



# “Forensic Role In Detecting Scams In Direct And Indirect Taxes”

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## Abstract:

This research paper delves into the crucial role of forensic investigation in uncovering scams prevalent in both direct and indirect tax systems. In recent years, with the evolution of financial systems and the complexities therein, fraudulent activities have become more sophisticated, posing significant challenges to tax authorities worldwide. The paper explores the challenges and limitation faced by forensic experts in combating tax scams, including legal constraints, resource constraints, and the constantly evolving nature of financial crime. It also underscores the importance of collaboration between tax authorities, law enforcement agencies, and forensic professionals in effectively combating tax fraud.

## Introduction:

Forensic accounting is a type of accounting that “follows the money” and analyses financial information to look for evidence of potential financial misconduct. Forensic accountants investigate companies’ and people’s financial records and use accounting and legal skills to interpret and communicate their findings to others.

Forensic accounting is a type of accounting that investigates financial information for potential evidence of crimes. Forensic accountants use accounting, auditing, and investigative skills to understand whether a person or company has committed financial misconduct, such as embezzlement or fraud. The general educational background and skill set for general accountants/CPAs and forensic accountants is often very similar, but a forensic accountant must have a more sceptical mindset and should have a general understanding of the legal system.

Forensic accountants analyse financial records and accounts that may be used as legal evidence and often testify in court cases as expert witnesses. They may work on cases such as fraud and embezzlement and explain the nature of a financial crime in court.

Forensic accounting applies scientific techniques and accounting principles to detect fraudulent activities. Due to technological advancement, corporate scams have increased tremendously—the need for forensic accountants has increased.

Forensic accountants play a vital role in ensuring the integrity of tax systems by uncovering fraudulent activities, which not only helps governments collect the revenue they are owed but also promotes a fair tax environment for all taxpayers. Their work often requires a combination of accounting skills, legal knowledge, and investigative techniques to detect and prevent scams in both direct and indirect taxes.

#### Direct Tax:

In India, a direct tax is paid by an individual or a firm to the government. These taxes are paid directly by the taxpayers to the government and are called direct taxes. The taxpayers are individuals and other legal entities like companies, limited liability partnerships etc, and these taxes are imposed directly by the government and are non-transferrable to any other entity.

A direct tax is imposed depending on a taxpayer's income, meaning the higher the income, the higher the tax rate applicable. A common example is income tax slab rates. The rules for direct taxes are designed to distribute money in the country by collecting taxes from people depending on their paying capacity. Hence, direct taxes are an important source of revenue for the government, which is utilized to fund many public welfare services and goods.

Indian tax legislative and judicial environment is constantly evolving, along with globalization, economic shifts, and operational adjustments. Businesses are faced with a tax regime with greater complexities and challenges, nonetheless, moving towards a globally cohesive tax world. Now, more than ever, businesses must have an ongoing system for adapting to and staying on top of these complex changes.

#### Indirect Tax:

The term 'indirect tax' is defined mostly by contrasting it with direct taxes and it generally means a tax that is passed on to another person or entity. It is actually imposed on manufacturers or suppliers which are passed to the consumers finally and the body that gathers the tax will eventually remit it to the Government. This is however different in the case of direct tax where an individual pays tax directly to the Government like income taxes, corporation taxes or wealth taxes.

In India, some examples of indirect tax are excise duty on cigarettes, liquor and fuel, Value- Added Tax, which is also commonly known as consumption taxes, customs duty and many more. In India, the Government has levied numerous indirect taxes on sale, purchase of services and goods, import and also on manufacture.

The taxation reforms in India go back right from liberalization and globalization in the early 1990s to the recent Goods and Services Tax (GST). Goods and Services Tax is one of the most comprehensive single taxes reforms of independent India. GST is a comprehensive indirect tax levied on goods as well as services at the national level. It consolidated multiple indirect tax levies into a single tax thus subsuming an array of tax levies.

#### Literature Review:

Zysman (2004), Forensic means, "belonging to, used in or suitable to courts of judicature or to public discussion and debate" (Webster's Dictionary). Forensic Accounting, provides an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute Resolution.

Howard and Sheetz (2006), Forensic accounting as simply the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert witness. This presupposes that forensic accounting is legally and scientifically inclined.

Crumbley, (2003), Forensic accounting as the application of the laws of nature to the laws of man. He describes forensic scientists as examiners and interpreters of legally admissible evidence and facts in cases that also requires expert opinions regarding their findings in law Court.

(An Investigative Approach of Accounting (Mazumder, MehadiMasud, 2011), Detecting fraud or white-collar crime was thought to be part of the standard accounting profession until recently. Throughout their regular audits, internal and external auditors were supposed to keep a watch out for fraud. As a result, in organizations that suspect fraudulent transactions, a new accounting category is necessary to detect fraud. The term "forensic accounting" refers to this area of accounting. This research examines the definition, significance, and scope of forensic accounting. The demand for forensic accounting, as well as interest in it, is projected to continue to rise. This research proves it. Accounting students, the corporate community, the accounting profession, and accounting programmers all observed that forensic accounting education as important and valuable.

