ILE MULTIDISCIPLINARY JOURNAL [IF SCORE – 7.58]

VOLUME 3 AND ISSUE 1 OF 2024

APIS – 3920 – 0007 | ISSN - 2583-7230

Published by

Institute of Legal Education

https://iledu.in

TAX EVASION AND TAX AVOIDANCE A DETAIL ANALYSIS

AUTHOR - R. ANEKA ABIRAMI* & MS. T. VAISHALI**, LLM SCHOLAR* & ASSISTANT PROFFESSOR** AT TAMIL NADU DR.AMBEDKAR LAW UNIVERSITY

BEST CITATION - R. ANEKA ABIRAMI & MS. T. VAISHALI, TAX EVASION AND TAX AVOIDANCE A DETAIL ANALYSIS, ILE MULTIDISCIPLINARY JOURNAL, 3 (1) OF 2024, PG. 269-280, APIS – 3920-0007 | ISSN - 2583-7230.

Abstract

Tax evasion and tax avoidance have major impacts on the Indian economy. Tax evasion involves participating in unlawful actions in order to evade paying all taxes. Tax avoidance and tax evasion both result in decreased government revenue, leading to potential limitations on government spending for infrastructure, social welfare, and development projects. Tax avoidance is when individuals legally use loopholes in tax laws to reduce how much tax they owe. Tax evasion and avoidance contribute to worsening income inequality and also erode public confidence in the taxation system. Previously, the tax evasion and tax avoidance of a sizable informal sector, ineffective tax administration, and complex tax laws have enabled tax evaders to prosper, leading to substantial revenue losses that have hindered the government's ability to finance public services. In the present circumstances, the Indian government has put in place various strategies to address tax avoidance and evasion. This involves enhancing tax laws, improving tax management, and using technology to boost compliance and transparency. This paper investigates various aspects of tax avoidance and tax evasion in the context of existing government regulations, strategies, and countermeasures, examining their impact on the Indian economy and the legal understanding of tax evasion and avoidance.

KEY WORDS: Tax payer, Tax evasion, Tax avoidance, Impact of economy, penalties.

INTRODUCTION

Tax evasion is where individuals deliberately fail to pay the tax liability. For example, if the taxpayer fails to pay tax that is imposed on him or if he pays the tax less than the tax that is imposed on him it becomes an illegal act and it's a tax fraud it is called tax evasion. Whereas tax avoidance means the taxpayer through the advantage of the legislature and through the loopholes in it he reduces the tax liability to pay.[402] Tax avoidance is a legal method and it has not been prohibited by any law. Due to these common practices, it has a significant impact on the Indian economy. Due to the sizable amount of money that is typically lost as a result of these practices, the effect of tax evasion and tax avoidance on India's economic growth is an important factor to take into account. Tax evasion results in a decrease in the amount of money the government can bring in, which can result in budget deficits, a reduction in public services, and overall easing of the pace of economic expansion.

TAX

A tax is a mandatory payment imposed by local, state, and national governments on individuals and businesses to fund essential public services, programs, and activities. Taxes are the main revenue source for the government. Tax collection is referred to as taxation. Taxes can be placed on individual or corporate income and assets, with the tax rate being subject to change. Other types of taxes include wealth tax, property tax, gift tax, sales

[402] Principles of taxation laws Dr.Neha Pathakji 2023

tax, etc. Tax can be categorized as direct tax or indirect tax in the traditional classification.

DIRECT TAX

A direct tax is one that individuals or organizations pay straight to the government or taxing authority. This type of tax cannot be transferred to another individual or entity. The individual or organization that is liable for the tax is responsible for making the necessary payments. Taxpayers may need to pay direct taxes to the government for various reasons, such as property taxes, personal property taxes, income taxes, asset taxes, fringe benefits tax (FBT), gift taxes, and capital gains taxes, among others. Examples of direct taxes include income tax, wealth tax, and corporate tax.

