

# Reasons and Impact of Tax Evasion and Tax Avoidance

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**Abstract:** The purpose of the research is to understand the impact of income tax evasion and avoidance. The scope of the study is to understand impact, reasons, and problems caused by tax evasion and tax avoidance in Pune city and is also focused towards the tax evasion system in India. For the purpose of this research I have selected 100 respondents out of which some are tax payers and some are not tax payers. Random Sampling method is being used. Tax evasion is something which is deliberate attempt of taxpayer to not paying tax, whereas Tax avoidance is something in which taxpayers reduces his tax liability of paying the tax in order to pay less tax. These two reasons affect the revenue of the government in India. Government has numerous policies and remedies to prevent these tax avoidances as well as tax evasion despite of which there are still reduction in development of economies growth. This study is to understand these problems and find a suitable suggestion on those problems to overcome them.

**Keywords:** Govt. measures, Govt. policies, Impact, Reasons, Solution, Tax, Tax avoidance, Tax evasion.

## 1. Statement of Problem

Tax is a compulsory levy on income of eligible person charged by government in state in which government makes no direct benefit to the tax payer.

This Tax collected is the revenue for the government. In such a case if Tax evasion acts as a weapon which stops the government from generating the revenue. Tax evasion is attempt where taxpayer don't pay tax purposefully whereas Tax Avoidance is an attempt where taxpayer reduces his tax liability to pay less tax.

This attempt of tax evasion & tax avoidance does not fulfill the objectives of tax as the generation of revenue for India is affected by these attempts. The development of growth of economy is still been reduced despite of all the efforts taken by government to stop tax evasion & tax avoidance. Not only Development of growth of economy is affected but also there is reduction capital expenditure, recurrent expenditure, economic growth, & national debt. All above mentioned problems are being taken into consideration & requires major attention for a detailed study.

## 2. Objectives of Study

The major of objectives of this study are:

- 1) To understand the concept of tax evasion & tax

avoidance in detail.

- 2) To know the relation between tax rates, tax evasion & tax avoidance.
- 3) To understand the reasons why people, evade & avoid tax.
- 4) To understand the impact of tax evasion & tax avoidance & what are the opinion of respondents for the same.
- 5) To know what government is doing to avoid the problems caused due to tax evasion & tax avoidance.
- 6) To give suggestions on based of the findings.

## 3. Scope of Study

Taxation is considered one of complex matter in financial planning. And many of the people try to run away from tax payments. The same study was taken place in Shivamogga city and company I'm working with what to do the same study for their clients. The study is to understand impact of tax evasion & tax avoidance in India. Also, the study is to understand the awareness of taxes in the minds of their clients. To understand the reasons for tax evasion & tax avoidance & problems caused by tax evasion & tax avoidance. For this study I have taken clients the company as my sample. The scope is to understand the how the clients react toward payment of taxes and how much they contribute towards tax evasion & tax avoidance. Are these respondents aware of their duty to pay taxes on regular basis and whether the fulfill it or not & the study is also focused towards the tax evasion system in India.

## 4. Review of Literature

Literature Review is as overview of relevant studies which have already took place regarding Tax Evasion & tax Avoidance. Many Researcher have done the research regarding Tax Evasion & Tax avoidance & their various aspects. Some of the important research studies overviewed below.

V. Kalpana., (May 2016). "Tax Evasion - A major threat to economic development and growth - causes and remedies": From the gives study we can say that Tax evasion leads to economic inequality, where the poor are getting poorer whereas rich are getting richer. Despite India being a rich country in natural & human resources economic inequality is one of the major reasons of India's poor economic growth since

independence. This paper mostly focuses on the ill effects of tax evasion on Indian economy and also discusses about the responsibility of every individual towards tax procedures & pay taxes correctly & support government.

*Priyesh Sharma and Siddharth Dang., (May 2011), "Myth and reality of the imbricating concepts of Tax Avoidance and Evasion"*: From the given study we clearly understand the meaning of Tax Evasion & Tax Avoidance and the difference amongst them. We understand that Tax Evasion is not legal whereas Tax avoidance to certain limit is legal. Judicial within India as well as Outside India also agree with the same difference between two. DTC coming in force has blurred to great extent the difference between Tax Evasion & Tax Avoidance & restricted not only Tax evasion but also Tax Avoidance. This is correct only to certain extent. It should not make its restriction & scope to much wide. It should include Tax planning also & the same should be encouraged. There are certain concerns regarding DTC & GAAR which must overcome with time by all the possible ways mentioned in the study.

*Sugata Marjit, Marcel Thum et.al., "Tax Evasion, Corruption and Tax Loopholes"*: This study states about the loopholes due to which firms exploit the borderline between legal tax Avoidance and illegal Tax Evasion. The Tax loopholes in general are tending to cause harm to the revenue – maximizing government. This may cause in change of presence of corruption in tax administration. Government maximize revenue & curb corruption with the help of tax loopholes as a separate mechanism which explain why developing countries close gradually the loopholes in tax codes.

