



"A critical analysis on tax evasion and indian economy"

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Abstract:- In a welfare state, the government takes primary responsibility for the welfare of its citizens as in matter of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, government needs revenue. The taxation is the primary source of revenue to the government for incurring such public welfare expenditure. In other words, government is taking tax from public through its one hand and through another hand; it incurs welfare expenditure for public at large. However no one enjoys handing over his hard-earned money to the government to pay taxes. Thus taxes are compulsory or enforced contribution to the government revenue by public government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services and transactions.

There are some of unlawful and unacceptable practices which reduce the revenue collection for government followed by the tax payer's like tax evasion and avoidance. This paper focus on concept of tax evasion, reason for tax evasion, different ways of tax evasion and impact on Indian economy.

Key words :- Tax, evasion, Economic growth, tax payer.

Introduction : - In India most of the persons do not pay their taxes. They try to avoid this by some illegal means or by taking the benefits of some loopholes in the Indian tax system. Tax evasion is the term for the efforts by individuals, corporate, trusts and other entities to evade taxes by illegal means. It is the deliberate, misrepresentation or concealment of the true state

of their affairs to the tax authorities to reduce their tax liability by declaring less incomes, profits or gains than actually what they earned. Thus the amount which would have been used for economic and social development is used for antisocial activities. All this creates black money and social evils in the society. Thus tax evasion is not a problem in development of country but also harmful for the country. The level of evasion tax also depends on the chartered accountants and tax lawyers who help companies, firm and individuals evade paying tax.

Research Methodology : - The research is mainly based on secondary data. The secondary data will be collected from books, Journals, magazines, research paper, websites and published data on the internet.

Objective of the research :- The main objectives of the research are as follows :-

1. To analyze the factors leading to generation of Black money and causes for tax evasion.
2. To know the impact of tax evasion.
3. To know the impact of Indian economy.

Review of Literature :- The first step in this research is review the existing literature. The goal of the literature search is to update a topic with the most recent information acknowledged by different authors. It provides an overall view of subject area and gives significant information to start a research.

Uslaner (2007) has explained the problem of tax evasion. He states tax evasion to be a result of corruption, important legal system, shaky economies and inefficient governments because of their inability of providing essential services.

Mughal & Akram (2012) studied the reasons of tax evasion. They state absence of public enlightenment campaign, lack of adequate tax incentives, poor relationship of tax payers and authority. Their Study also revealed the presence of correlation between various reasons of tax evasion.

Wadhwa & Pal (2012) they state high tax rates, corruption in public sector unit, multiple taxes and inefficient tax authorities to be the main reasons of tax evasion in India. He states the reduction in economic growth, creation and continuation of parallel economy and decreased country reputation globally as the offspring of tax evasion.

Adebisi & Orbegi (2013) studied the effect of tax evasion on personal income tax administration. They suggested government to use more means of publicity to inform & tax payers about change in tax legislation and need for compliance. They recommend the simplicity in tax form.

Batra (2014) has explained the opinion of income tax professionals regarding tax evasion in India. In his opinion income tax evasion is prevalent in India. He opined that high tax rates, corruption in public sector unit, Multiple tax rates and inefficient tax authorities are the main causes of tax evasion.

Cravelle (2015) studied about techniques through which assesses transfer their incomes to tax haven i.e. to low tax jurisdiction and evade tax on passive income.

Research for tax evasion :- Here are the major reasons for tax evasion in a developing economy like India.

(a) Low level of voluntary tax compliance :- Major of the population do not voluntarily comply with the tax procedures. This is attributed to the following reasons.

- Low tax morale.
- Low quality of services in return of taxes.
- Low transparency and accountability of public institutions.
- High level of corruption.
- Lack of rule of law and weak fiscal jurisdiction.
- High compliance costs.

(b) Weak enforcement of tax laws :- Even though the tax laws are very strong and rigid, the effectiveness of their enforcement still remains a question mark. The implementation of tax laws is inefficient due to the following reasons -

- Insufficient amount of tax collection.
- Weak capacity in detecting and prosecuting inappropriate tax practices.
- Corrupted tax officials.

The reasons listed above do not occur in isolation and some are mutually enforcing often tax evasion and avoidance are by products of deficient political, economic and social governance in a country. Especially in these circumstances which are not untypical for many developing

countries- any 'exit strategy' away from evasion and avoidance needs to be based on a profound analysis of the current situation and the types of tax evasion and avoidance used predominantly.

