolade, Orekoya, and Adeniyo (2022) surveyed 300 students in Ibadan, Nigeria, to investigate the determinant of financial literacy and its effect on financial behaviour; they found that male students are more financially knowledgeable than female students.

Egbu (2018), in a study on the impact of financial literacy on Nigerian public sector employees, found that most of the respondents are deficient in financial literacy despite their exposure to financial education. The study revealed no significant relationship between financial literacy and educational level, retirement planning saving, and investment culture in Nigerian public sector employees.

However, Savita and Gautam (2013), as cited in Singh, Solanki, and Sharma (2023), conducted a study on tax-saving instruments in Guraj, India. The study found that premiums on life insurance policies, provident fund contributions, and fixed deposits are prevalent among the respondents' tax-saving investments. It further revealed that the investment in tax savings increases as income increases.

Similarly, Singh et al. (2023), in their study on financial planning and tax-saving strategies of salaried employees in India, showed that while tax planning reduces liabilities, most employees are unaware of the benefits of tax-saving investments like life insurance and health insurance.

Additionally, Kuwar and Afeti (2023) posit that tax relief is the most adopted tax-saving strategy utilised by salaried employees in North Tongu District, Ghana.

Meanwhile, Singh et al. (2023) found that fixed deposits are the most prevalent financial instrument used by salaried employees in India. Bonds, mutual funds, pension funds, and stock/shares are other instruments with higher entries. Similarly, Virani (2013), as cited in Kuwar and Afeti (2023), in his study on school teachers' savings and investment patterns in Gujarat, India, discovered that fixed deposits and government securities are the most preferred investment alternatives.

Furthermore, Mokaya (2017), in a study on financial factors affecting retirement planning in Nakuru, Kenya, concluded that income level affects the retirement planning practices of the respondents. In addition, Mohanty, Bhanu, and Siddhant (2023) posit that there is a positive significant relationship between age and income level of youth towards their financial planning for retirement in a survey on the influence of age and income on retirement planning decisions in India.

Viera, Matheis, and Rosenblum (2022), in research on the financial planning preparation for retirement: a multidimensional analysis of the perception of Brazilians, having surveyed 2,920 respondents, concluded that people with higher income levels have a higher percentage of high and very high financial preparation for retirement.

3.0 Methodology

Descriptive and survey research designs were employed. 200 respondents were sampled using a convenience sampling technique. A structured questionnaire was used to collect primary data, while online journals of previous studies, periodicals, textbooks, magazines, etc, form the secondary data.

3.1 **Model Specification**

Mathematical Expression: Let X represent Income Level, and Y represent Retirement Planning Practices. The Pearson correlation coefficient r between X and Y is given by:

$$r = \frac{\sum (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum (x_i - \bar{x})^2 (y_i - \bar{y})^2}}$$

Where:

- X_i and Y_i are individual observations of Income Level and Retirement Planning Practices, respectively.
- X^{-} and Y^{-} are the means of Income Level and Retirement Planning Practices, respectively.

- ∑ represents the summation across all observations.

Interpretation:

- If r is close to 0, it indicates no linear relationship between income level and retirement planning practices.
- If r is positive, it indicates a positive linear relationship (as income level increases, retirement planning practices tend to increase).
- If r is negative, it indicates a negative linear relationship (as income level increases, retirement planning practices tend to decrease).
- The closer r is to 1 or -1, the stronger the linear relationship between the two variables.
- To determine whether the relationship is statistically significant, we will typically perform hypothesis testing using a significance level (e.g., α=0.05). If the p-value associated with the correlation coefficient is less than the chosen significance level, we will reject the null hypothesis and conclude that there is a significant relationship between income level and retirement planning practices. Otherwise, we will fail to reject the null hypothesis.