*Jeyapalan kasipillai, Norhani Aripin et.al., "The Influence of education on tax avoidance and tax evasion"*: The study focuses on importance of tax education among the under graduate students. The survey was done to understand whether the education can influence the respondent's compliance behaviour. The statistical findings confirmed the commonness of the relation between tax compliance and tax education. This relationship is consistent to the question regarding to personal avoidance of tax or whether it is general avoidance of tax. After pursuing first semester of preliminary taxation course there is improvement among the students especially female students toward personal tax compliance. The study suggests that universities, colleges should provide the preliminary taxation course as core subjects to their students with other courses such as social science as well as business, management and accounting.

*Yuna Zaina, Shanon wan et.al., (Dec 2014), "Myth and reality of the imbricating ideas of assessment evasion and avoidance"*: The difference between the Tax Evasion & Tax Avoidance is been understood from this study. Human Being is a rational person i.e. he is greedy & want to achieve maximum out of available potential to them but there is way to extraction to these. Every way to achieve it may not be wrong but most of them are wrong most of the times. The Difference between tax

avoidance & Tax Evasion is that Tax evasion is not legally permissible by court of law whereas Tax Avoidance to certain extent is legally permissible by court of law. Judicial in India as well as outside India agrees with the same difference among the Tax Evasion & Tax Avoidance. In India until now this difference was very clear. The tax payers arrange his affairs in such a way that it maximizes his tax liability and the acceptance of which is based on the operation of law. But the new code which is been proposed has blurred this extent. This article tries to analyze this difference & the change in scenario that is been brought up by this proposed code.

*Devarajappa S., (Sept 2017), "Tax Evasion in India: A study of its impact on revenue of the government"*: From this study we understood that the main revenue of the government is Tax. And the same contributes to the development & Prosperity of the Country. To initiate development & welfare programs which improve the company's situation the government raises the revenue in terms of Income Tax, Entertainment Tax, VAT, Excise Duty, Custom Duty, etc. from the various sectors. But the country is facing massive tax evasion problem. The people who are supposed to pay taxes are finding ways of not paying them and as a result the income of country is suffering. Major problems faced by India are Black money, Tax Evasion, Existence of parallel economy these all states that India needs major reforms in its Taxation system to avoid these problems in future. This paper states the Tax Evasion concept and amount of Tax Evasion in India. The data for the same was collected from secondary source.

*M. Chandrappa., (Oct 2016), "Tax Evasion and Black Money in India: Causes and Remedies"*: From this study it was understood that Tax Evasion occurs only when tax payer deliberately do not pay their tax liability. And due to which govt does not receive their earnings & it can cause damage to Proper functioning of public sector as they could not even finance their basic expenses. This study covers the number of factors that are responsible for Tax evasion & tax avoidance and various remedies that are available or measures that can be taken care of.

*Singh and Sharma (2007)*: This study of Singh & Sharma is attempt to study the perception of tax professionals with respect to Indian Income Tax System by collecting primary data through questionnaire from 100 tax consultants operating in states of Punjab and Haryana. They tried to investigate the role of tax consultants played helping their clients in understanding the complex tax system of India and meeting their legal obligations. From the Data Analysis it was seen that seven factors –reduction in tax evasion, extension of relief to taxpayers, incentives for dependents and honest tax payers, broadening the tax base, e-filing of returns, adequacy of deductions and impact of exempt tax system played an important role in determining the effectiveness of Indian tax system. Whereas the authors also suggested for adjustment of income tax rates.

### 5. Research Methodology

- 1) *Sources of data:* The source of data taken into consideration for the study is both primary data as well as secondary data. The primary data taken here into consideration is through the well-structured questionnaire to the respondents. Secondary data taken into consideration is the information which is already been there in journals, articles, past records, published materials, internet sources, etc.
- 2) *Type of Data:* Both Qualitative as well as Quantitative data has been used in the research. Firstly, the data is collected in Qualitative form and then it is converted in Quantitative form for better understanding and analysis.
- 3) *Sample Size & Sample unit:* For the purpose of achieving the stated objectives for the present study number sample I have considered is 100 respondents who are income tax payers & the method used here is Random Sampling Method.
- 4) *Statistical tools & Techniques used:* Statistical techniques and tools such as charts, graphs, tables, chi square test, etc. are been used to analyze the data collected from the respondents. The data is presented to make certain projections and to draw meaningful conclusion.
- 5) *Hypothesis 1:*
  - H0: High tax rates, Lack of education / Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax are the main reasons for tax evasion & tax Avoidance.
  - H1: High tax rates, Lack of education / Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax are not the main reasons for tax evasion & tax Avoidance.
- 6) *Hypothesis 2:*
  - H0: Reduction in country's economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are main impact of Tax Evasion & Tax Avoidance.
  - H1: Reduction in country's economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are not main impact of Tax Evasion & Tax Avoidance.
- 7) *Hypothesis 3:*
  - H0: Reducing tax rates, providing proper guidelines to taxpayer regarding payment of taxes, Reducing the complex procedure for the payment & verification of taxes, Examining the loopholes, etc. are some of way through which tax evasion & tax avoidance can be reduced.
  - H1: Reducing tax rates, providing proper guidelines to taxpayer regarding payment of taxes, Reducing the complex procedure for the payment & verification of taxes, Examining the loopholes, etc. are some of way through which tax evasion & tax avoidance cannot be reduced.

