A Study on Tax Evasion in India

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Abstract

Tax is the compulsory public contribution and primary source of government revenue. Tax evasion is an unlawful action which results in inequality of income distribution and brings the economic growth to a halt, leading to economic instability. The act of tax evasion is usually associated with informal economy. The inequality in the income distribution widens the tax gap, the amount of unreported income of an individual. This is sum of the total difference between amount to be reported and the actual amount reported. This paper attempts to understand the relationship between tax revenue and tax evasion with government’s revenue. In contrast, the paper also studies the principle of tax avoidance and states how an individual or a corporate organisation can legally use tax laws to reduce the tax burden. Both the activities are in a range making a state’s tax system unfavourable. Ultimately tax avoidance and tax evasion reduces the government’s revenue source, but the latter reduces the income flow for the government significantly. The papers shows that a large number of people considered paying taxes as burden even if the amount of tax is significantly less. This is may be due to the fact that tax payers feel that their tax money isn’t utilised efficiently by the government or the tax rate is high.

Key Words: Taxation, parallel economy, informal economy, Tax avoidance, non compliance.
1. Introduction

Tax refers to the compulsory exaction from the public by public authorities for public purposes. There are various types of taxes, such as income tax, corporate tax, property tax, inheritance tax and they are classified as direct or indirect taxes. Singh and Sharma (2007) studied the perception of tax professionals with regard to Indian Income System. They found that presence of incompetent tax collectors were due responsible for high tax evasion in India. The problem arises at the time of tax collection, during which the person or an entity may unlawfully and intentionally avoid tax by not paying it. This act is referred to as tax evasion. Arora R.S and Rank Vanita (2010) studied the causes and remedies for tax evasion in India and corruption in the Indian Tax System. They suggested that high tax rates, easily corrupted tax collectors, social acceptance of default of tax payment, low probability of detection of tax evasion and low morality were the primary causes of Tax Evasion in India. Inefficient tax collection system is also a reason of tax evasion in a developing country.

Tax evasion is act of evading taxes illegally and refusing to pay taxes. The gap between the amount of tax owned and amount of tax that is paid is huge. Dr.Devarajappa (2017) studied the impact of tax evasion on the revenue of the Indian government and the extent of tax evasion in India. He found that the during the period of 2008-2009, there was the highest recorded of taxes evaded and during the period of 2002-2003 had the least recorded amount of tax evaded. Tax avoidance is the use of methods that are of legal methods to reduce an individual’s financial status to lower the amount of tax, especially income tax to be paid. This is generally accomplished by claiming plausible and permissible deductions and tax credits. People generally confuses tax evasion and avoidance.

Stuart P Green (2009) studied what was really wrong with tax evasion from a psychological point of view and moral perceptive and whether underlying morals of a person helped in the process. He found that public regarded the act of non payment of taxes to a breach of morals, however their reasons were justified as such as high tax rates and inefficient use of tax money by the government. Tax evasion is clearly depended on four major determinants, namely demographic variables (age, gender, education and occupational status), culture and behavioural variables (complexity, fairness, revenue authority contact, compliant peers and ethics or tax morale), legal and institutional variables (Legislation) and finally economic variables( income level, income source, marginal tax rates, sanctions and probability of detection). However tax morale is considered as the primary determinant in a developing country.

Tax evasion unlike tax avoidance, uses illegal method. Tax avoidance is encouraged and complicates the tax code. Fuest.C (2009) studied the concept of tax avoidance, tax expenditure and it’s effect in developing countries. He found that tax avoidance has lesser impact in government revenue than tax evasion.
He also found that for the income gap to be reduced among the public, tax collection system must be efficient and incorrupt. Tax avoidance includes legal activities and purchases in accordance with tax legislations. Laliwadhwa and Vivender Pal (2012) said that high tax rates and inefficient tax authorities are the main causes of tax evasion. They tried to find the relationship between tax authorities and tax evasion. They concluded that simplification of tax laws and removable of loopholes in law is the way to reduce the amount of money evaded.

