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IMPACT OF TAX AVOIDANCE AND TAX EVASION IN INDIA- A STUDY

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Abstract

The present paper provides a platform to understand the impact of tax avoidance and tax evasion in India. So in order to collect this information, a researcher has selected 100 respondents who are tax payers and a random sampling method is been used. The scope of the present study is to examine the impact of direct tax avoidance and evasion in India, reasons for direct tax avoidance and evasion and the problems caused by tax avoidance and evasion in Shivamogga city and is also focused towards the tax evasion system in India. . As we know that tax evasion is the deliberate attempt of a taxpayer not to pay tax while avoidance refers to attempt of a taxpayer to reduce his tax liability in order to pay little as tax. This action affects the generation of revenues in India, it makes the objectives of which tax is meant for not to be achieved. Despite all the efforts made by the government to prevent the problem of tax evasion and avoidance, there are still reduction in the development of growth in the economy. So this study deals to overcome those problems and find a suitable suggestion on that, to overcome them.

Keywords: Tax avoidance, Tax evasion, CBDT, Double taxation, Penalties

1.1 INTRODUCTION

1.1.1 Tax

A **tax** is a mandatory financial charge or some other type of levy imposed upon a taxpayer

by a governmental organization in order to fund various public expenditures. A failure to pay, along with evasion of or resistance to taxation, is punishable by law. Taxes consist of direct or indirect taxes and may

be paid in money or as its labour equivalent.

The levying of taxes aims to raise revenue to fund governing and/or to alter prices in order to affect demand. A government's ability to raise taxes is called its fiscal capacity.

1.1.2 Direct Tax

A direct tax is paid directly by an individual or organization to an imposing entity. A tax payer pays direct taxes to the government for different purposes, including real property tax or taxes on assets. Direct taxes are different from indirect taxes, where the tax is levied on one entity, such as sales tax paid by the buyer in a retail setting. A direct tax cannot be shifted to another individual or entity. The individual or organization upon which the tax is levied is responsible for the fulfilment of the tax payment. Indirect taxes, on the other hand, can be shifted from one taxpayer to another.

In general, a direct tax is one imposed upon an individual person (juristic or natural) or property (i.e real and personal property; livestock; crops, wages, etc) as distinct from a tax imposed upon a transaction.

Direct taxes are based on the ability to pay principle. This principle is an economic term that states that those who have more resources or earn higher income should pay more taxes. The ability to pay taxes is a way to redistribute the wealth of a nation.

1.1.3 Tax Evasion

In India, most of the persons do not pay their taxes. They try to avoid this by some illegal means or by taking the benefit 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 or to avoid the tax liability by declaring less incomes, profits or gains than actually what they earned or overstating their expenses. Thus the amount which would have been used for economic and social development is used for anti social activities. All this creates black money and social evils in the 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, firms and individuals evade paying taxes. Tax evasion is a crime in all major countries and the guilty parties are subjected to imprisonment and fines.

1.1.4 Tax Avoidance

Tax avoidance means reducing our tax liability without breaking any law. In this an individual looks for loopholes in the law and makes most of those loopholes to reduce the tax liability.

Tax avoidance is a legal means to reduce our tax liability by taking advantage of lack of provision in the law and it will result in less tax being paid by us. By using Tax Avoidance, we satisfy all provisions of law but in the same time we reduce our tax liability too.

In tax avoidance, no penalties or such things are imposed on us, as we are not breaking any law. We are just using loopholes in laws to reduce our tax. However, now legislature has added a provision in Direct Tax laws to check tax avoidance.

1.2 REVIEW OF LITERATURE

An overview of relevant literature reveals that studies providing empirical evidence regarding Tax Avoidance and Tax Evasion in India. Many research works have been done earlier on this work, but some of the important studies are reviewed as under.

Priyesh Sharma and Siddharth Dang., (May 2011), “Myth and reality of the imbricating concepts of Tax Avoidance and Evasion” this study specifies the difference between tax avoidance and evasion is that tax avoidance is legally permissible by law while tax evasion is not. Judicial pronouncements within India and outside India have always marked out this distinction between the two. The predominant feature in deciding the nature

of any transaction. However, this position is now going to be changes with DTC coming into force in coming years where distinction between tax avoidance and tax evasion has been blurred to a great extent in order to restrict not only tax evasions but also tax avoidance. This is correct but only to the extent that it should not make the restriction and its scope so wide so as to include tax planning also within it, which otherwise is always should be encouraged. Further, there are certain concerns with the DTC and GAAR, which should be overcome by the possible ways mentioned.