INDIRECT TAX

An indirect tax is a type of tax that is placed on an individual's spending, which is initially paid by one person but is eventually shifted to another person. Excise duty, sales tax, and custom duties are all forms of the indirect taxes. GST replaced most taxes except for customs and excise on alcohol and fuel. Unlike direct taxes, indirect taxes are usually collected from the end consumer through an intermediary. It is therefore up to the intermediary to pass on the tax to the government. All individuals are subject to the same indirect tax rate, regardless of their personal income. In India, the supervision of indirect taxes is under the jurisdiction of the Central Board of Indirect Taxes and Customs (CBIC). Examples of indirect tax include goods and service tax, value added tax, and customs duty.

TAX EVASION

Tax evasion is the illegal techniques employed by people, companies, trusts, and other organizations to evade tax payments. Deliberately deceiving tax authorities by misrepresenting their business to reduce or evade taxes through underreporting expenses or declaring lower incomes, profits, or gains leads to diverting revenue from societal and economic progress to antisocial pursuits. [403]All of these factors hinder the progress of the country by promoting negative social behavior and generating illegal funds. Moreover, chartered accountants and tax attorneys have calculated the level of tax evasion for helping businesses, individuals, and firms to evade paying taxes. Not paying taxes is illegal in every large country, resulting in fines and imprisonment for those who do so.

TAX AVOIDANCE

Through tax avoidance, we adhere to all legal standards while decreasing our tax responsibility, without facing penalties or fines for not breaking any laws; instead, we are utilizing legal loopholes to lessen our tax load. Tax avoidance involves legally reducing our taxes by exploiting loopholes in the law, leading to a lower tax bill for us. Tax avoidance is considered unethical because it involves evading taxes and deferring tax responsibility. One way to avoid breaking tax laws is to modify the accounts. While tax avoidance is allowed by law, it can sometimes be seen as fraudulent.

OBJECTIVE OF STUDY

- Aims to analyze the various methods used by the individuals and businesses to evade or avoid taxes, assess the magnitude of revenue loss due to these activities, and evaluate the overall impact of the economy including income inequality, resource allocation and fiscal health etc.
- To understand these practices' impact on the Indian economy is to understand its extent to which these activities occur in the country and the consequences impacted on our economy.
- It explores the potential policy measures and strategies to combat the tax evasion and tax avoidance and the potential benefits of reducing these activities for the economy as a whole.

[403] Introduction to taxation Rama Murthy Volume 1

- Recognizing the country's tax system's weaknesses.

Research Methodolgy

The paper strictly utilizes a doctrinal research methodology. The paper examines how tax evasion and tax avoidance impact the Indian economy through descriptive analysis. To investigate the research question and verify the hypothesis, information is collected from secondary sources like books, journals, articles, media reports, and websites. Furthermore, the research paper will also consider secondary sources to comprehend and assess the criticisms brought up in the study.

Scope and limitation of this research

This study identified limitations in understanding tax evasion and avoidance, and proposed further consequences for the economic progress of developing nations like India. Additionally, further research delves into the government's involvement in addressing tax evasion and avoidance issues.

Research Problem

1. What are the main causes of tax evasion and tax avoidance in tax?
2. How does tax evasion and tax avoidance impact the revenue collection of the Indian government?
3. What measures can the Indian government take to effectively combat tax evasion and tax avoidance?
4. What are the legal policy measures that can be taken to incentivize tax compliance and reduce tax evasion and tax avoidance in India?

DIFFERENTIATE BETWEEN TAX EVASION & AVOIDANCE

Simply put, the legal tactic of reducing the tax burden despite complying with all tax regulations, using prudent methods, and taking advantage of all available tax incentives is known as tax avoidance practices. On the other hand, the concept of tax evasion is defined as the deliberate and illegal use of fraudulent techniques, such as data fabrication or falsification of financial data, to avoid or evade tax payment. The tax evasion involves illegal operations to deceive tax authorities and evade tax arrears, and tax avoidance is a legal approach. It uses available tax benefits and deducting to minimize tax liabilities. To understand the difference between tax evasion and tax avoidance, for taxpayers, enterprises and policy makers maintain the integrity of the tax system and ensure that compliance with legal and moral standards.