### 6. Limitation of Study

- 1) The Scope of study is limited.
- 2) The conclusion is drawn on the basis of sample collected.
- 3) While collecting the information the respondents were limited.
- 4) The response from the respondents was found to be biased.

### 7. Data Analysis and Interpretation

I have selected the random 100 respondents and circulated the questionnaire to collect the required data for the study. The data such as Gender of respondents, Age of Respondents, Annual Income of Respondents, Respondents pay tax on time or not, Are the respondents part of tax evasion & Tax Avoidance, what according to respondents are the reasons for tax evasion & tax Avoidance, How will this tax evasion & tax avoidance impact towards India. And hence the above Data collected is collected through the questionnaire and the analysis of same is done and the same is interpreted.

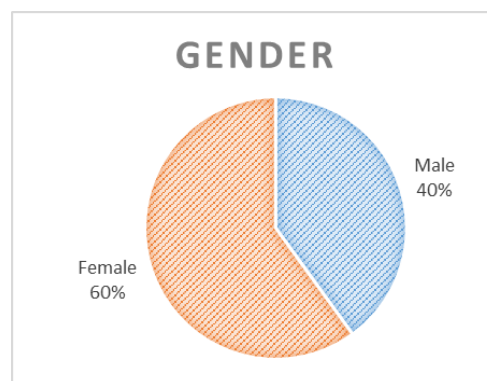


Fig. 1. Gender of Respondents

*Analysis:* From the response of respondents for the Questionnaire we can see that out of 100 respondents 60 are male & 40 are female. The most common reason is we live in Indian societies where most of the household's expenses are been headed by males in Indian society i.e. only male member of family earn the income and female members are restricted to be at house but with changing time there are some few females members who are heading the households expenses and these data which we received from questionnaire proves the same point and hence the maximum number of respondents is male.

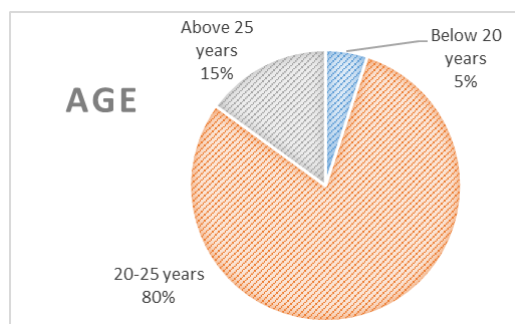


Fig. 3. Age of Respondents

*Analysis:* From the above table generated through the questionnaire's response we can see that from the 100 respondents 5% respondents i.e. 5 respondents are below age group of 20 years, 80% respondents i.e. 80 respondents are between age group of 20 to 25 years, 15% respondents i.e. 15 respondents are above age of 25 years.

*Interpretation:* Its is interpreted that majority of the respondents are youth & teenagers who are just passed out from post-graduation & started doing jobs. They lie in the age group between 20 – 25.

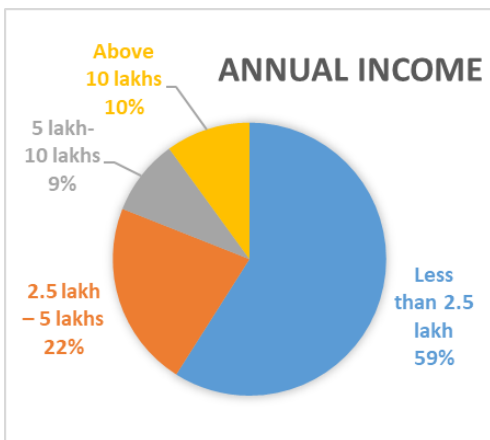


Fig. 3. Annual Income of Respondents

*Analysis:* From the above observation it is seen that out of 100 respondents 59 respondents are earning below 2.5 lakh, whereas 22 respondents are earning between 2.5 lakh to 5 lakhs, whereas 9 respondents are earning between 5 lakhs to 10 lakhs, whereas 10 respondents are earning above 10 lakhs.

*Interpretation:* It can be interpreted that from collected data of 100 random sample majority of people are earning maximum income is below 2.5 lakh & next category of people earning majority of income is between 2.5 lakh to 5 lakhs.

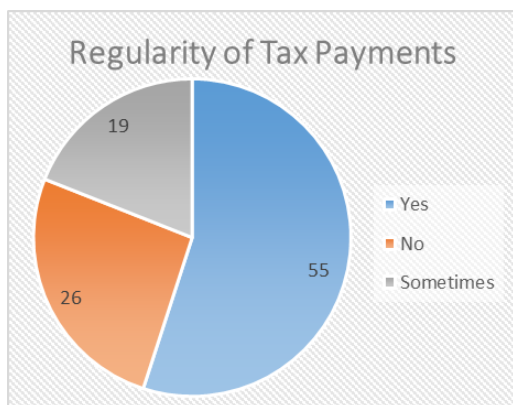


Fig. 4. Regularity of tax payment of respondents

*Analysis:* From the data collected it was observed the out of 100 respondents 55 respondents i.e. 55% are regular tax payers while 26 respondents i.e. 26% do not pay tax and 19 respondents i.e. 19% are irregular tax payers.