V. Kalpana., (May 2016), “Tax Evasion - A major threat to economic development and growth - causes and remedies” this study stated that, Tax evasion also leads to economic inequality where the rich becomes richer and the poor becomes poorer. This is one of the major reasons for India’s poor economic growth since Independence despite being very rich in natural and human resources. This review paper focuses on highlighting the causes and ill effects of tax evasion in the overall development of the Indian economy and also suggests that each one of our responsibility to support the government by complying with the tax procedures and pay taxes promptly.

Sugata Marjit, Marcel Thum et.al., “Tax Evasion, Corruption and Tax

Loopholes” this study addressed tax loopholes that allow firms to exploit borderline cases between legal tax avoidance and illegal tax evasion. In general, tax loopholes are detrimental to a revenue – maximizing government. This may change in the presence of corruption in the tax administration. Tax loopholes may serve as a separating mechanism that helps governments maximize revenues and curb corruptions, which may explain why developing countries only gradually close loopholes in their tax codes.

M Chandrappa., (Oct 2016), “Tax Evasion and Black Money in India: Causes and Remedies” this study stated that, Tax Evasion occurs when individuals deliberately fail to comply with their tax obligation. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses. This study covers the number of factors responsive for tax evasion and examining the possible remedies to reduce the problem of tax evasion.

Keith Blackburn, Niloy Bose et.al., (June 2012), “Tax evasion, the underground economy and financial development” this study described the relationship between the underground economy and financial development in a model of tax evasion and bank intermediation. Agents with

heterogeneous skills seek loans in order to undertake risky investment projects. Asymmetric information between borrowers and lenders implies a menu of loan contracts that induce self – selection in a separating equilibrium. Faced with these contracts, agents choose how much of their income to declare by trading off their incentives to offer collateral against their disincentives to comply with tax obligations. The key implication of the analysis is that the marginal net benefit of income disclosure increases with the level of financial development. Thus in accordance with empirical observation, we establish the result that the lower is the stage of such development, the higher is the incidence of tax evasion and the greater is the size of the underground economy. This negative relationship between the incidence of tax evasion (or size of the underground sector) and the level of financial development accords well with empirical evidence.

Petr Jansky and Alex Prats., (2015), “International Profit – Shifting out of Developing Countries and the Role of Tax Havens” this study contributes to the debate on how tax avoidance and evasion can hamper development efforts by investigating the link between profit – shifting out of developing countries and tax havens. Analysis of more than 1500

Multinational Corporations (MNCs) operating in India shows that in 2010 those MNCs with links to tax havens reported lower profits and paid less in taxes per unit of asset than MNCs with no such links. This confirms the notion that when corporations have links to tax havens, they enjoy higher incentives, because of the low tax rates and opportunities to shift income because of the secrecy provisions tax havens offer.

Jeyapalan kasipillai, Norhani Aripin et.al., “The Influence of education on tax avoidance and tax evasion” this study evaluates the influence of education on tax compliance among undergraduate students. This survey, considers existing literature in the field of education and ascertains whether education can influence the respondent’s compliance behaviour. The statistical findings confirm the prevalence of a relationship between education and tax compliance. This relationship is generally consistent, particularly so to the questions relating to general avoidance and personal avoidance. There is an improvement in personal tax compliance among students especially among females after one semester of pursuing a preliminary taxation course. It is suggested that universities providing courses in social science as well as business, management and accounting studies should offer the preliminary

taxation course as a core subject to all their students.

