

## Tax Avoidance and Tax Evasion

### TAX EVASION

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When a person reduces his total income by making false consideration / false claims or by withholding the information regarding his actual income / real income, so that his tax liability is reduced, is known as tax evasion.

It is an illegal activity in which a person or an entity deliberately avoid paying a true tax liability. Those caught evading taxes are generally subject to criminal charges and substantial penalties.

No one likes to pay taxes, but taxes are the law. The terms "Tax Avoidance" and "Tax evasion" are often used interchangeably, but they are very different and different concepts. Basically tax avoidance is legal, while tax evasion is not.

Tax evasion occurs when a person or an organisation illegally takes purposeful steps to avoid paying a tax liability.

The level of evasion depends on a number of factors including the amount of money a person or a corporation possesses. Efforts to evade income tax decline when the amounts involved are lower. The level of evasion also depends on the efficiency of the tax administration. Corruption by tax officials make it difficult to control evasion. Tax administration use various means to reduce evasion and increase the level of enforcement. Corrupt tax officials co-operate with tax payers who intend to evade taxes. When they detect an instance of evasion, they refrain from reporting it in return for bribes. Corruption by tax officials, actually, is a serious problem for the tax administration in many less developed countries.

Tax evasion is a crime in almost all developed countries, and the guilty party is liable to fines & for imprisonment. In several developed countries, dishonestly misreporting income in a tax return is not necessarily considered a crime. Such matters are handled in the tax court; not the criminal court.

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Tax evasion is immoral, anti-social and anti-national practice. Therefore, under the direct tax laws provisions have been made for imposition of heavy penalty and institution of prosecution proceedings against tax evaders.

① Why a person evades tax? In my thinking, the following reason of evasion may be.

- It is a - onus duty of person
- It is may be habit of a particular person.
- The tax management and tax experts help in tax evasion.
- Deterioration of moral value
- Imparting no education regarding the advantages of tax payment and disadvantages of tax evasion to the people.
- Tax Evaders knows about all schemes and provisions disclose by the govt. and he try to use cut the tax by using such ~~pro~~ loop holes in the act.
- The management is not accountable for increase in tax evasion

Evader reduces his total income by taking one or ~~or~~ more act of the following because that activities are in his hand.

- Introduce Bogus expenses in accounts
- charging personal expenses - such as car, telephone, travelling, conveyances
- medical expenses incurred for self or family may be shown in B/P & I/A

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- ↳ business expenses.
- Submission of false receipts for charitable donations for deduction u/s 80G
- No disclosure of capital gains on asset or "Benami transaction" or "Benami assets"
- By showing excessive salary to employee actually getrip to relations
- By not showing ROI or taxable income in ROI
- Failure to filing of return.
- No record of sale. (unrecorded sale)

## TAX AVOIDANCE

Tax Avoidance is the use of legal methods to minimize the amount of income tax owed by an individual or a business. This is generally accomplished by claiming as many deductions and tax credits as is allowable. It is method of reducing tax liability by availing certain loopholes in the laws. but it excludes fraud, concealment or other legal measure. It is a device which technically satisfies the requirement of the law but in fact it is not in accordance with the legislative intent.

~~How~~ However, although the term tax avoidance is familiar to most people, the precise definition of tax avoidance been a vexing issue.

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The term seeks to describe a number of different behaviours and is often misused by people seeking to legitimise behaviour considered distasteful. This gives rise to the most common misconception, that all tax avoidance is legal. There is often a dissonance between how the public view tax avoidance and how people administering the tax system view it, leading to public anger about government inaction.

In a case (1965) it is said "Avoidance of law is not tax evasion and it carries no ignominy with it, for it is a sound law and certainly, not bad morality, for anybody to so arrange his affairs as to reduce the brunt of taxation to a minimum.

Supreme court says that to avoid law should not be encouraged and this is the duty of the court to expose the persons who avoid tax and refuse to approve such practice because the social evils of tax avoidance are manifold.

## DIFFERENCE BETWEEN TAX AVOIDANCE AND TAX EVASION

The following difference between two terms are as follows:

1. Tax avoidance is legal but evasion is illegal
  2. In case of tax avoidance, the objects and spirit of the law are not followed whereas in tax evasion, the provisions of the law are flouted.
  3. In tax avoidance, ~~per~~ no, penalty can be imposed. but in tax evasion a person is liable to pay penalty and may be prosecuted.
  4. In tax avoidance, black money is not generated whereas in case of tax evasion, black money is generated & this is <sup>used for</sup> unproductive purpose mostly
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