4.0 Results

Table 1: Level of Financial Literacy of the Respondents

Question	Percentage of Correct Answers	Percentage of Incorrect Answers
In your opinion, which account pays the most interest?	80.0%	20.0%
How much have you thought about retirement?	66.0%	34.0%
What comprises your monthly emolument?	57.5%	42.5%
Out of the total pension contribution of 18%, what is the portion coming from the employee?	43.0%	57.0%
Your take-home pay is otherwise known as?	82.0%	18.0%
Investment refers to?	98.0%	2.0%
Which of these is a short-term investment?	52.0%	48.0%
I regularly set aside monthly money for savings and future needs.	85.50%	14.5%
I compare prices when shopping for major expenses.	97.50%	2.5%
I use a spending plan or budget	75.50%	24.5%
Mean Percentage of the Correct Answers	**73.7%**	

Source: Field Survey, 2024

Table 1 shows that the mean percentage of the correct answers in the survey is 73.7%. This implies a relatively high level of financial literacy among salaried employees in the study area.

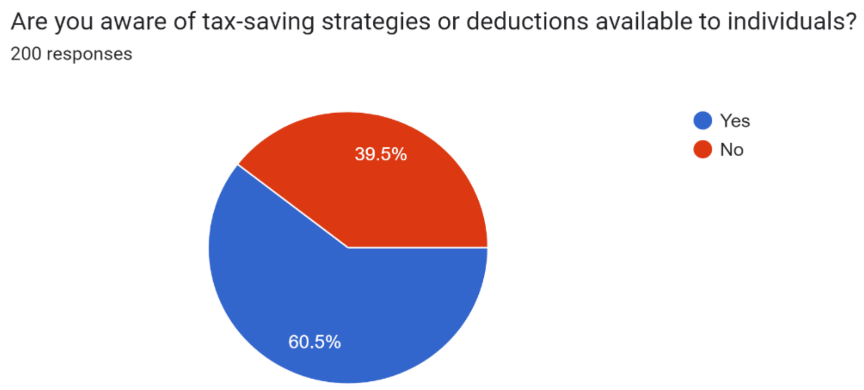
Table 2: Financial Literacy Level of Private Sector Employees vs Public Sector Employees

Question	Private Sector Percentage of Correct Answer	Public Sector Percentage of Correct Answers
In your opinion, which account pays the most interest?	83.9%	53.8%
How much have you thought about retirement?	66.1%	65.4%
What comprises your monthly emolument?	60.3%	38.5%
Out of the total pension contribution of 18%, what is the portion coming from the employee?	44.8%	30.8%
Your take-home pay is otherwise known as?	84.5%	65.4%
Investment refers to?	98.3%	96.2%
Which of these is a short-term investment?	54.6%	34.6%
I regularly set aside monthly money for savings and future needs.	86.2%	80.8%
I compare prices when shopping for major expenses.	97.1%	100.0%
I use a spending plan or budget	75.3%	79.6%
Mean Percentage of the Correct Answers	**75.1%**	**64.5%**

Source: Field Survey, 2024

Table 2 shows the mean percentages of correct answers as 75.1% for private employees and 64.5% for public sector employees. This means that employees from both sectors have a relatively high level of financial literacy, though the private sector employees are slightly more financially literate than the public sector employees.

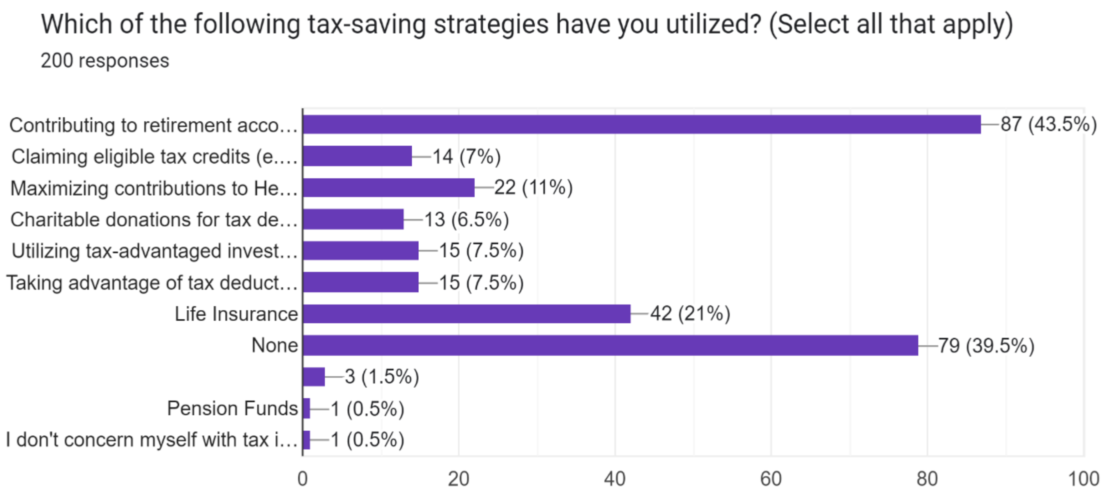
Figure 1 Tax-saving awareness of the respondents