Yuna Zaina, Shanon wan et.al., (Dec 2014), “Myth and reality of the imbricating ideas of assessment evasion and avoidance” this study described the difference between tax avoidance and tax evasion in the thickness of a prison wall. “Human beings are greedy by nature and they want to extract the maximum out of what is potentially available to them, but there are ways to this extraction. Every way need not be wrong, though most of them are “The difference between tax avoidance and tax evasion is that tax avoidance is legally permissible by law while tax evasion is not. Judicial pronouncements within India and outside India have always marked out this distinction between the two. The predominant feature in deciding the nature of any transaction is not the underlying motive but the legality of such transaction. In India till now, the difference between tax avoidance and evasion was very clear. In India, the law is settled that tax avoidance is legal and evasion is not. A taxpayer may create a device to arrange his commercial affairs to minimize his tax liability and its acceptance is based on operation of law. But the new proposed code has blurred distinction to a great extent. This article tries to analyze this difference and the

change in the scenario as would be brought by the proposed code.

Panos Pashardes and Alexandros Polycarpou., (2008), “Income Tax Evasion, Inequality and Poverty” this study stated that consumer demand based method to estimate the extent to which households in Cyprus under – report their income from self – employment, capital income and income from agriculture. On the basis of these estimates, the size of black economy appears to be around 7-8% of GDP. We find that income under – reporting biases measures of inequality and poverty downwards, suggesting that egalitarian and antipoverty policies need to become more generous, but also more carefully targeted to avoid false entitlement to social benefits. The high tax free income undoubtedly helps to reduce the size of the tax evasion problem in Cyprus.

Dr. Devarajappa S.,(Sept 2017), “Tax Evasion in India: A study of its impact on revenue of the government” this study stated that tax is a major source of government revenue and it contributes for the development and prosperity of a country. Raising government revenue in terms of income tax, custom duty, excise duty, entertainment tax, VAT, land revenue tax etc, from various sectors in order to initiate development and welfare programmes that are meant to improve the

company’s situation. But the country has been facing a massive problem with tax evasion. People who should be paying taxes have found ways not to pay them and, as a result, it may be said that the income of the country has been suffering. India is facing major problems like Tax Evasion, Black money, existence of parallel economy show that Indian taxation system requires some major reforms in the future ahead to address all this problems. In this backdrop the present paper explores the tax evasion concepts and examine amount of tax evasion in India. For this purpose the required data have been collected from secondary sources.

1.3 STATEMENT OF THE PROBLEM

Tax is a compulsory levy which a government imposes on the income of eligible citizen in a state of which the government makes no direct benefit on the taxpayer.

Revenue means the money government receives from tax. In this situation, tax evasion is a strong weapon, which fight against the revenue generation in our country. As we know that tax evasion is the deliberate attempt of a taxpayer not to pay tax while avoidance refers to attempt of a taxpayer to reduce his tax liability in order to pay little as tax.

This action affects the generation of revenues in India it makes the objectives of which tax is meant for not to be achieved. Despite all the efforts made by the government to prevent the problem of tax evasion and avoidance, there are still reduction in the development of growth in the economy. Also reduction in capital expenditure, recurrent expenditure, economic growth, monopolistic problem and national debt.

All the above mentioned problems are required a greater attention to make a detailed study in the research area.

1.4 OBJECTIVES OF THE STUDY

The important objectives of the present study are presented below:

- ❖ To make a detailed study of concept of tax evasion and avoidance.
- ❖ To examine relationship between tax rates, tax evasion and tax avoidance.
- ❖ To investigate why people evade and avoid tax.
- ❖ To know the opinion of respondents about the impact of direct tax avoidance and evasion.
- ❖ To study the role of government in overcoming the problems

created by tax avoidance and evasion.

- ❖ To offer suggestions based on the findings of the study.

1.5 SCOPE OF THE STUDY

The scope of the present study is to examine the impact of direct tax avoidance and evasion in India, reasons for direct tax avoidance and evasion and the problems caused by tax avoidance and evasion in Shivamogga city and is also focused towards the tax evasion system in India.

1.6 RESEARCH METHODOLOGY

1) Sources of Data

The present study is based on the information which is collected by both the type of data such as,

a) Primary data

Primary data is the first hand information which is collected for the first time. For this study, primary data, which is enumerated from a field survey in the study area, is used here the information is collected by using a well structured questionnaire to the respondents and also interaction with officials of the tax evasion system in shivamogga city.

b) Secondary data

Secondary information is collected from past records, articles, published materials,

journals, internet sources, books and bulletin etc.

c) **Sample size and sample unit**

For the purpose of achieving the objectives, the present study undertaken a sample of 100 respondents, who are the income tax payers and the random sampling technique has been used.

d) **Statistical tools and Techniques used**

For the purpose of analysing the collected information from the respondents, the statistical tools and techniques are used i.e. table, charts and graphs and Chi square test. Presentation of the data is to make projections and to draw meaningful conclusion.