*Interpretation:* It can be interpreted that majority of people are aware of tax payment & its importance & its regularities. They don't avoid payment of taxes and pay taxes time to time on a regular basis. Hence it is observed that majority of the respondents are regular tax payers.

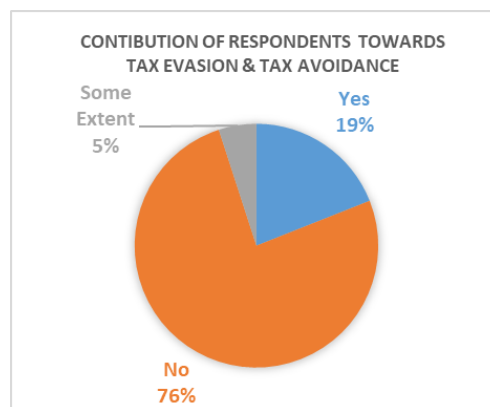


Fig. 5. Contribution of respondents towards tax evasion and tax avoidance

*Analysis:* It can be analyzed that from the sample of 100 respondents there are 19 respondents i.e. 19% of the respondent contributes in tax evasion & tax avoidance while 76 respondents i.e. 76% of respondents do not contribute in tax evasion & tax avoidance and 5 respondents i.e. 5% of respondents sometime contribute up to some extent towards tax evasion & tax avoidance.

*Interpretation:* It can be concluded that majority of the respondents do not contributed in tax evasion & tax avoidance & pay tax correctly.

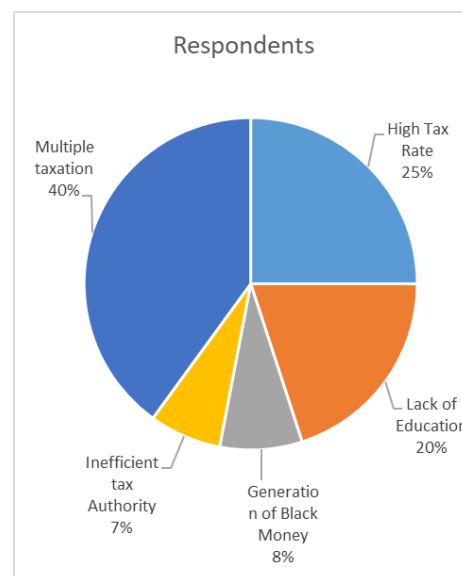


Fig. 6. Opinion of respondents about reasons of income tax evasion in India

*Analysis:* From the study carried out we can see that out of 100 respondents 40% of respondents think multiple taxation is main reason for tax evasion and tax avoidance whereas 25%

respondents think high tax rate, 20% respondents think lack of education, 8% of respondents think generation of black money & 7% of respondents think inefficient tax authority as the reasons of tax evasion and tax avoidance in India.

*Analysis:* From the study carried out through the questionnaire it can be seen that out of 100 respondents 18% respondents strongly agree, 40% respondents agree, 20% respondents are neutral, 8% respondents disagree & 7% respondents strongly disagree that one of reason of tax evasion is high tax rates.

Similarly, From the study through the questionnaire it can be seen that out of 100 respondents 20% respondents strongly agree, 25% respondents agree, 50% respondents are neutral, 5% respondents disagree & 0% respondents strongly disagree that one of reason of tax evasion is lack of knowledge / education regarding taxation.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 24% respondents strongly agree, 31% respondents agree, 31% respondents are neutral, 7% respondents disagree & 7% respondents strongly disagree that one of reason of tax evasion is generation of black money.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 10% respondents strongly agree, 31% respondents agree, 49% respondents are neutral, 5% respondents disagree & 5% respondents strongly disagree that one of reason of tax evasion is inefficient tax authority.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 21% respondents strongly agree, 25% respondents agree, 47% respondents are neutral, 5% respondents disagree & 2% respondents strongly disagree that one of reason of tax evasion is multiple taxation.

*Interpretation:* From the data we have collected from the questionnaire it is interpreted that majority of people think that high tax rates, lack of education, multiple taxation, inefficient tax authority, generation of black money are the reasons for tax evasion and tax avoidance in India. Whereas majority of respondents i.e. 40% of respondents think Multiple taxation is main reason of tax Evasion & tax Avoidance in India.

*Analysis:* From the study carried out we can see that out of 100 respondents 50% of respondents think reduction in countries economic growth is main impact of tax evasion and tax avoidance whereas 18% respondents think increase in inflation, 23% respondents think increase in corruption, 9% of respondents think level of education as the impact of tax evasion and tax avoidance in India.