Tax evasion and tax avoidance both aim to reduce tax liability, but they differ fundamentally in legality and approach. Tax evasion is the illegal practice of deliberately avoiding tax payments through dishonest or fraudulent means, such as underreporting income, inflating expenses, or hiding assets. It includes activities that deceive tax authorities and violate tax laws, making it a criminal offense punishable by fines, penalties, or imprisonment. On the other hand, tax evasion refers to the legal use of tax laws and strategies to reduce taxes owed. It involves arranging your personal finances in a way that reduces your tax liability, such as claiming legal deductions, credits, or exemptions. While tax avoidance is permitted and widespread, it can sometimes be perceived as aggressive or unethical behavior, especially when it exploits legal loopholes. The main difference is that tax avoidance is illegal, whereas tax evasion is legal, although it may still raise ethical concerns if it defeats the intended purpose of the law

Basis for comparison	**Tax Avoidance**	**Tax Evasion**
Meaning	Minimization of tax liability By, taking sych means which do not	Reducing tax liability by using illegal ways is known as tax evasion

	violate the tax rules,is Tax Avoidance	
Definition	Utilizing legal methods to minimize tax liability within the framework of Indian tax laws.	The illegal practice of not paying taxes that are legally due.
What is it	Hedging of tax	Concealment of tax
Attributes	Immoral in nature which involves bending the law without breaking it.	Illegal and objectionable, both in script and moral
Concept	Taking unfair advantage of the short comings in the tax laws	Use of such means that are forbidden by law
Legal implication	Use of justified means	Use of such means that are forbidden

		by law
Type of act	Legal	Criminal
Consequences	Deferment of tax liability	Penalty or imprisonment
Objective	To reduce tax liability by applying the script of law	To reduce tax liability by exercising unfair means
Perception	Viewed as unethical and harmful to the country's fiscal health.	Generally seen as smart financial planning, but can be controversial if it involves very aggressive strategies.
Government Response	Periodic amendments to tax laws to close loopholes and discourage aggressive tax planning.	Enforcement through audits, investigations, and legal action by the Income Tax Department.
Example	Investing in tax-saving	Not reporting cash

	schemes like Public Provident Fund (PPF), National Pension System (NPS), or utilizing home loan interest deductions.	transactions or income from property or business.
Intent	Using the tax system legally to reduce tax burden without deceit.	Deliberate intention to deceive tax authorities and reduce tax liability unlawfully.
Consequences	No legal consequences, but might face ethical scrutiny if it involves aggressive tax planning.	Leads to penalties, fines, and possible imprisonment.
Methods	Utilizing deductions, exemptions, and incentives	Underreporting income, inflating expenses, concealing assets, or using false

	provided under the Income Tax Act	documents.
Actions	Engages in transparent and lawful tax planning strategies, avoiding deceitful or fraudulent practices.	Involves deceit, fraud, misrepresentation, or falsification of financial records.
Regulatory Focus	Authorities may close loopholes or introduce anti-avoidance measures to prevent abuse.	Authorities actively pursue and prosecute tax evaders to enforce compliance.
Compliance	Compliance with all relevant tax laws, regulations, and disclosure obligatio	Non-compliant with tax laws and reporting requirements.

	ns.	

Ways of Tax Evasion in India

Underreporting of Income

Taxpayers might intentionally report less income in order to decrease the amount they owe in taxes. This may involve not reporting earnings from wages, business earnings, independent work, or rental revenue. e.g A business owner could minimize their revenue by adjusting sales records or neglecting to provide receipts for transactions.

Tax Evasion through Offshore Accounts

Concealing revenue and possessions in banks or businesses located in tax havens like Panama, Bermuda, or Switzerland to avoid paying taxes on foreign earnings. e.g Affluent individuals or companies utilize foreign trusts, shell companies, or offshore accounts to conceal assets or income from the Indian tax authorities.

Underreporting of Property Values

Real estate deals frequently include undervaluing property to lower stamp duty or capital gains tax obligations. e.g A buyer and seller of property could decide to report a sale price lower than the true market value in official papers, in order to avoid paying taxes on profits or lessen stamp duty responsibilities.

Cash Transactions

Using cash transactions to evade the reporting of income or expenses, which are more difficult to track. Cash payments are commonly employed in the informal economy to avoid paying income tax and Goods and Services Tax (GST).
e.g A shop owner could receive payment in cash without providing a receipt, in turn evading taxes on sales.