Bukics, Rose Marie L. The Internal Auditor 53. 3 (Jun 1996). The principles of fraud auditing and forensic accounting are the subject of another study. 'Ninety percent of fraud cases are discovered by mistake,' it says, implying that auditors may need to brush up on fraud's features and characteristics. Fraud Auditing and Forensic Accounting are based on these principles.

(Forensic and Investigative Accounting, Fifth Edition by D. Larry Crumbley, Lester E. Heitger, and G. Stevenson Smith) The authors define forensic accounting as "the application of accounting for legal objectives" in this paper. The Field and Practice of Forensic Accounting' (Chapters 1 and 2) presents an overview and definition of forensic accounting as it has evolved, as well as a comparison and contrast of forensic accounting and fraud auditing.

(Fraud investigators and Forensic accountants expect services may be more in demand in wake of corporate scandals McFadden, JoAnne. Business Review (Jan 10, 2003). This article says that forensic accounting, which deals with the relationship and application of financial data to legal difficulties, was a booming sector in the 1990s. In addition to investigating fraud, forensic accountants perform a range of specialized responsibilities, such as acting as expert witnesses, investigating patent infringement, violation of trust and fiduciary obligation, and so on. (Forensic accounting: The Management Accounting Magazine- Inkster, Norman (Apr 1996). Companies, large and small, privately held or publicly traded, are all potential targets for persons who commit vocational fraud, according to this article. Neither government agencies nor non-profit organizations are exempt.

(Forensic accounting: A new growth area in accounting - Crumbley, D Larry, Apostolou, Nicholas, Ohio CPA Journal (Jul-Sep 2002). As per the study, an audit is designed to find significant deviations from standards and confirm that acceptable accounting and auditing practises were used in the preparation of financial statements, whereas forensic accounting examines a company's books with a more proactive, sceptical approach.

(An Empirical View of the Transparent Objectivity of Forensic Accounting Expert Witnesses Di Gabriele, James A. (Jan 2010). This paper presents the perspectives of forensic accountants, attorneys, and accounting scholars on the issue of expert witness disclosure in forensic accounting.

ALMusalam et al. (2015) The study explains the role of forensic accounting in fraud investigation in view of accounting professionals, financial analysts and auditors in Bahrain. The result showed that forensic accountant is important in fraud investigation and curb and resolve economic and financial crimes in Bahrain economy. The researchers recommend among others that the government of Bahrain Should enact an act that will make forensic accounting a practice in Bahrain so that economic and financial crimes can become history.

(Gupta, 2012), Data mining tasks and techniques are used to find patterns indicative of financial fraud. The patterns discovered could be used either in detection or prevention of financial fraud. Two broad subgroups of data mining tasks are predictive tasks and descriptive tasks. Predictive tasks are so named because along with machine learning and related technologies these tasks make a prediction for each observation. Descriptive tasks, which include association rules and cluster analysis, describe the data being Examined.

#### Research Gap:

Research could explore novel methodologies for forensic analysis tailored specifically to tax related fraud detection. This might involve combining traditional forensic accounting techniques with advanced data analytics, machine learning and artificial intelligence to better identify patterns indicative of tax scams.

Understanding the behavioural aspects of tax fraud perpetrators could provide valuable insights into developing more effective detection strategies. Research in this area could delve into the psychological profiles of individuals engaged in tax evasion and the decision-making processes underlying fraudulent activities.

As forensic professionals often operate in a legal and ethical gray area, there is a need for research that addresses the ethical implications for forensic practices in tax fraud detection. This includes issues related to privacy, data confidentiality, and the potential misuse of forensic evidence.

Research could focus on identify gaps in the skill sets and competencies of forensic professionals engaged in tax investigation. Developing specialized training programs and certification standers tailored to the forensic examination of tax related fraud could help enhance the effectiveness of detection efforts.

#### Problem Statement:

Detecting fraud or white-collar crime was thought to be part of the standard accounting profession until recently. Throughout their regular audits, internal and external auditors were supposed to keep a watch out for fraud. Accountants today understand that auditors can only examine for compliance with generally accepted accounting principles, auditing standards, and corporate rules in a company's records. As a result, a new accounting category is required to detect fraud in organizations that suspect fraudulent transactions. The term "forensic accounting" refers to this type of accounting. In terms of India, forensic accounting is a relatively untapped field.

Research Methodology:

Research Design:

This research is based on theoretical analysis of the role of forensic accountant in solving financial problems of the corporate world. Research design for secondary data refers to the systematic plan or strategy that a researcher uses when conducting a study that primarily relies on existing or previously collected data. Secondary data, in this context, refers to data that has been collected by someone else for a different purpose but is being used by a researcher for a new investigation.