1.7 LIMITATIONS OF THE STUDY

- ❖ Study area restricted to Shivamogga city only.
- ❖ On the basis of sample only conclusion is drawn.
- ❖ The suitable respondents are limited while collecting the information.
- ❖ Biased response from respondents.

1.8 REASONS FOR TAX AVOIDANCE AND EVASION IN INDIA

Reasons of tax evasion are common factors among all countries, both developed and developing countries. The tax evasion reasons in developed countries differ from the tax evasion causes in developing

countries, because, tax awareness in developed countries is high if we compare it to in developing countries, add to that the progress in the means of that fiscal controls in developed countries. One of the results of tax evasion that leads to reduction of government revenue, which brings the tax system into disrepute. Tax evasion means reduced government revenues, result is a larger deficit, forcing the government to go for borrowing or to print more money, leading to inflation. One must look into its cases to suggest measures to remove or reduce them. The problem of tax evasion and reasons can be categorized into economic reasons, administrative, legislative causes and even social reasons and others. We have done our best for discussion of all causes as follows.

- ❖ **Level of tax rates**
- ❖ **Social psychology for taxpayer**
- ❖ **The complexity of the tax system**
- ❖ **Misuse or mismanagement of revenue from taxes**
- ❖ **Inequitable distribution of amenities**
- ❖ **Nature of the economy**
- ❖ **Complexity of Tax Laws**
- ❖ **Unwillingness of Taxpayers to Pay Taxes**
- ❖ **Corruption in Tax Administration**
- ❖ **Underground economy (black economy)**
- ❖ **Absence of spirit of civic responsibility**

- ❖ **The instability of tax legislation and the multiplicity of amendments**
- ❖ **Tax penalties**
- ❖ **Economic situation of the country**
- ❖ **Political corruption**
- ❖ **Economic conditions for the taxpayer**
- ❖ **Overstatement and abuse of concessions-exemptions, deductions and allowances**
- ❖ **Moral reasons for tax evasion**
- ❖ **Inaccuracy of the number of taxpayers**
- ❖ **Double taxation**
- ❖ **Taxpayer Education**
- ❖ **Loopholes in Indian tax system**
- ❖ **Dishonesty and Individual behavior .**
- ❖ **Lack of knowledge**
- ❖ **Compliance Cost**
- ❖ **Lack of responsibility and integrity of tax officials**
- ❖ **Discretionary Powers of tax officials**
- ❖ **Income splitting**
- ❖ **Income or asset shifting**
- ❖ **Deferment of Tax Liability**
- ❖ **Sheltering of Income**
- ❖ **Conversion of taxable income into Capital**
- ❖ **Conversion of Capital Expenditure into Current expenses**

1.9 DIFFERENT WAYS OF TAX AVOIDANCE AND EVASION

There are two aspects of not paying taxes when they are due. The first is tax avoidance and the other tax evasion. The difference between the two is that tax avoidance is basically finding a loophole that exempts us from paying taxes and is not strictly illegal, while evasion is not paying the taxes when they are actually due, which is absolutely illegal. These are some of the ways in which people may avoid/evade taxes.

- ❖ **Declaring less incomes, profits or gains**
- ❖ **Over stated expenses**
- ❖ **Accepted Corruption**
- ❖ **Procurement of Materials without bill**

- ❖ **Dividend stripping**
- ❖ **Country of residence**
- ❖ **Double taxation**
- ❖ **Creating Legal entities**
- ❖ **Smuggling**
- ❖ **Submitting false tax returns**
- ❖ **Inaccurate financial statements**
- ❖ **Using fake documents to claim exemption**
- ❖ **Not reporting income**
- ❖ **Bribery**
- ❖ **Storing wealth outside the country.**

1.10 REMEDIAL MEASURES TAKEN BY INDIAN GOVERNMENT TO REDUCE TAX AVOIDANCE & EVASION

A number of measures have been taken by the government to reduce tax avoidance and

evasion, some of them are mentioned below.