Hiding Income through Multiple Taxpayer IDs

Some people or companies make several PAN cards or GST registrations to avoid taxes by dividing their earnings or activities among multiple entities.
e.g A person could seek multiple PAN cards or use various entities to hide overall income and evade tax payment.

Exploitation of Tax Audit Gaps

Certain companies falsify financial documents or conceal resources to avoid paying taxes during audits, exploiting gaps or discrepancies in audit protocols.
e.g A company may utilize inaccurate financial records to conceal revenue, costs, or stock levels while under review, thereby lowering their tax obligations.

Ways of Tax Avoidance in India

Utilization of Tax Exemptions and Deductions

Taxpayers can utilize exemptions, deductions, and credits provided by the Income Tax Act to lower their taxable income.
Example: Utilizing either Section 80C (which permits deductions for life insurance, PPF, EPF, and other savings) or Section 80D (which permits deductions for health insurance premiums).

• **Putting money into tax-exempt investments**

Taxpayers put their money into tax-exempt income-producing assets like tax-exempt bonds, municipal bonds, or specific government securities to prevent paying taxes on income earned from these investments.
Income generated from interest on municipal bonds or bonds issued by public sector companies is exempt from tax, allowing investors to utilize this method as a tax avoidance strategy.

Utilization of Tax Breaks and Write-Offs

Taxpayers can utilize exemptions, deductions, and credits provided by the Income Tax Act to lower their taxable income.
Using Section 80C for deductions on life insurance, PPF, EPF, and other savings, or Section 80D for deductions on health insurance premiums.

• **Investments in Instruments Exempt from Taxes**

Taxpayers put their money into tax-exempt income-producing assets like tax-free bonds, municipal bonds, or specific government securities in order to evade taxes on the income made from those investments. Investors can avoid paying taxes by utilizing the strategy of investing in tax-free municipal bonds or bonds issued by public sector companies and earning income from interest.

Shifting Profits to Tax Havens

Multinational corporations or rich individuals can transfer their profits to foreign subsidiaries located in low or zero-tax countries (tax havens) to evade the higher tax rates in India. One strategy that companies can employ to lower their tax liability in India is by establishing a subsidiary in locations like Mauritius or the Cayman Islands and transferring profits there using transfer pricing tactics.

Using Accelerated Depreciation

Businesses can utilize clauses permitting accelerated depreciation on specific capital assets in order to lower their taxable income. A company purchases large equipment and declares a faster depreciation rate in the early stages to lower earnings, thus reducing tax obligations.

Reason for Tax evasion and Tax avoidance

There are many reasons why people avoid paying taxes in developed and developing countries Taxes. Since the level of tax awareness is higher in developed countries, so are the motivations behind tax avoidance and evasion Tax avoidance is different from tax evasion in less developed and developing countries. [404]The main effect of taxes Tax avoidance and evasion reduces the government's tax revenues and undermines its credibility. Evasion and Tax avoidance reduces government revenues, thereby increasing the deficit and forcing the government to print money or borrow more money, which leads to inflation. It is important to examine its situation in order Find ideas to reduce or eliminate. The reasons for tax evasion and tax are as follows:

High tax rates: High tax rates can encourage individuals and businesses to avoid taxes and run away. When taxes are too high, people will find legal and legal ways to reduce the tax burden imposed on them. [405]They will also explore tax havens, trusts, or complex offshore structures to legally reduce taxes or engage in illegal activities to avoid taxes.

Complexity of tax laws: Tax laws are often complicated, making it easier for individuals and businesses to do business Businesses exploit loopholes or operate effective tax schemes. Complexity can be problematic, Tax avoidance practices take advantage of legal ambiguity or incompatibility between different tax systems.

Lack of transparency in the tax system: In some cases, the tax system is unclear or weak Legal procedures can encourage tax evasion and avoidance. [406]Tax authorities are under-resourced and bribed Corruption can undermine their ability to monitor and enforce compliance. It creates An environment in which individuals and businesses believe they can avoid taxes without serious consequences.