*Analysis:* From the study carried out through the questionnaire it can be seen that out of 100 respondents 15% respondents strongly agree, 30% respondents agree, 40% respondents are neutral, 8% respondents disagree & 7% respondents strongly disagree that tax evasion is reason for reduction in countries economic growth.

Similarly, From the study through the questionnaire it can be seen that out of 100 respondents 20% respondents strongly agree, 25% respondents agree, 50% respondents are neutral, 5% respondents disagree & 0% respondents strongly disagree that tax evasion Increases Inflation rate in economy.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 24% respondents strongly agree, 31% respondents agree, 31% respondents are neutral, 7% respondents disagree & 7% respondents strongly disagree that tax evasion practices have Increased Corruption.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 10% respondents strongly agree, 31% respondents agree, 49% respondents are neutral, 5% respondents disagree & 5% respondents strongly disagree that tax evasion practices have Decreased countries reputation.

Similarly, from the study through the questionnaire it can be seen that out of 100 respondents 21% respondents strongly agree, 25% respondents agree, 47% respondents are neutral, 5% respondents disagree & 2% respondents strongly disagree that tax evasion practice also depends on level of education of respondents.

*Interpretation:* From the data we have collected from the questionnaire it is interpreted that majority of people think that the impact for tax evasion & tax avoidance are reduction in countries economic growth, level of education of respondents, increased corruption, increase in inflation rate in economy, decrease in countries reputation. Above is in detail summary of responses of respondents. Whereas majority of respondents i.e. 50% of respondents think that main impact that country faces due to Tax Evasion & tax Avoidance is Reduction in Countries Economic Growth.

*Analysis:* 20% of respondents think Maintaining proper level of taxation by government, 19% of respondents think examining loopholes, 15% respondents think Providing proper guidelines, another 15% respondents think reducing the complex procedure for the payment and verification of taxes, another 15% think reducing tax rates, 9% respondents think inclusive growth rate and 7% of respondents think by designing permanent tax structure we can reduce the tax evasion and tax avoidance in India.

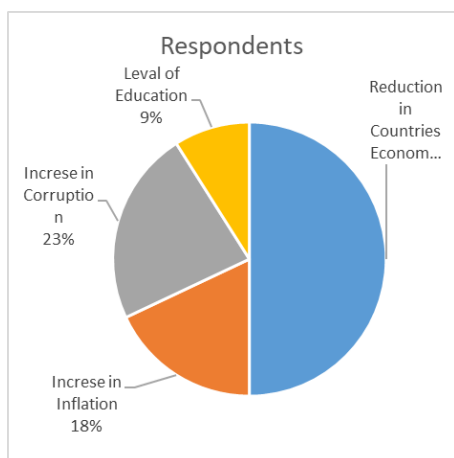


Fig. 7. Opinion of respondents about impact of income tax evasion in India

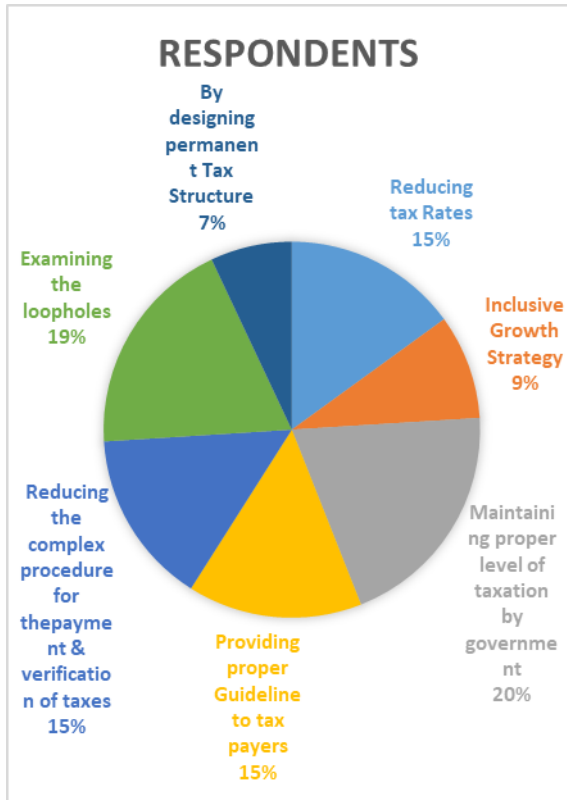


Fig. 8. Respondents on basis of how tax evasion should be reduced

**Analysis:** It can be seen that out of 100 respondents 17% respondents strongly agree, 18% respondents agree, 38% respondents are neutral, 25% respondents disagree, & 2% respondents strongly disagree that tax evasion can be reduced with reducing the tax rates.

Similarly, it can be seen that out of 100 respondents 9% respondents strongly agree, 28% respondents agree, 43% respondents are neutral, 14% respondents disagree, & 6% respondents strongly disagree that tax evasion can be reduced when effective growth strategy is implemented.

Similarly, it can be seen that out of 100 respondents 21% respondents strongly agree, 32% respondents agree, 31% respondents are neutral, 9% respondents disagree, & 7% respondents strongly disagree that tax evasion can be reduced by maintaining proper level of taxation by the government.