The most common way of avoiding taxes is employee-sponsored retirement fund. One can avoid tax with the help of lawful exceptions. Nishant Ravindra Ghuge and Vivek Vasantrao Katdare (2016) compared the Indian tax system with that of the Australian tax system. They found that the Indian tax structure is completely behind and outdated and they suggested several measures to be taken by the Central Government to further strengthen the Indian tax system. Developing countries lack the efficient tax collection, unlike the developed countries. Developing countries hugely depend upon the tax revenue for construction of public infrastructure and for providing government services. This evasion of taxes results in parallel economy. In this context, the aim of the present paper is to discuss about the tax evasion in India.

2. Materials and Methods

The present study is based on primary data collected by the researcher and the secondary data collected from books, journals and online sources. The present study used simple random sampling method for selection of samples because the population is too high. A total number of 120 sample respondents in the age group of 18-60 years were selected randomly from Chennai, one of the four metropolitan cities in India. The study used percentage for meaningful analysis of the results of the study.

3. Results

Out of 120 respondents, 81 were male accounting for 67.5% and 39 were female accounting for 32.5%. 34.1% of the sample were in the age group of 20 to 30 years, 48.3% of them were in the age group of 30 to 40 years, 5.8% of them were in the age group of 40 to 50 years and 3.3% of them were in the age group of 50 to 60 years. 17.5% of them were self-employed, 26.6% of them were employed in the public sector and 55.8% of them were employed in private sector. 42.5% of them were earning between Rs 5,00,000 and Rs. 10,00,000 annually, 57.5% of them were earning above Rs 10,00,000 annually. 59.1% of them said that they paid their taxes on or before the due date while the rest, 40.9% of them had paid their taxes after the due date. 80% of them stated that the increase in the tax rate from 5% to 10% was a burden to them and rest 20% of them said that the increased tax rate isn’t a burden to them.
88.3% of them said that they need an auditor’s help while filing their I.T returns and rest 11.7% of them said that they don’t need an auditor’s help while filing I.T returns. 75% of them said that they get the I.T returns refund between 3 to 6 months while the rest said that it takes more than 6 months or one year. 100% of the people considered paying taxes as burden and not a pride and 96.6% of them had never attempted or thought of evading the taxes and the rest 3.4% of them had thought of it and had evaded tax in the past.

4. Discussion

This research paper shows that number of people belonging to the age group of 30 to 40 years were found to be relatively high when compared to the age group of 20 to 30 years. This is considerably possible in every area in India since the average age of an Indian citizen is in the age group of 29 and 34. A few number of tax payers were found to be self employed and were employed in a public sector. A significantly large number of respondents were employed in private sector. It may be due to the fact the private sectors employees bring home larger pay checks when compared to other sectors. High number of the respondents had been paying their taxes in spite of them considering it as a burden to them. A small number of people considered paying taxes as a burden and hence evaded. Similarly, it is found that large number of the respondents paid their taxes on or before tax. There is seen a contradicting response, where people complain of high taxes and yet pay them. It is inferred that people may complain or argue about the tax rate but at the end of the day they pay they taxes, probably for the respect towards the government or in fear of getting caught for tax evasion. It is also noted that people do need an auditor’s help in filing their I.T returns and this may be the cause as it seen that it takes 3 to 6 months for I.T return refund.

5. Conclusion

Tax evasion is primary cause of low government revenue. This is due to the fact that there exists corrupt tax collectors, inefficient tax structure that the most of the developing countries around the world suffer tax evasion. This results in accounted money and creation of a parallel economy. The tax structure and collection tiers are to be changed if there needs to be change in a country’s economy. Tax relaxation is required for reducing the amount of tax evasion and stricter punishments are to be enforced for the crimes of tax evasion to reduce the gap. People do consider paying taxes, even if the person is economically sound. It may be due to the fact that their tax money doesn’t reach the government for social welfare measures.

References