Globalization and multinational companies: A global economy creates more opportunities for multinational companies Multinational companies benefit from differences in tax laws and regulations between jurisdictions. Construction complex corporate structures, transferring profits to low-tax jurisdictions, or engaging in exchange rates, Multinational companies can significantly reduce their taxes.

Informal Economy: Countries with large informal economies are more vulnerable to tax evasion. In this case, individuals and Businesses can avoid reporting their income or transactions, because of high income tax rates.

[404] Volume II Interpretation of taxing statutes Dr.KN Chaturvedi

[405] https://pwonlyias.com/udaan/tax-evasion-and-tax-avoidance/

[406] https://www.gripinvest.in/blog/what-is-tax-evasion-tax-avoidance-and-tax-planning

Weakness of tax administration: increased legal weakness and lack of resources in tax administration institutions Tax avoidance is possible. Weak audit capacity, limited monitoring, and weak penalties are unable to achieve any deterrent effect. Tax evaders can.

Corruption and bribery: High levels of corruption and bribery hamper tax collection. Bribe Giving tax returns to tax officials can lead to a delay or even the elimination of tax issues, resulting in errors or inefficiency.

Perceived unfairness: Some people engage in tax evasion because they believe the tax system is unfair. Bad or harmful They may argue that the tax is not being used properly or that they are burdened compared to other countries, thus creating a tax avoidance mentality.

Ineffective tax policies: Tax policies that do not properly address loopholes, exceptions, or discrepancies can lead to unexpected results. Avoidance of taxes Policies designed to create incentives for individuals and businesses to Engage in aggressive tax planning or take advantage of legal loopholes.

Competitive Advantage: In the global economy, countries often attract investment and business by providing competitive Tax benefits. This can lead to a "race to the bottom," where countries lower tax rates to meet these demands Tax avoidance.

Strategic tax planning: Tax planning for individuals and businesses to minimize taxes Taxes. This includes strategic decisions such as choosing tax-efficient investments, taking advantage of tax credits, making deductions, and structuring one's activities to minimize one's tax liability. 8[407]In India, companies seek to avoid paying taxes or to avoid taxes by withholding money for transactions or agreements with government agencies and employees. Experts recommend not paying taxes because the rates are too high, in order to save money in the future. Politicians and other members of parliament have avoided prosecution in many cases because their income comes from illegal embezzlement and fraud. Individual behavior of citizens and social norms, flaws and imperfections in market structures, income streams, and tax administration practices can lead to tax evasion and avoidance.

Impact of the tax evasion and tax avoidance on National economy

Government loss of income: Tax evasion and avoidance lead to a reduction in the amount of tax revenue collected by the government. This loss of income can have a negative impact on state budgets, which leads to a reduction in procedures Financing of essential public services such as health, education, infrastructure and social protection programs.

Increased budget deficit: loss of tax revenue due to evasive and avoidance can contribute to a larger budget Deficit. In turn, this can lead to a higher state loan, an increase in public debts and a potential economy Instability.

Inequality and Unfairness: Tax evasion and avoidance exacerbate income inequality and unfairness within a society. Those who can afford to engage in these activities often end up paying lower effective tax rates compared to individuals who cannot exploit such loopholes.

Distorted Market Economy: Tax evasion and avoidance can distort the functioning of the market economy. When some businesses or individuals can avoid taxes, they gain a competitive advantage over their counterparts who operate within the legal framework. This can create unfair competition, hinder market efficiency, and lead to market inefficiencies.

Decreased Investor Confidence: Widespread tax evasion and avoidance can erode investor confidence in a country's economic system. This is particularly true for foreign investors who may perceive a lack of legal and fiscal stability. The resulting decrease in foreign direct investment affects economic growth and job creation.

[407] Tax Deduction at sources C.A. T.N Manoharan Volume III

Higher Tax Burden on Honest Taxpayers: When individuals and businesses evade or avoid taxes, the burden of funding public expenditures falls more heavily on honest taxpayers. Governments may respond by increasing tax rates or introducing new taxes to compensate for lost revenue, which can place an additional burden on those who already pay their taxes honestly.