- ❖ Reduction in tax rates
- ❖ Minimization of controls and licenses
- ❖ Regulation of donations to political parties
- ❖ Creating Confidence among Small taxpayers
- ❖ Allowance of Certain Business Expenses
- ❖ Changes in Penal Provisions
- ❖ Vigorous Prosecution Policy
- ❖ Intelligence and Investigation
- ❖ Taxation of agricultural income
- ❖ Compulsory maintenance and audit of accounts
- ❖ Permanent Account Number
- ❖ Power of Survey
- ❖ Increasing Survey Operations
- ❖ Collection, Collation and Dissemination of Information
- ❖ Co-ordination between Banks, other offices and the Income tax department
- ❖ Changes in the form of income-tax return
- ❖ Reintroduction of expenditure tax
- ❖ Checking under-valuation of immovable Properties
- ❖ Tax treaties for exchange of information relating to tax evasion
- ❖ Arousing social conscience against tax evasion

1.11 RECENT POLICY OR POLICES TAKEN BY GOVERNMENT TO DETER INCOME TAX AVOIDANCE & EVASION IN INDIA

Government has introduced a number of measures to deter tax evasion in India. Such measures are mentioned below.

❖ Statutory Provisions

There are certain statutory provisions like compulsory filing of tax returns by everyone with a taxable income; compulsory maintenance of accounts by businessmen and professionals and their compulsory auditing if income or turnover exceeds a specified limit and compulsory canalizing of transactions involving payment exceeding Rs.20, 000 through banks.

❖ Conduct of Surveys

There are surveys conducted by the income tax department to bring new assesseees into the tax net and also to strengthen the information base for the detection of tax evasion by existing assesseees.

❖ Drastic Measures

At times the Government has even used drastic measures like tax raids and seizures.

❖ Penalties and Prosecution

To discourage tax evasion, tax laws provide for monetary penalties and for the

prosecution (and imprisonment) of tax evaders.

❖ Provisions relating to Door-to-door Market Survey u/s 133 B

The jurisdictional income tax authority may collect certain information, including tax status of assesseees in order to find out new assesseees. The surveyed person has to furnish information under prescribed form no 45 D. The income tax authorities are barred from removing any valuable or books of accounts etc. from such surveyed premises.

❖ Special Procedure for Assessment of Search Cases

With effect from 01-07-1995, special procedure for assessment of search cases has been prescribed in chapter XIV – B of the I.T. Act. Broadly, this scheme envisages assessment of a **Block Period** consisting of ten years preceding the year in which search was conducted and the period till the date of search tax at 60% is charged on undisclosed income relating to the block period.

2.1 Data Analysis and Interpretation

(Source: Field Survey)

Analysis: It is quite clear that out of the total respondents investigated for this study, overwhelming majority 60% of them were males whereas about 40% were found

to be females. In a Indian social conditions the households are normally headed by the males and head of the household was the unit for data collection from the given sample. Very few households are headed by the females and that too, due to various unavoidable and unique conditions not because of any attitudinal change. Hence, large number of respondents are males. (Ref Table- 1)

Analysis: The above table showing that among 100 respondents, 10% belongs to the age group of below 20 years, 10% belongs to the age group of 20 to 30 years, 50 % belongs to the age group of 30 to 50 years and remaining 30% belongs to the age group of above 50 years. (Ref Table- 2)

Interpretation: Here, it is interpreted that majority of the respondents age is between 30-50 years. It indicates that 30-50 years' age group are more in number who are the professionals.

Analysis: The above table showing that out of 100 respondents, 8% of respondents are earning below 2.5 lakh as annual income, 28% of respondents are earning 2.5 lakh to 5 lakh as annual income, 48% of respondents are earning 5 lakh to 10 lakh as annual income and 16% of respondents earn above 10 lakh of annual income. (Ref Table- 3)

Interpretation: Here it is interpreted that majority of respondents are earning 5lakh to 10lakh of annual income because they are professionals and they earn profit by providing services and some of respondents are employees also.

Analysis: The above table showing that out of 100 respondents, 100% of the respondents paying tax regularly. (Ref Table- 4)

Interpretation: Here it is interpreted that 100% respondents paying tax regularly because they utilizing tax planning measures effectively.

