Tax Evasion in India - Ways, Effect and Control

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One of the major obstacle before India Government is Tax evasion. Tax evasion is the way people evade tax by illegal and unfair means. They may claim lesser profit, gains or turnover than actual. Even if there is huge amount of tax to be paid, evaders get refund by making misrepresentations before tax authorities. Huge amount of revenue is lost through this way for government so that we cannot climb from economic stagnation. Most of the welfare activities for poor are put on hold due to lack of money while some people who can buy even the government with black money are growing daily.

Different ways of Tax Evasion in India

Ways through which people evade tax are Smuggling, Evasion of Sales and Value Added Tax, Evasion of Income Tax, Evasion of Wealth Tax, Evasion of Customs Duty and Evasion of Excise Duty. Also, officials take bribe and helps in making misrepresentations and fabricated financial statements instead of reporting to tax authorities. Evaders willfully fails to file return, submits false returns, submits false certificates to get deductions, exemptions and claim low income, charging personal expenses to revenue, fails to pay dues within due date and so on to evade tax.

Effect of Tax Evasion in India

Taxes are the major source of revenue of India government. Tax evasion causes economic inequality that is how some people are getting richer and others are getting poorer. Many reform measures and initiatives of government have to be set aside and welfare activities are getting affected. Black money causes inflation and value erosion.

Measures taken by India government to curb Tax Evasion

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Several steps as below have been taken by India government to avoid tax evasion. In India, tax evasion is regarded as a crime. Prosecution and Penalties are imposed under different acts by government. Income tax reward scheme has been introduced by Income Tax Department which gives rewards to informers about tax evasion. Recently, India has entered into pact with US to avoid tax evasion by Americans through Indian financial organizations. Special Bearer Bond Scheme (Imunities and Exemptions Act, 1981) enable person in possession of black money to invest in special bonds. Voluntary Compliance Scheme (Amnesty Scheme) was another one. Government increased the tax slab, reduced deduction rate, and increased legal tax avoidance measures. Most recently, Tax Administration Reform Commission was set up by Government to make structural reform to tax matters to simplify and streamline tax procedures. Earlier India had set up several committees like Taxation Enquiry Committee, Indian Tax Reforms Committee, and Direct Taxes Enquiry Committees etc. Transfer Pricing Audit was introduced by Finance Bill to audit undisclosed transactions to curb tax evasion.

Limitations of Indian Tax Structure which result in tax evasion

1. **High rate of taxation.**

High rate of taxation cause a burden to tax payer. So, they find ways to avoid tax.

2. **Failure to curb bribery.**

There should be adequate system to curb bribery and corruption among officials. They help taxpayers to avoid tax by taking an agreed share of profit out of evaded tax.

3. **Lack of simplified procedures.**

Tax structure in India is complex and people find it hard to go to different departments for a single matter.

4. **Existence of large number of taxes.**

Existence of large number of different type of taxes causes burden on taxpayers.

5. **Complex tax laws and loopholes to avoid tax in laws.**

Indian tax law is complex. In the same law, people find provisions to escape from tax liability.

6. **Lack of organized and systematic Administration structure.**

7. **Frequent changes in Government and Political instability.**

Frequent changes and political instability is another reason of non-implementation of well-defined tax system. Different governments implement different tax system and it becomes difficult to follow.

8. **Frequent changes in tax policies.**
Tax policies in India are changed frequently by government. It creates confusion among tax payers and officials about the relevant provisions.

9. **Deficiencies in implementing Penalty Provisions.**

**Best ways to avoid tax evasion**

1. Reducing tax rates.
2. Make more simplified laws and simplified system.
3. Design a well-organized tax administration structure.
4. Strengthen anti-corruption policies.
5. Increase awareness among taxpayers by conducting seminars, conferences and through media.
6. Design a permanent tax structure.
7. Ensure the political changes do not affect well defined tax structure. Make tax administration more independent and autonomous without losing final control of Government.
8. Audit, tax collection, depositing and filing provisions to be more strengthened and updated.
9. Make penalty provisions more stronger and avoid it's non-implementation.
10. Encourage taxpayers to pay tax by more friendly schemes.
11. Give relief provisions to huge tax payers.

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