Lack of Fiscal Space: Tax evasion and avoidance can limit a government's ability to invest in infrastructure, public services, and other productive sectors. This limits the government's capacity to stimulate economic growth, reduce unemployment, and improve the overall standard of living for its citizens.

Actionable steps taken by Indian Government

GAAR provisions were introduced in the Finance Act, 2015, to empower tax authorities to deny tax benefits to any arrangement that is deemed to be an impermissible tax avoidance arrangement. 6[408]Under GAAR, tax authorities are granted the power to determine the legitimacy of tax positions that are overridden by commercial considerations. This means that if a taxpayer engages in transactions or arrangements primarily for the purpose of obtaining tax benefits, rather than for genuine commercial reasons, the tax authorities can disregard such arrangements and tax the taxpayer accordingly. The implementation of GAAR is aimed at preventing arrangements or transactions that have the sole purpose of avoiding taxes by taking advantage of loopholes in the law. These provisions ensure that taxpayers cannot misuse legal provisions and artificially structure their affairs to avoid tax liability.

Base Erosion and Profit Shifting (BEPS) Implementing the Action Plan: The goal of the BEPS action plan is to combat tax evasion tactics employed by multinational corporations. One of the main goals of the BEPS action plan is to guarantee that taxes are imposed in the locations where economic activities are carried out and value is produced. India has enforced reporting requirements for multinational companies known as country-by-country reporting (CYBC). According to these conditions, multinational corporations must give in-depth data on their worldwide operations, such as their earnings, tax payments, and financial activities in every nation. This allows tax authorities to gain deeper understanding of the activities of multinational corporations and detect possible tax avoidance methods.

Introduction of country-by -country reporting (CBCR): Following the enactment of the Finance Act 2016, India enforced CBCR, which mandates multinational corporations to provide information on revenue, tax payments, and business operations in every country where they are present. [409410]This initiative seeks to reduce the erosion of tax bases and profit shifting by increasing transparency, enabling tax authorities to better understand how multinational corporations operate in various locations. The adoption of CBCR in India is a component of a worldwide initiative to fight against. This action acts as a deterrent for businesses involved in aggressive tax planning and profit shifting, since they must now reveal in-depth details about their worldwide activities.

Implementing the Goods and Services Tax (GST): The implementation of GST in India has been a major move in expanding the tax coverage. GST unified the tax structure by substituting various indirect taxes imposed by both central and state governments. It absorbed different taxes such as excise duty, service tax, value-added tax (VAT), etc., and broadened the tax base by incorporating additional businesses and sectors within its scope. The introduction of GST has eliminated tax cascading, reduced corruption, and brought many businesses into the formal tax system.

Strengthening Transfer Pricing Regulations: Transfer pricing rules has been enhanced to

408 https://www.shiksha.com/online-courses/articles/tax-evasion-and-tax-avoidance.

409 Volume IV Concise commentary on Income Tax Volume II.

410 Tax Deduction at sources C.A. T.N Manoharan Volume III

guarantee that transactions among affiliated companies are carried out at arm's length price. This implies that prices for goods, services, or intellectual property exchanged between entities must mirror those charged between unrelated parties in a competitive market. The government aims to prevent tax avoidance and profit shifting through transfer pricing manipulation by implementing range concepts and imposing stricter documentation requirements.

Exchange of Information

India has enhanced its information sharing system by entering into multiple Double Taxation Avoidance Agreements (DTAAs) and Tax Information Exchange Agreements (TIEAs) with other nations. These agreements make it harder for taxpayers to conceal their assets or income by enabling the sharing of tax-related information between jurisdictions. Double Taxation Avoidance Agreements are agreements between two countries that aim to prevent double taxation. In these deals, both nations establish guidelines for determining which country has the right to tax different kinds of income, like income from businesses, interest, royalties, and capital. This provides taxpayers with a clear understanding of their tax responsibilities in both countries and helps alleviate the risk of being taxed twice. They create processes to settle any disagreements that could occur between the tax authorities of both countries.