Source: Field Survey, 2024

Figure 1 shows that 121 (60.5%) of the respondents know of available tax-saving strategies, while 79 (39.5%) do not. This result means that most of the respondents (60.5%) are aware of tax-saving strategies.

Figure 2: Tax-saving Strategies Utilised by the Respondents

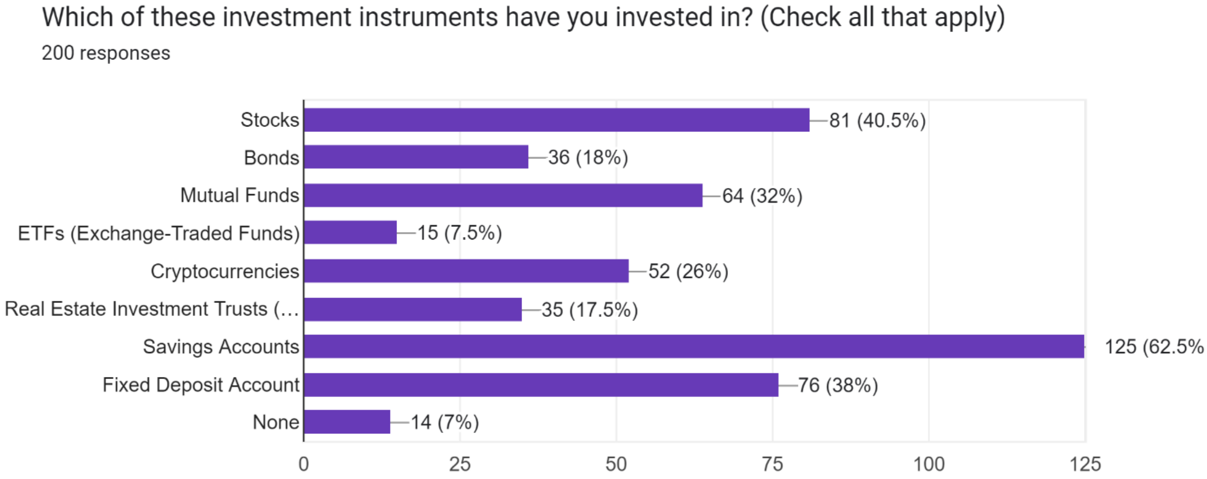


Source: Field Survey, 2024

Figure 2 shows that 87 (43.5%) of the respondents use the contribution to a retirement savings account as a tax-saving strategy; 14 (7%) use claiming eligible tax credits (like education credits and child tax credits); 22 (11%) use maximising contributions to a health savings account or flexible spending account; 13 (6.5%) use charity donation for tax saving; 15(7.5%) use tax advantage investment account; 15 (7.5%) take advantage of tax deductions for homeowners (e.g. mortgage interest); 42 (21%) use life insurance; and 79 (39.5%) of the respondents have no tax-saving strategy.

However, this result implies that most respondents (43.5%) use a contribution to a retirement savings account as their tax-saving strategy. Also, the indication that 21% of the respondents use a life insurance strategy shows a growing utilisation of insurance policies in the study area. Meanwhile, this result is in agreement with Savita and Gautam (2013), as cited in Singh, Solanki, and Sharma (2023), who found that premiums on life insurance policies and provident fund contributions are prevalent among the respondents' tax-saving strategies; in a study on tax-saving instruments in Guraj, India.

