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## PROBLEM OF TAX-AVOIDANCE AND TAX-EVASION IN INDIA

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### **Abstract**

The imposition of tax or evasion of tax means refraining from paying tax to the government using illegal methods by an individual, institution or trust or avoiding it indefinitely. Often taxpayers deliberately try to reduce their tax burden by not showing their actual position to the tax authorities. The avoidance of tax is something that is beyond the expectation of the government. Tax evasion and avoidance are the only way through which people destroy socio-economic governance and try to live a costly and sluggish life. Tax evasion puts the entire economic power in the hands of most undesirable people, who do not deserve to enjoy such illegal consequences produced by it. There is not denying the fact that Tax avoidance has increased the problem of stability. People make excuses as if they earned a low income or gain on an income that they actually earned, just to avoid taxes. This research paper explains various aspects and dimensions of tax-evasion and tax-avoidance and its significant relationship with policy and administration in India. There have also been attempts to discuss the origin and presumption of black money and the major causes of tax evasion and to present strategies adopted by the Indian government to tackle the issue.

**Key Words: Tax-evasion, Tax-avoidance, India, Economy, Corruption.**

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## **Introduction**

Tax evasion is an illegal attempt to intentionally under-reporting or not reporting taxable income or to reduce the tax liability to hide one's true status from the tax authorities.

Tax avoidance means an attempt to reduce the tax liability by legal means, which is to regulate one's financial affairs in such a way that one pays the minimum tax imposed by the law. This can be understood by a simple example. Tax evasion and tax avoidance are two different things. While avoidance is legal management to avoid tax, tax evasion is illegal to reduce tax evasion, i.e. falsification of books, suppression of income, excess of deductions, etc. Tax evasion is illegal action in which a person or company refrains from paying tax liability. It reduces hidden or false income, does not report cash transactions etc. without deduction. Tax evasion is a serious crime that comes under criminal charges and substantial penalties. Tax evasion and avoidance is only one way through which people destroy socio-economic governance, and try to live a costly and sluggish life. Tax evasion puts the entire economic power in the hands of most undesirable people, who do not deserve to enjoy such illegal consequences produced by it. Tax evasion is a major crime.

The rules of the Income Tax Department provide for stringent punishment against tax evaders. This is a big problem in a developing country like India. The global economic situation deteriorated rapidly during the year 2008, with many advanced economies having their fastest decline in the period after World War II. Tax evasion in India is a serious matter and for any defaulters or fraudsters, the Income Tax Act provides substantial consequences.

### **Problem of Tax-Evasion and Tax-avoidance in India:**

Tax evasion is the willful and illegal evasion of taxes by individuals and trusts and corporations. In this case, the taxpayers have deliberately misrepresented their financial

matters to the tax authorities. This includes fraudulent practices such as dishonest tax reporting, declaration of low income or declaration of profits against the amount actually earned and their deduction has also been eliminated. Tax avoidance is the legal use of a country's tax system to reduce tax liability in legal ways. This includes investment funds in any investment / insurance so that the net amount earned is less and the taxpayer has to pay a lesser amount as tax. Avoiding tax is completely legal. Tax evasion is harmful to society for the creation of all black money and social evils. The level of evasion tax also depends on chartered accountants and tax lawyers who help companies, firms and individuals avoid paying tax. In all major countries theft is a crime and convicted parties are subject to imprisonment and fines.

Unlike tax evasion, tax avoidance involves legal means by which a person or company can reduce its tax burden. Current tax law provides taxpayers with several ways to reduce their full tax liability, including charitable donations, investing money in an approved tax-deferral mechanism and claiming deductions to reduce their taxable income is included. Avoidance of tax is one way of reducing taxes through the means given by the government, but before proceeding to those methods, it is important to analyze tax avoidance in depth. Tax evasion is a crime in which a person or a business entity intentionally reduces or conceals their fixed income in order to save large amounts of taxes. This method is certainly illegal in all countries. Tax evasion is basically the payment of taxes through not reporting all taxable income, or not allowing deductions. It was originated in England between 1920–1925 phase. The main difference between tax evasion and tax avoidance is legality. Although tax evasion involves the act of intentionally, unlawfully concealing property or money from the

IRS, using legally available methods to evade tax, reduce your taxable income; reduce tax payments, and filing.

**Conclusion:**

It is essential for India to consider a range of policy options to target corporate tax avoidance and allocate funds separately to anti-authority authorities to implement anti-abuse rules. It has been concluded from the above discussion that tax avoidance and tax evasion are concepts that enable a person to avoid liability on income tax imposed by him. The income is completely legal as provided under the Income Tax Act 1961 and the other income is completely illegal. For the purpose of tax avoidance, the government has provided various ways in which a person can legally withhold tax on his income, while on the other hand the government has imposed various penalties on the concept of tax evasion.

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