Analysis: The above table showing that out of 100 respondents, 18% of respondents are under the slab rate of 5 lakh, 46% of respondents are under the slab rate of 5-10 lakh, 22% of respondents are under the slab rate of 10-20 lakh and 14% of respondents are under the slab rate of more than 20 lakh. (Ref Table- 5)

Interpretation: Here it is interpreted that majority of respondents come under the tax slab rate of 5-10 lakh and most of respondents are employees and professionals and their major sources of income is salary and income from profession.

Analysis: The above table showing that out of 100 respondents, 58% of respondents

opined that tax evasion and avoidance takes place because of level of income is responsible, 24% of respondents opined that level of income is not responsible for tax evasion and avoidance, 04% of respondents opined that level of income is not at all responsible for tax evasion and avoidance and 14% of respondents opined that level of income is one of the reason for tax avoidance and evasion for some extent. (Ref Table- 6)

Interpretation: Here it is interpreted that majority of respondents are opined that high level of income is responsible for tax evasion and avoidance

Analysis: The above table showing that out of 100 respondents, 16% of respondents strongly agree, 52% of respondents agree, 12% of respondents are neutral, 14% of respondents are disagree and 06% respondents strongly disagree for that tax evasion is reason for Reduction in country's economic growth. (Ref Table- 7)

Similarly, out of 100 respondents, 18% of respondents strongly agree, 42% of respondents agree, 12% of respondents are neutral, 08% of respondents are disagree and 12% respondents are strongly disagreed for that tax evasion increases inflation rate in the economy.

Likewise, out of 100 respondents, 14% of respondents strongly agree, 56% of respondents agree, 10% of respondents are neutral, 12% of respondents are disagree and 08% respondents strongly disagree for that tax evasion practices has impact on individual morale.

Likewise, out of 100 respondents, 44% of respondents strongly agree, 24% of respondents agree, 14% of respondents are neutral, 08% of respondents are disagree and 10% respondents strongly disagree for that tax evasion practices has increased corruption.

Similarly, out of 100 respondents, 32% of respondents strongly agree, 28% of respondents agree, 32% of respondents are neutral, 18% of respondents are disagree and 10% respondents strongly disagree for that tax evasion practices has decreased country's reputation.

Likewise, out of 100 respondents, 12% of respondents strongly agree, 50% of respondents agree, 18% of respondents are neutral, 14% of respondents are disagree and 06% respondents strongly disagree for that tax evasion practices also depends on level of education of respondents.

Interpretation: Here it is interpreted that majority of respondents have provided rating that the above particulars like

reduction in country's economic growth, increase in inflation, impact on morale, increase in corruption, decrease in country's reputation, level of education with regarding tax evasion.

Analysis: The above table showing that out of 100 respondents, 18% of respondents strongly agree, 54% of respondents agree, 08% of respondents are neutral, 14% of respondents are disagree and 06% respondents strongly disagree for that tax evasion shall be reduced when tax rate is reduced. **(Ref Table- 8)**

Similarly, out of 100 respondents, 14% of respondents strongly agree, 44% of respondents agree, 04% of respondents are neutral, 18% of respondents are disagree and 20% respondents strongly disagree for that tax evasion shall be reduced when effective growth strategy is implemented.

Likewise, out of 100 respondents, 24% of respondents strongly agree, 52% of respondents agree, 06% of respondents are neutral, 08% of respondents are disagree and 10% respondents strongly disagree for that tax evasion shall be reduced by maintaining proper level of taxation by the government.

Likewise, out of 100 respondents, 54% of respondents strongly agree, 28% of respondents agree, 00% of respondents are

neutral, 12% of respondents are disagree and 06% respondents strongly disagree for that tax evasion shall be reduced when proper guidelines are provided by government to the taxpayers.

Similarly, out of 100 respondents, 18% of respondents strongly agree, 24% of respondents agree, 18% of respondents are neutral, 28% of respondents are disagree and 12% respondents strongly disagree for that tax evasion shall be reduced when procedure for the payment & verification of taxes reduced.

Likewise, out of 100 respondents, 54% of respondents strongly agree, 38% of respondents agree, 00% of respondents are neutral, 06% of respondents are disagree and 02% respondents strongly disagree for that tax evasion shall be reduced when Examining the loopholes in major policies & acts introduced by the government.