Different ways of tax evasion:-

(i) Income from salaries : - Salaried tax payers evades tax by using any of the following methods, like claiming higher rent receipts than the actual, claiming exemption for school fee, donations and other abnormal indirect expenses like conveyance allowances, claiming for exemptions of certain perquisites like LTC, claiming HRA exemption though residing in own house etc.

(ii) Income from house property :- While computing total income from house property tax payers may evade taxes by claiming unrealized rent, vacancy allowance and also interest on borrowed capital by generating documents.

(iii) Corporate tax evasion and professional income :- Corporations and professional persons evade taxes generally by non-recording under reporting of receipts and claiming overstated deductions. Companies usually adopt over depreciation of assets, claiming exemption for amount spent on scientific research activities, advertising expenses, bad debts, issue of salaries and wages in the names of their family members, excess bonus fees and commission paid to employees. Professionals like doctor's, chartered accountants, lawyers, Engineers etc, evade taxes by not recording their receipt like consultation fees, gift given by patients and clients and overstating their personal expenses as professional expenses, claiming for depreciation of office equipment which are hired or leased.

(iv) Capital gain :- Capital gain shall be one of the most important area of tax evasion because of the taxpayers adopt under valuation of properties sold and purchased for registration and evading the stamp duty by real estates and others, claiming for brokerage, stamp paper and other selling expenses more than the actual expenditure, purchasing another properties even though they are the owners of more than one property, declaring industries as sick unit and also transfer of industries to rural areas because of different rates of tax for long term capital gain and short-term capital gains.

(v) Income from other sources :- Since it is a residuary head of income and tax payers follow self-assessment method of tax payments, don't disclose information on winning from lotteries, puzzles, gambling, betting, card games, interest on deposits royalty's interest on securities

through bond washing transactions, director fee and other additional revenues received by them in any financial year.

(vi) Evasion under incentives as per the IT Act :- Indian income tax Act 1961 provides various incentives to encourage general public for social savings under section 88 of the Act. The same provisions are misused by tax payers in the form of rebate in respect of tuition fees of children, expenditure on medical treatment of self and handicapped dependents, donations to various institutions, interest on educational loans, deduction for rent paid etc.

Impact of tax evasion on Indian economy: - Tax evasion and thereby establishment of parallel economy has been creating the following serious impact on the social and economic system of the country.

- (a) Tax evasion has been causing reduction in country's economic growth.
- (b) The direct effect of tax evasion is the loss of revenue and increase in inflation.
- (c) Impact on morale.
- (d) Increase in corruption.
- (e) Increase in price of land and house.
- (f) Tax evasion has resulted in transfer of funds from India to foreign countries through clandestine channels which decrease country's reputation globally.
- (g) Tax evasion leads to poor standards of living of the rural masses and the people BPL as the government can not undertake welfare measures at the national level.
- (h) It also brings disequilibrium in the economic condition of the country resulting in the rich becoming richer and the poor becoming poorer.
- (i) Due to tax evasion of majority of the rich population, the government is forced to increase the rates of tax every assessment year for increasing its revenue which results in increased tax burden of those who pay taxes promptly.
- (j) Majority of the development activities do not take place due to tax evasion.

Best ways to avoid tax evasion:-

- (i) Reducing tax rates
- (ii) Make more simplified laws and simplified system.
- (iii) Design a well-organized tax administration structure.

- (iv) Increase awareness among tax payers by conducting seminars, conferences and through media.
- (v) Ensure the political changes do not affect well defined tax structure. Make tax administration more independent and autonomous without losing final control of government.
- (vi) Audit, tax collection, depositing and filing provisions to be more.
- (vii) Make penalty provisions more stronger.
- (viii) Encourage tax payers to pay tax by more friendly schemes.
- (ix) Give relief provisions to huge tax payers.

conclusion :-

High tax rates, corruption in public sector unit, multiple tax rates and inefficient tax authorities are the main causes of tax evasion. Having been aware of the all ill effects of tax evasion, it becomes each one of our responsibility to support the government by complying with the tax procedures and pay taxed promptly. As it is rightly said that every drop of water makes an ocean, it can also be said that our small contribution makes a huge difference in the growth of the economy. Instead of expecting for change to happen, let us be the change agents who can bring in a drastic development by just fulfilling our responsibilities promptly. If each one of us speaks the same language, then there will be least or no scope for us to be exploited by any institution or authority. So let us fulfil our duties first and claim our right next.

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