Figure 3: Financial Instrument Utilised by the Respondents

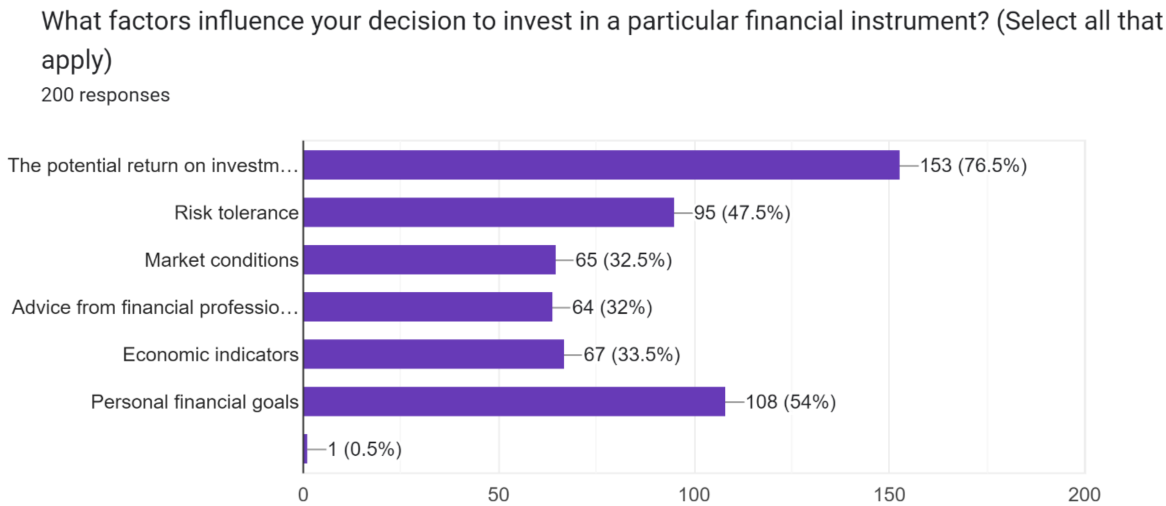


Source: Field Survey, 2024

Figure 3 shows the financial instrument utilised by the respondents. It reveals that 81 (40.5%) of the respondents invested in stocks, 36 (18%) invested in bonds, 64(32%) invested in mutual funds, 15 (7.5%) in ETF (Exchange Traded Funds), 52 (26%) invested in cryptocurrencies, 35 (17.5%) invested in Real Estate Investment Trust (REITs). A whopping 126 (62.5%) of the respondents invested in savings accounts, 76 (38%) invested in fixed deposit accounts, and 14 (7%) had no investment.

However, the respondents' most common investment instrument is a savings account (62.5%). Records of 40.5% and 32% for stocks and mutual funds show increasing use of these investment vehicles among the respondents. Furthermore, 26% of the respondents had invested in cryptocurrencies, indicating the growing trend of blockchain technology and digital currencies among Nigerians.