Similarly, out of 100 respondents, 08% of respondents strongly agree, 14% of respondents agree, 18% of respondents are neutral, 24% of respondents are disagree and 12% respondents strongly disagree for that tax evasion shall be reduced when permanent tax structure is designed.

Interpretation: Here it is interpreted that majority of respondents have provided rating that the above particular like

reducing tax rates, Inclusive growth strategy, maintaining proper level of taxation by the government, providing a proper guidelines to the taxpayers, reducing the complex procedure for the payment & verification of taxes, examining the loopholes in major policies & acts introduced by the government, Design a permanent tax structure ,are all the activities that shall reduce the tax evasion.

Test Application

Chi square Test

<p>H0:High tax rate,generation of black money ,Inefficient tax authority,Multiple tax is not the main cause for Tax evasion in India</p>

<p>H1: High tax rate,generation of black money ,Inefficient tax authority,Multiple tax is the main cause for Tax evasion in India</p>
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Degree of freedom $n-1$ i.e $2-1=1$

Table value of chi square for 1 degree of freedom @ 5% level of significance is **3.841 (Ref Table- 9)**

Since the calculated value is more than the table value, Null hypothesis is rejected. Hence alternative hypothesis is accepted. Hence proved that High tax rate, generation of black money, Inefficient tax authority,

Multiple tax is the main cause for Tax evasion in India.

3.1 FINDINGS

Following are the findings extracted from the analysis and interpretation.

- ❖ Most of respondents are male, and the respondents fall in the category of age between 30-50 years.
- ❖ Most of the respondents are employees and professionals and their educational qualification is post graduation and their annual income falls between 5 lakh to 10 lakh.
- ❖ All the respondents are aware about Direct Tax system in India. Most of the respondents are aware about tax from the source of tax consultants and Mass media.
- ❖ All the respondents are paying Tax regularly because they are Employees and professionals. Most of the respondents come under tax slab rate between 5 lakhs to 10 lakhs
- ❖ It is found that most of the respondents are opined higher tax rate is responsible for tax evasion and avoidance, and also level of income is the cause for tax evasion and avoidance.
- ❖ Here it is found that tax evasion is more in India because there are

many loopholes in the Income Tax Act for effective tax planning.

- ❖ Most of the respondents are opined that Tax evasion has impact on Indian economy in terms of reduction in country's economic growth, increase in inflation, impact on morale, increase in corruption, decrease in country's reputation and level of education.
- ❖ Here it is found that most of respondents have agreed that higher tax rate, complex tax system procedures, inefficient tax authority, ineffective enforcement of law, generation of black money in public sector, low tax morale and multiple tax is the main reason for tax evasion in India.

3.2 SUGGESTIONS

- ❖ The CBDT department should provide education about Tax Planning to the Tax payers for tax avoidance and not for tax evasion practice.
- ❖ Most of respondents are male and female respondents are very less with compare to male so, in this way government to take measures for development of women empowerment.
- ❖ All the respondents are regularly paying Tax and they are aware

about proper tax Planning and Management.

- ❖ It is found that most of the respondents have opined higher tax rate is responsible for tax evasion and avoidance, and also level of income is the cause for tax evasion and avoidance. For this reason, CBDT need to take suitable measures for tax avoidance and tax evasion.
- ❖ There is problem of loopholes in Income Tax Act in India, for this purpose CBDT should find the loopholes and take several amendments to control tax evasion practice.
- ❖ Tax evasion practice is affecting Indian economy on various sectors, for this purpose government should provide morale education for tax payers.
- ❖ Most of the respondents have opined that submitting false tax returns is the common form of tax evasion. For this purpose, revenue department should take measures for reducing tax evasion practice in the form of false tax returns.

3.3 CONCLUSION

The difference between tax avoidance and evasion is the thickness of a prison wall. “Human beings greedy by nature and they

want to extract the maximum out of what is potentially available to them, but there are ways of this extraction. Every way need not be wrong, though most of them are”. There are different ways by which a tax payer can escape his tax liability. But there is a thin line difference between escaping tax liability and overcoming tax burden. Everything can be done by both legal means and illegal means; consequently, the outcome would also be accordingly legal and illegal ways – this is understandable, but escaping or reducing tax liability and that too by legal manner. In India, most of the persons do not pay their taxes. They try to avoid this by some illegal means or by taking the benefit 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 or to avoid the tax liability by declaring less incomes, profits or gains than actually what they earned or overstating their expenses.