Legal Provision for tax avoidance and tax evasion in India

- As per section 270A of Income Tax Act, 1961, there is a penalty 50% of tax in cases of under reporting of income and 200% of tax in cases in misreporting crime.
- If you fail to keep, maintain or retain books of accounts required by section 44AA, Penalty of Rs. 25000 can be imposed under section 271.
- If undisclosed income is found during the search proceedings under the Income Tax Act, penalty up to 60% undisclosed income can be imposed 9[411]under section 271 AAB.
- As per section 271B, Failure to get accounts audited up to due date under section 44AB can result in penalty of 1.5% of gross receipts.
- If you fail to furnish a report of a CA under section 92E, a penalty of Rs. 1Lakh can be imposed under section 271BA.
- If you fail to furnish information as required under section 92D, a penalty of Rs. 5 lakh can be imposed.

PENALTIES

The Indian Income Tax Act outlines punishments for individuals who engage in certain behaviors like omission, intentional negligence, and deliberate tax evasion during a specific fiscal year. Furthermore, companies that do not uphold the required paperwork and adhere to regulations in a given fiscal year will face penalties.

A) Taxpayers can be penalized under Section 270A of the act for trying to lower their tax burden by not accurately reporting their income. In these situations, the fine could reach up to double the amount of tax owed on the undisclosed earnings.

B) Section 271A enforces a fine of Rs. A taxpayer who does not comply with the bookkeeping requirements outlined in section 44AA may face a penalty of 25000.

C) Evaluators are able to apply fines on citizens who fail to make tax payments, as outlined in section 220 (1) and 221 (1) of the income tax laws.

Penalties for tax Evasion

Tax evasion is seen as a criminal offense in numerous jurisdictions. It is not just a civil issue but may result in criminal charges, penalties, and incarceration. Laws related to tax evasion may consist of the following:

a. Legal repercussions: Tax evasion may lead to criminal charges for the individual or entity implicated. The charges might differ, but

[411] Income Tax Act 1961, s 271 B

typical ones are fraud, lying, and tax evasion directly.

b. The upcoming text needs to be paraphrased using the initial language and retaining the word count. If convicted, tax evaders could encounter hefty penalties and fines. [412]These penalties may be determined by a percentage of the unpaid taxes or can be a set amount outlined in tax regulations.

c. Find a new hobby that you enjoy and dedicate some time to pursuing it regularly. In certain situations, not paying taxes can result in being sent to jail. [413]The duration of incarceration is determined by the seriousness of the crime and the tax regulations in the area.

d. Tax authorities possess the ability to conduct investigations and audits on individuals or entities who are believed to be engaging in tax evasion. They can ask for financial documents, interview people, and examine tax forms to determine if tax fraud has taken place.

e. Seizing assets: Tax authorities can also seize assets and properties of individuals or entities found guilty of tax evasion. This is carried out to recoup the dodged taxes or to make up for the outstanding sums.

Penalty for tax Avoidance

The consequences for tax avoidance in India may differ based on the particular situation and the extent of tax evasion. The Income Tax Act of 1961 details various rules and consequences for evading taxes.

1. Consequence of not reporting income accurately: Not accurately reporting income can lead to a penalty equal to 50% of the tax owed on the unreported income.
2. Concealing income or providing false information can lead to a penalty of 100% to 300% of the taxes that were attempted to be avoided.
3. A penalty of up to 2% of the average total sales or turnover may be imposed on a taxpayer who does not keep proper books of account.
4. Failure to adhere to tax regulations may lead to a penalty of up to Rs. 10 thousand for offenses like neglecting to submit tax returns or fulfill tax obligations.
5. In extreme instances of tax fraud, individuals may face criminal charges that could result in a prison sentence of three months to seven years, in addition to a monetary penalty.

Imprisonment

- As per 276BB, imprisonment of 3 months to 7 years is imposed in case of failure to pay the tax collected under section 206C.
- As per section 276C(2), imprisonment of 3 months to 3 years in case of willful attempt to evade payment of tax, penalty, and interest.
- As per section 275A, Imprisonment up to 2 years in case of contravention of order made under section 132(1) or 132(3).