Figure 4: Factors Influencing Respondents' Investment Decisions



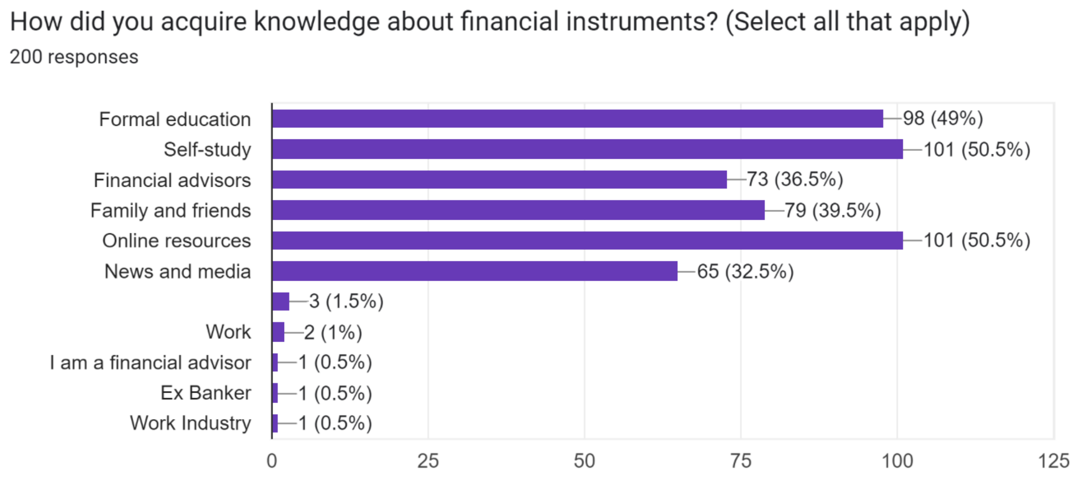
Source: Field Survey, 2024

Figure 4 shows that 153 (76.5%) of the respondents' investment decisions are influenced by the potential return on investment, 95 (47.5%) consider the risks associated with the investment, 65 (32.5%) base their decision on the prevailing market conditions, 64 (32%) make an investment decision based on advice from financial professionals, 67 (33.5%) consider economic indicators while making investment decisions, and 105 (54%) decide based on their personal financial goals.

However, most respondents (76.5%) consider the potential return on investment when making investment decisions, followed by their personal financial goals. This result is in tandem with the findings of Virani (2013), as cited in Kuwar and Afeti (2023), in his study on the savings and investment patterns of school teachers in Gujarat, India. He discovered that high interest rates are the respondents' main investment criteria.

Figure 4 shows the respondents' source of information on financial instruments available in the market. It reveals that 98 (49%) and 101(50.5%) respondents rely on formal education and self-study, respectively. It further shows that 73 (36.5%) consult financial advisors, 79 (39.5%) seek advice from family and friends, 101 (50.5%) rely on online resources, and 65 (32.5%) get information from news and media.

Figure 5: Respondents' Source of Information on Available Financial Instruments



Source: Field Survey, 2024

Figure 5 shows the respondents' source of information on financial instruments available in the market. It reveals that 98 (49%) and 101(50.5%) respondents rely on formal education and self-study, respectively. It further shows that 73 (36.5%) consult financial advisors, 79 (39.5%) seek advice from family and friends, 101 (50.5%) rely on online resources, and 65 (32.5%) get information from news and media.

Table 3: Correlation matrix between income level and retirement planning practices

	INCOME LEVEL	RETIREMENT PLANNING PRACTICES
INCOME LEVEL		
Pearson Correlation	1	.823**
Sig. (2-tailed)		.000
N	200	200
RETIREMENT PLANNING PRACTICES		
Pearson Correlation	.823**	1
Sig. (2-tailed)	.000	
N	200	200

Source: Field Survey, 2024

Table 3 demonstrates that the two variables have a sizeable positive link, with (r = 0.823), with its p-value = 0.000, which is less than 0.05. The correlation value of 0.823 shows a significant relationship between income level and retirement planning practices among salaried employees. Hence, the results form the basis for the rejection of the null hypothesis, which states that no significant relationship exists between income level and retirement planning practices among salaried employees in the study area., and the acceptance of the alternate hypothesis, which states that significant relationship exists between income level and retirement planning practices among salaried employees in the study area.

5.0 Conclusions

i. There is a relatively high level of financial literacy among salaried employees. However, private sector employees demonstrated slightly higher financial literacy than public sector employees, indicating a nuanced difference between the two groups.

ii. Contributions to retirement savings accounts are the primary tax-saving strategy most salaried employees employ, indicating a proactive approach to retirement planning. Meanwhile, it is concerning that 39.5% of respondents do not utilise any tax-saving strategies, highlighting a potential area for improvement in financial planning education.

iii. Salaried employees have a high and commendable level of awareness and use of financial instruments. The most common investment vehicle among respondents is savings accounts (62.5%), indicating a preference for traditional and relatively low-risk investment options. However, there is a noticeable interest (26%) in emerging investment options like cryptocurrency.

iv. The compelling positive relationship and statistical significance between income levels and retirement planning practices among salaried employees highlights the importance of income as a determinant factor in retirement planning decisions and emphasises the need for targeted interventions to ensure adequate retirement preparedness, particularly among lower-income individuals who may face greater challenges in saving for retirement.

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