Source of Data:

The research is based on secondary data from journals, reports and websites. Secondary data refers to data that has been collected and recorded by someone else for a purpose other than our current research or study. When discussing the source of secondary data, we identify where this data was originally generated or collected. (Books, Articles, Journals, Newspapers, Websites, Case studies).

Data Collection Method:

secondary data which is collecting from various literature on forensic accounting publishing in different journals. It is data that has been previously collected for a different purpose, often by another organization or researcher. Secondary data collection can also involve analyzing data from surveys conducted by others. We are collecting secondary data, this might include datasets from government surveys, market research companies, or academic studies.

Data Collection Instrument:

We are using Academic Journals and Publications, Books and Reports, Websites and Online Databases Newspapers Articles Case studies.

Objective:

To emphasize the need and role of forensic accounting in solving financial problems like Direct and Indirect Tax Fraud and malpractice in the corporate world.

To study forensic accounting is the best tool for detecting Direct and Indirect tax Fraud happens in corporate.

To Study of role of forensic accountant.

Hypothesis

H0: Forensic accounting practices do not significantly reduce Direct and Indirect Tax fraud and malpractice in the corporate world.

H1: Forensic accounting significantly reduce to the detection of Direct and Indirect Fraud.

Analysis: After analysing the data, we have come to a conclusion that

Forensic accounting experts analyse tax documents, financial records, and transactions data to identify inconsistencies, discrepancies, or suspicious patterns that may indicate fraudulent activities.

Forensic analysts trace transactions across various accounts and entities to uncover hidden connections or money trails that might point towards tax evasion schemes.

Forensic investigator may conduct interview involved in tax process to gather additional information or clarify

discrepancies.

### Findings:

We conclude from this study that there is a high rate of tax evasion, fraud and financial corruption from falsifying financial papers and documents, because the law and accounting are separate, there was a need for forensic accounting to solve financial issues, because tax evasion causes a malfunction in the country budget system, especially in developing countries that rely mainly on tax to meet public services, and an increase in tax evasion caused a budget deficit in the state treasury forces the state to raise the prices of public services, and here we turn instead of paying the tax to a specific category (those charged with paying the tax )to everyone algebraic, hence considered tax evasion A crime punishable by law and caused the existence of laws and legislation to punish tax evaders , And we see that the people charged with paying taxes see that it is possible to increase investment means, which makes them present their personal interests to the public institution, and this approach that everyone follows, and because of the many complexities and overstatement of taxation and laws, made the way open, because the income declared by the taxpayer always differs from the opinion of the tax auditor and the high ability to object to tax returns, appeal decisions, it is possible to exploit loopholes in the law and accounting to investigate tax evasion or even reduce the amount that must be paid is it possible that the plethora of laws and complexities is the main reason for the existence of this high evasion rate is why we recommend this study Factors that, The factors related to the perception of tax payers of the country are important and he argues that the most convincing are those charged with paying the tax and making the state more credible and transparent by reducing the volume of tax evasion in order to provide a complete picture of the determinants of tax evasion. we also point out that there is a relationship between tax evasion and the efficiency of the system derived from the which serves to provide the actual economic performance resulting from reliable tax data.

### Conclusion:

In conclusion, while forensic techniques play a crucial role in detecting scams in both direct and indirect taxes, they are not without limitations. The complexity of tax laws, challenges in accessing comprehensive data, sophistication of scams, technological advancements, legal constraints, resource limitations, and the risk of false positives all present hurdles to effective forensic investigations.

However, despite these challenges, forensic methods remain invaluable tools for tax authorities in uncovering fraudulent activities. When used alongside other investigative approaches and supported by knowledgeable experts, forensic techniques enhance the ability to detect and prevent tax evasion and fraud.

To maximize effectiveness, it's essential for tax authorities to invest in ongoing training, technological infrastructure, and collaboration with other agencies and institutions. By continuously adapting and refining their forensic capabilities, tax authorities can stay ahead of evolving tactics used by perpetrators of tax scams, ultimately safeguarding public funds and maintaining the integrity of the tax system.

### Relevance of Study:

**Fraud Detection:** Forensic experts specialize in uncovering fraudulent activities by meticulously examining financial records, transaction, and patterns. In tax systems, where deceitful practices occur through various means such as underreporting income, inflating expenses, or exploiting loopholes, forensic analysis becomes indispensable.

**Complex Tax Structures:** Tax laws and regulations can be intricate, providing opportunities for individuals and entities to manipulate them for personal gain. Forensic specialists possess the expertise to navigate through these complexities, identifying inconsistencies and anomalies that might indicate fraudulent activities.

**Litigation Support:** In cases where tax fraud is suspected, forensic experts can provide invaluable support in legal prosecuting offenders or defending innocent parties falsely accused of wrongdoing.

**Public Trust:** Effective detection and prosecution of tax scams through forensic analysis reinforce public trust in the tax systems. When individuals and businesses perceive that tax evasion and fraud are being actively pursued and punished, they are more likely to comply with tax laws voluntarily, thereby strengthening the integrity of tax system as whole.

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