Case law

Vodafone International holding vs Union of India SC 2012

It is a significant instance of tax evasion. The recent ruling by the Supreme Court of India overturned the Bombay High Court's requirement for a capital gain tax of INR 12,000 crore, marking a significant decision. Both Vodafone Holding and Hutchison Telecommunication Limited, considered non-resident entities for tax reasons, were relieved of this financial responsibility. The court ruled that the Indian revenue authority does not have the power to impose taxes on offshore dealings when a non-resident company gains controlling stake in an Indian company. This decision deals with a clear instance of tax evasion.

Commissioner Of Income Tax Vs Provident Investment Co. Ltd ,1957

The court determined that if a company sells its ownership, it is responsible, but if it relinquishes authority for compensation, it does not count as a transfer under Section 12B. The company's tax exemption is legal, but some may see it as ethically dubious.

[412] Income Tax Act 1961, s92E.
[413] Income Tax Act 1961, s 276 C.

ILE MULTIDISCIPLINARY JOURNAL [IF SCORE – 7.58]
VOLUME 3 AND ISSUE 1 OF 2024
APIS – 3920 – 0007 | ISSN - 2583-7230
Published by
Institute of Legal Education
https://iledu.in

Calcutta Chromotype Ltd. V. Collector of C. Ex., Calcutta., 1998(99) E.L.T 202(S.C)

The Supreme Court has expressed serious concern that deceptive and manipulative tactics, referred to as colorable devices, should not be deemed acceptable in tax planning. Questionable tactics to evade paying taxes on real earnings should not be praised or seen as smart strategies approved by a knowledgeable person. Instead, they ought to be strongly criticized and faced with harsh consequences.

Commissioner of Income Tax v. Ramkant Mohanlal Gandhi (1978): This landmark case established the principle of 'willful evasion of tax' as an essential element of the offence. The Supreme Court has determined that ignoring tax law or non -spontaneous errors does not intend to pay taxes.

CIT CONTRE Hindustan Coca-Cola moves PVT. LLC (2017): In the present case, the Supreme Court judged that the incapacity of the assessor to remove the tax in the source of payments made by his concessionaires did not avoid tax evasion, because the evaluator had A conviction of good faith that payments were not subject to tax deduction.

CIT vs. McDowell & Co.: This case involved a tax avoidance scheme where the assessee company claimed exemption from tax on its income. The Supreme Court held that the tax avoidance scheme was not permissible under the Income Tax Act.

CIT CONTRE Hindustan Coca-Cola moves PVT. LLC (2017): In the present case, the Supreme Court judged that the incapacity of the assessor to remove the tax in the source of payments made by his concessionaires did not avoid tax evasion, because the evaluator had A conviction of good faith that payments were not subject to tax deduction.

Conclusion

Tax evasion and tax avoidance greatly harm the Indian economy. These activities result in decreased government earnings, limiting its capacity to support vital public services like healthcare, education, and infrastructure projects. This decrease in income also worsens income inequality, since honest taxpayers bear a greater tax burden. Furthermore, tax evasion and avoidance weaken the credibility of the tax system, diminishing public trust and confidence in the government. This could negatively impact the business atmosphere by dissuading both local and international investors, who might perceive the tax system as unjust and untrustworthy.

Moreover, these actions promote an environment of defiance and disrespect towards legal regulations. When people and companies dodge or skip taxes, they are essentially passing the responsibility to honest taxpayers, worsening the economic disparities in the nation. Moreover, economic growth is hindered by tax evasion and avoidance as they restrict the government's capacity to invest in important sectors and infrastructure projects. Sufficient funding is essential for these efforts, and progress in these areas is hindered by a shortage of income resulting from tax evasion and avoidance. In order to tackle these problems, the Indian government needs to take proactive measures to enhance the tax administration system by simplifying tax laws, enhancing enforcement capabilities, and imposing harsher penalties on tax evaders. Furthermore, enhancing transparency and incentivizing voluntary compliance with successful taxpayer education initiatives could help lessen the adverse impacts of tax evasion and avoidance on the Indian economy. In the end, it is vital for the continued growth of the Indian economy to address tax evasion and avoidance, as well as to uphold fairness, equal burden sharing, and public confidence in the tax system. By tackling these issues, the government has the opportunity to boost revenue collection, allocate funds to key sectors, and create a favorable setting for economic growth and investment.