Similarly, it can be seen that out of 100 respondents 26% respondents strongly agree, 24% respondents agree, 32% respondents are neutral, 14% respondents disagree, & 4% respondents strongly disagree that tax evasion can be reduced when proper guidelines are provided by government to taxpayers.

Similarly, it can be seen that out of 100 respondents 23% respondents strongly agree, 22% respondents agree, 41% respondents are neutral, 9% respondents disagree, & 5% respondents strongly disagree that tax evasion can be reduced when procedure for payments & verification of taxes is simplified.

Similarly, it can be seen that out of 100 respondents 26%

respondents strongly agree, 28% respondents agree, 30% respondents are neutral, 8% respondents disagree, & 8% respondents strongly disagree that tax evasion can be reduced when loopholes are examined in the policies & acts introduced by the government.

Similarly, it can be seen that out of 100 respondents 24% respondents strongly agree, 21% respondents agree, 36% respondents are neutral, 11% respondents disagree, & 8% respondents strongly disagree that tax evasion can be reduced when permanent tax structure is designed.

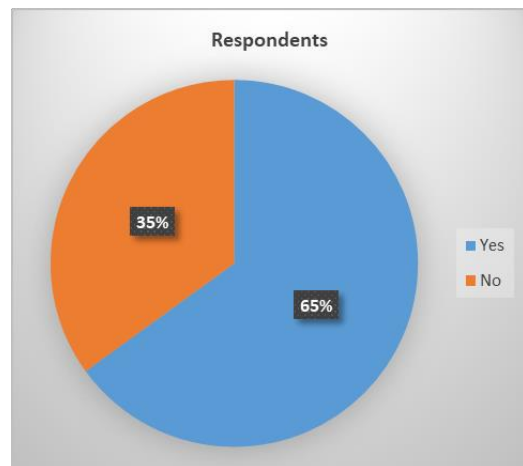
**Interpretation:** Here it can be interpreted that many of the respondents strongly agree that reducing tax rate, inclusive growth strategy, maintaining proper level of taxation by government, providing a proper guideline to taxpayers, reducing complex procedure for the payment of taxes, examining the loopholes in the policies and acts introduced by government, designing the permanent tax structure are some of the measures to reduce the tax evasion & tax avoidance.

**Chi Square Test:**

**Hypothesis 1: Reasons of Tax Evasion & Tax Avoidance:**

H0: High tax rates, Lack of education / Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax are the main reasons for tax evasion & tax Avoidance.

H1: High tax rates, Lack of education / Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax are not the main reasons for tax evasion & tax Avoidance.



**Analysis:** From the above data we can conclude that out of 100 respondents 65 respondents agree that High tax rates, Lack of education / Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax are the main reasons for tax evasion & tax Avoidance whereas 35 respondents do not agree High tax rates, Lack of education/ Knowledge about taxation, Generation of black money, Inefficient tax authority, multiple tax as main reasons for tax evasion and Tax avoidance.

Table 1

Responses	Observed	Expected	(Ob-Ex)	(Ob-Ex) ^2	(Ob-Ex) ^2/Ex	Values
Yes	65	60	+5	25	25/60	.4167
No	35	40	-5	25	25/40	.625

Table 2

Responses	Observed	Expected	(Ob-Ex)	(Ob-Ex) ^2	(Ob-Ex) ^2/Ex	Values
Yes	70	78	+8	64	64/60	1.0667
No	30	22	-8	64	64/40	1.6

So the data above is used to test the hypothesis:

*Degree of Freedom:* n-1 i.e. 2-1=1

The table value for chi square test for 1 degree of freedom @ 5% significance is 3.481.

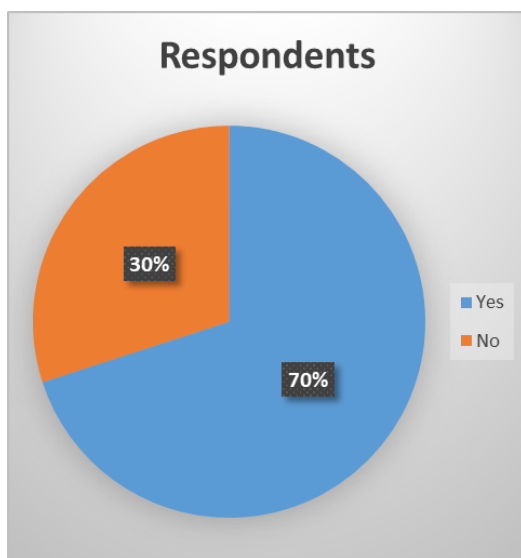
*Calculated value = 1.0417*

Since the calculated value for chi square test for 1 degree of freedom @ 5% significance is 1.0417 which is less than table value for chi square test for 1 degree of freedom @ 5% significance 3.481 null hypothesis is accepted & alternative hypothesis is rejected. Hence it is proved that High tax rates, Generation of black money, Inefficient tax authority, multiple tax, etc. are the main causes for tax evasion & tax Avoidance in India.