CBDT authority is needed to take several measures for avoiding the Tax evasion practice in India in terms of making amendments in Income Tax law in several forms. For this purpose revenue department should take action against Tax Evasion, and

provide proper Tax Planning opportunity for tax avoidance.

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government”* EPRA International

LIST OF TABLES

Table 1: Gender of the Respondents

SI No.	Gender	No. of Respondents	Percentage (%)
1	Male	60	60
2	Female	40	40
	Total	100	100

Table 2: Age of the Respondents

SL No.	Age	No. of Respondents	Percentage (%)
1	Below 20	10	10.00
2	20 – 30	10	10.00
3	30 – 50	50	50.00
4	Above 50	30	30.00
	Total	100	100

(Source: Field Survey)

Table 3: Annual Income of the Respondents

SI No.	Annual Income (₹)	No. of Respondents	Percentage (%)
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1	Less than Rs. 2.5 lakh	08	8.00
2	2.5 lakh – 5 lakh	28	28.00
3	5 lakh-10 lakh	48	48.00
4	Above Rs.10 lakh	16	16.00
	Total	100	100

(Source: Field Survey)

Table 4: Regularity of tax payment of the Respondents

SI No.	Description	No. of Respondents	Percentage (%)
1	Yes	100	100
2	No	—	—
	Total	100	100

(Source: Field Survey)

Table 5: Respondents based on type of tax slab

SI No.	Description	No. of Respondents	Percentage (%)
1	0-5 lakh	18	18.00
2	5-10 lakh	46	46.00
3	10-20 lakh	22	22.00
4	More than 20 lakh	14	14.00
	Total	100	100

(Source: Field Survey)

Table 6: Respondents on the basis of level of income responsible for tax evasion & avoidance:

SI No.	Description	No. of Respondents	Percentage (%)
1	Responsible	58	58.00
2	Not responsible	24	24.00
3	Not at all responsible	04	04.00
4	Some extent	14	14.00
	Total	100	100

(Source: Field Survey)

Table 7: Respondents based on opinion about main impact of income tax evasion in India:

Rating	Reduction in country's economic growth		Increase in inflation		Impact on morale		Increase in corruption		Decrease in country's reputation		Level of education	
	No. of Responde	Percentag	No. of	Percentag	No. of	Percentag	No. of Responde	Percentag	No. of Responde	Percentag	No. of	Percentag
Strongly Agree	16	16	18	18	14	14	44	44	32	32	12	12
Agree	52	52	42	42	56	56	24	24	28	28	50	50
Neutral	12	12	12	12	10	10	14	14	32	32	18	18
Disagree	14	14	08	08	12	12	08	08	18	18	14	14
Strongly Disagree	06	06	12	12	08	08	10	10	10	10	06	06

(Source: Field survey)

Table 8: Respondents on the basis of tax evasion should be reduced:

Rating	Reducing tax rates		Inclusive growth strategy		Maintaining proper level of taxation by the government		Providing a proper guidelines to the taxpayers		Reducing the complexity procedure for the payment & verification of taxes		Examining the loopholes in major policies & acts introduced by the government		Design a permanent tax structure	
	No. of	Percentage	No. of	Percentage	No. of	Percentage	No. of	Percentage	No. of	Percentage	No. of	Percentage	No. of	Percentage
Strongly Agree	18	18	14	14	24	24	54	54	18	18	54	54	08	08
Agree	54	54	44	44	52	52	28	28	24	24	38	38	14	14
Neutral	08	08	04	04	06	06	00	00	18	18	00	00	18	18
Disagree	14	14	18	18	08	08	12	12	28	28	06	06	24	24
Strongly Disagree	06	06	20	20	10	10	06	06	12	12	02	02	12	12

(Source: Field survey)

Table- 9

Responses	Observed	Expected	(O-E)	(O-E) ²	(O-E) ² /E	Values
Yes	30	40	-10	100	100/40	2.5
No	70	60	+10	100	100/60	1.67

Calculated Value = **4.17**