*Hypothesis 2: Impact of Tax evasion & Tax Avoidance:*

Ho: Reduction in country’s economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are main impact of Tax Evasion & Tax Avoidance.

H1: Reduction in country’s economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are not main impact of Tax Evasion & Tax Avoidance.



*Analysis:* From the above data we can conclude that out of 100 respondents 70 respondents agree that Reduction in country’s economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are main

impact of Tax Evasion & Tax Avoidance whereas 30 respondents do not agree Reduction in country’s economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are main impact of Tax Evasion & Tax Avoidance.

So the data above is used to test the hypothesis:

*Degree of Freedom:* n-1 i.e. 2-1=1

The table value for chi square test for 1 degree of freedom @ 5% significance is 3.481.

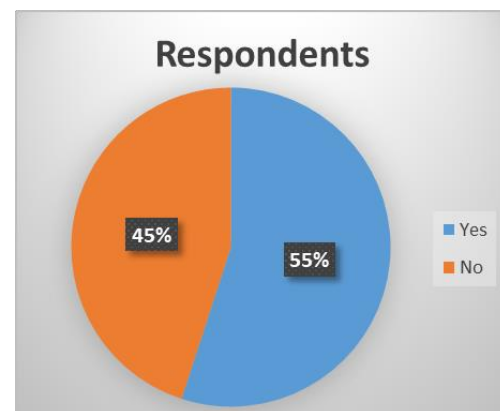
*Calculated value = 2.6667*

Since the calculated value of chi square test for 1 degree of freedom @ 5% significance is 2.6667 which is less than table value for chi square test for 1 degree of freedom @ 5% significance 3.481 hence null hypothesis is accepted & alternative hypothesis is rejected. Hence it is proved that Reduction in country’s economic growth, Increase in Inflation, Increase in Corruption, Decrease in Countries reputation, etc. are main impact of Tax Evasion & Tax Avoidance.

*Hypothesis 3: Ways to reduce tax evasion & Tax avoidance:*

Ho: Reducing tax rates, maintaining proper level of taxation by government, Reducing the complex procedure for the payment and verification of taxes, providing proper guideline to taxpayers, examining loopholes, etc. are some of ways through with tax evasion and tax avoidance can be reduced.

H1: Reducing tax rates, maintaining proper level of taxation by government, Reducing the complex procedure for the payment and verification of taxes, providing proper guideline to taxpayers, examining loopholes, etc. are some of ways through with tax evasion and tax avoidance cannot be reduced.



*Analysis:* From the above data we can conclude that out of 100 respondents 55 respondents agree that Reducing tax rates,

Table 3

Responses	Observed	Expected	(Ob-Ex)	(Ob-Ex) ^2	(Ob-Ex) ^2/Ex	Value
Yes	55	58	+3	9	9/60	.15
No	45	42	-3	9	9/40	.225

maintaining proper level of taxation by government, Reducing the complex procedure for the payment and verification of taxes, providing proper guideline to taxpayers, examining loopholes, etc. are some of ways through with tax evasion and tax avoidance can be reduced whereas 30 respondents do not agree Reducing tax rates, maintaining proper level of taxation by government, Reducing the complex procedure for the payment and verification of taxes, providing proper guideline to taxpayers, examining loopholes, etc. being some of ways through with tax evasion and tax avoidance can be reduced.

So, the data above is used to test the hypothesis:

*Degree of Freedom:*  $n-1$  i.e.  $2-1=1$

The table value for chi square test for 1 degree of freedom @ 5% significance is 3.481.

*Calculated value = 0.375*

Since the calculated value of chi square test for 1 degree of freedom @ 5% significance is 0.375 which is less than table value for chi square test for 1 degree of freedom @ 5% significance 3.481 hence null hypothesis is accepted & alternative hypothesis is rejected. Hence it is proved that Reducing tax rates, maintaining proper level of taxation by government, Reducing the complex procedure for the payment and verification of taxes, providing proper guideline to taxpayers, examining loopholes, etc. are some of ways through with tax evasion and tax avoidance can be reduced.

### 8. Reasons for Tax Evasion and Tax Avoidance

The reasons for tax evasion & tax avoidance are not same in all countries. The reasons vary from country to country based their being developed, underdeveloped or developing. The Tax awareness in developed countries is high compared to developing country & underdeveloped countries. These reasons also vary according to the business & professions. Below stated are some of the Reasons of Tax Evasion & Tax Avoidance:

- Improper tax structure
- Inaccurate number of tax payers
- Multiple / Double Taxation
- Economic Condition of tax payer
- Corruption in Tax administration.
- Psychology of the taxpayer.
- Unwillingness of taxpayer.
- Complexity in system of taxation.
- Inflation.
- Complexity of taxation laws.
- High tax rates.
- Non cooperative jurisdiction.
- Speedy mobilization of money.
- Mismanagement of revenues from taxes.
- Unequal distribution of amenities.

### 9. Different Ways of Tax Evasion and Tax Avoidance

The tax is unpaid by two means Tax evasion & tax Avoidance. Tax Avoidance is when a taxpayer payer finds loopholes which exempt them from paying more tax which helps them to lessen their tax liability. Tax Avoidance is not totally Illegal. Tax evasion is not paying tax at all which is declared illegal by law. Below stated are some of the ways by which the tax payers evade or avoid the taxes:

- Showing less incomes, Gains & Profits
- Showing more expenses
- Distribution of material without bill.
- Shifting of Income or assets.
- Clubbing of Income.
- Sheltering of income.
- Converting income into Capital
- Investing in tax free bonds.
- Converting capital expenditure in current expenditure.
- Long term Capital Gains.
- Storing wealth outside country.
- Smuggling
- Double taxation
- Usage of fake documents to claim exemptions
- Not showing income

### 10. Measures Taken by Government to Reduce Tax Evasion and Tax Avoidance

There are multiple measures taken by government to stop tax avoidance and Tax evasion in country. Some of measures are mentioned below:

- Decreasing tax rates.
- Creating different exemption & allowances.
- Donation to political party is regulated.
- Spreading awareness amongst tax payers.
- Intelligent Investigations.
- Increasing surveys.
- PAN
- Compulsory maintenance of accounts.
- Audits to be performed.
- Agriculture Income exemptions.
- Changes in provisions of penal.
- Creating collaborations with banks & other offices with income tax department.
- Various changes forms of Income.
- Expenditure tax is reintroduced.
- Creating tax treaties for exchange of information regarding tax evasion.



### 11. Policies Undertaken by Government to Deter Tax Evasion and Tax Avoidance

- Expanding TDS net.
- Aadhaar to trace financial transactions.
- Assault on black money.
- Less cash economy.
- Enhance compliance by technology.
- Statutory Provisions are provided.
- Surveys are conducted.
- Penalties are imposed.

### 12. Findings

From the analysis and interpretation understood following findings were extracted.

- The majority of respondents are Male and fall in category of age group between 30 to 40 years of age.
- Based on the age category it is clear that most of the respondents are employees & professional & have completed post-graduation.
- The annual income of these respondents lies in between 2.5 lakh to 5 lakhs.
- 70% of the respondents are aware of Direct tax system in India & are regular tax payers.
- As majority of these tax payer's income is between 2.5 lakh to 5 lakhs hence these respondents come under the slab of 2.5 to 5 lakhs.
- And it was also observed that as the tax slab grows on increases the people tend to opt for tax evasion & tax avoidance.
- It was also observed that due to large number of loopholes in income tax system in India the number of Tax evasion is more in India.
- And the respondents believe that these tax evasions will impact countries economic growth, increase inflation, impact morale, increase corruption, decrease countries reputation, also affect the level of education.
- It was also found that most of the respondents agreed that higher tax rates, Inefficient tax authorities, Complexity in tax structure, ineffective enforcement of law, generation of black money, multiple or double taxation system are some of the main reason of tax Evasion in India.

### 13. Suggestions

- The Central board of direct taxes should provide the required education regarding tax planning to the tax payers for tax avoidance and not for tax evasion.
- In order to stop tax avoidance and tax evasion the tax payers should be provided with proper guidelines.
- The government should take various activities for development of women as we have seen most of the respondents where male and females are less comparatively.

- It must be taken care that everyone is paying tax within specified time limit.
- The tax payer must be aware of tax planning & management.
- It is found that most of the respondents have selected higher tax rate as a reason for tax evasion and avoidance and also level of income is the cause for tax evasion and avoidance. So CBDT need to take required measures for the same so tax avoidance and tax evasion can be reduced.
- There are certain loopholes in Income Tax Act in India, for the same CBDT should find these loopholes and take required actions against them and make necessary amendments to control tax avoidance & tax evasion practices.
- Tax evasion & tax avoidance practices are affecting Indian economy on various sectors, for the same government should make tax payers understand the consequences of tax avoidance & tax evasion & provide them with required knowledge & education.
- Many tax payers submit false tax returns in order to avoid or evade tax, for this purpose the revenue department should take care of it and take precautionary measures to reduce tax evasion & tax avoidance.

### 14. Conclusion

The Difference between Tax Evasion and Tax Avoidance is quite thin. Human are greedy by nature; all they want is maximum out of minimum, so they come up with different solution well all of the solutions are not wrong, though most of them are. There are various ways by which tax payer can escape from paying tax but there is thin line between overcoming tax liability & escaping tax liability. Everything has a legal as well as illegal solution & tax liability can be reduced by legal as well as illegal ways consequently and there for the outcome will also be in legal or illegal ways.

In India most of people do not pay tax. They try to avoid their tax liability by illegal ways or taking benefits of loopholes in taxation laws & system. This way is Tax evasion by which tax payers evade tax which altogether is an illegal means. It is deliberate misrepresentation of true tax liability to tax authorities or by decreasing income, profits, gains that was actually earned.

CBDT must take care of these Tax Evasion & Tax Avoidance by ways of various measures. CBDT must try to decrease the loopholes in taxation law & Taxation system. They should make required amendments in Income Tax Act to stop the practice of Tax Evasion & Tax Avoidance in India.

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