

# TAX AVOIDANCE AND EVASION: A STUDY ON CASE LAWS AND GENERAL AWARENESS

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## ABSTRACT

This paper discusses the importance of tax avoidance and tax evasion and their awareness among general public. It tells us the difference between evasion and avoidance of taxes. It also provides the knowledge about various tax savings schemes. Through this paper we are focusing on the relationship between income level of people and their investment in various tax savings scheme. Using Chi - square test we would conclude that income level would impact the amount of investment in tax savings scheme.

**Keywords:** *Tax Avoidance, Tax Evasion, Income, People, Investment*

## INTRODUCTION

In India there are many assesses who pay taxes based on their income calculated in particular financial year. Out of the 125 crore population, only 1.5% i.e. 1.9 crore pay income tax in India as of report disclosed somewhere around Feb, 2017 which certainly rose to just more than 2.2% for the Financial Year end 2016-17. Number of taxpayers has gone up substantially in 2016-17 financial year.

Income taxpayer base moved up substantially to 6.26 crore at the end of the last fiscal, from nearly 4 crore earlier, CBDT Chairman Sushil Chandra said. There are various kinds of taxes paid by them. People are searching for ways to reduce their tax burden. There are various ways in which people indulge in the activities fraudulently or legally to avoid tax. The concepts discussed in this paper are tax avoidance and tax evasion.

Evasion and avoidance are the two terms which are interchangeably used by the people, but there is a difference between these two terms. Tax avoidance is a means used by people to legally reduce their tax burden by using

the loopholes in the law. Eg: when an assessee contributes to charitable fund, he gets deduction to the extent of amount contributed. On the other hand, tax evasion is illegal. People take undue advantage by understating their income or by not paying taxes. They usually do not disclose their income to tax authorities and this leads to black money creation which is a huge threat to economy as a whole. If taxes are evaded there could be imprisonment in some cases. Eg. Falsifying income records, under paying taxes.etc. In this paper we attempt to give a clear picture on Tax evasion, Tax avoidance and various tax saving schemes and how they are used by people to save taxes. The paper also aims at spreading awareness about tax saving schemes for all those people who are less aware or unaware of such schemes.

Usually the income of the assessee was being assessed previously until Jayalalitha case happened. She had spent Rs.3 Crore on foster son's marriage which become the most expensive and controversial wedding in the state of Tamil Nadu .The Income Tax Authorities questioned her for providing explanation for the source of Expenditure. It is due to this case that section 69 C of Income Tax Act 1961 unexplained expenditure was introduced. Due to various loopholes in the law assesses are misusing the provisions of the act for their own benefit.

### **OBJECTIVES OF THE STUDY**

1. To obtain and collate public opinion on tax evasion and avoidance.
2. To study the relationship between income level of people and their investment in various tax savings scheme.

### **REVIEW OF LITERATURE**

**Tax evasion in India: A study of its impact on revenue of the government.**

**Author: Dr. Devarajappa S, volume of EPRA international journal of economic and business review, issue 9th Sept 2017.**

There are various taxes in these countries which form an important part of government revenue, these taxes include income tax, GST, entertainment tax etc. From various sectors to initiate development in the country. But there has been a huge problem of tax evasion which has been making rich richer poor poorer. Through this research paper we have understood various tax evasion concepts and amount of tax evasion in India.(S, 2017)

**An insight into black money and tax evasion- Indian context.**

**Author: Pradip Kumar das, volume 3 of journal of international business research and marketing, 4th may 2018 page: 30-31.**

In the current scenario we are in, there has been a lot of tax evasion in India and this has attracted a lot of attention from the public due to various scandalous cases in finance that came out recently. This paper throws light on various facets and dimensions of black money and the invisible relationship between tax evasion and policy and administration in India. (Das, 2018, pp. 30-31)

### **Tax avoidance and tax evasion: The Indian case**

**Author: Anil Kumar Jain, Modern Asian Studies, volume 21 issue 2, 28 Nov 2008, 233-255**

Tax avoidance is a situation where the tax payer reduces the tax liability by using loopholes and ambiguity in the law, where as in case of tax evasion there is deliberate misinterpretation and misrepresentation of law and the liabilities understated. This research paper focuses on analysis of tax avoidance, tax evasion and tax planning and bring out clear cut difference between them. (Jain, 2008, pp. 233-255)

### **Individual morality and reputation costs as deterrents to tax evasion**

**Author: James PP Gordon, European economic review 33 (4), 797-805, 1989**

Evidence suggests that when there is increase in taxes there is increase in tax evasion, some suggests that evasion decision is independent and some tax payers never evade. These findings cannot be easily explained by the existing theory which states that evasion is an independently made gamble. In this paper Mr. James uses some tools to reconcile theory with the evidence obtained as a result of this research. (Gordon, 1989, pp. 797-805)

### **A Simulation study of Income Tax Evasion**

**Author: Nehemiah Friedland, Shlomo Maital & Aryeh Rutenberg, Journal of Public Economics, 107-116, 1978**

It was found that huge amounts of fines were better deterrents of tax evasion than frequent audits. People decision to under report income is influenced by various factors and are done through various modes of which under reporting in financial statements is only a part. In this study the author uses a third approach called game simulation which exposes the sample units with hypothetical tax evasion decisions and concludes based on their behavior. (Friedland, N, 1978, pp. 107-116)

## **RESEARCH DESIGN**

The study conducted shows the awareness of the general public on various tax savings schemes and about their idea on tax evasion. It also throws light on the amount of investment made in tax saving schemes introduced by the government and their income levels. We used questionnaire to collect the opinion of tax payers and later analyzed in the form of graphs and other techniques with the help of SPSS software.

## POPULATION

For the purpose of this study, the population used is various tax payers in India.

## SAMPLE SIZE

For the purpose of this research paper the number of responses obtained is 153 and this was used as the sample size for further analysis

## SOURCE OF DATA

For the purpose of the research, objectives of the study and the problems to be answered, primary source of data in the form of questionnaire has been used. We have represented each question in the form of pie charts and explained the same. Data interpretation through various techniques like Chi- Square and bar chart were done with the help of SPSS software.

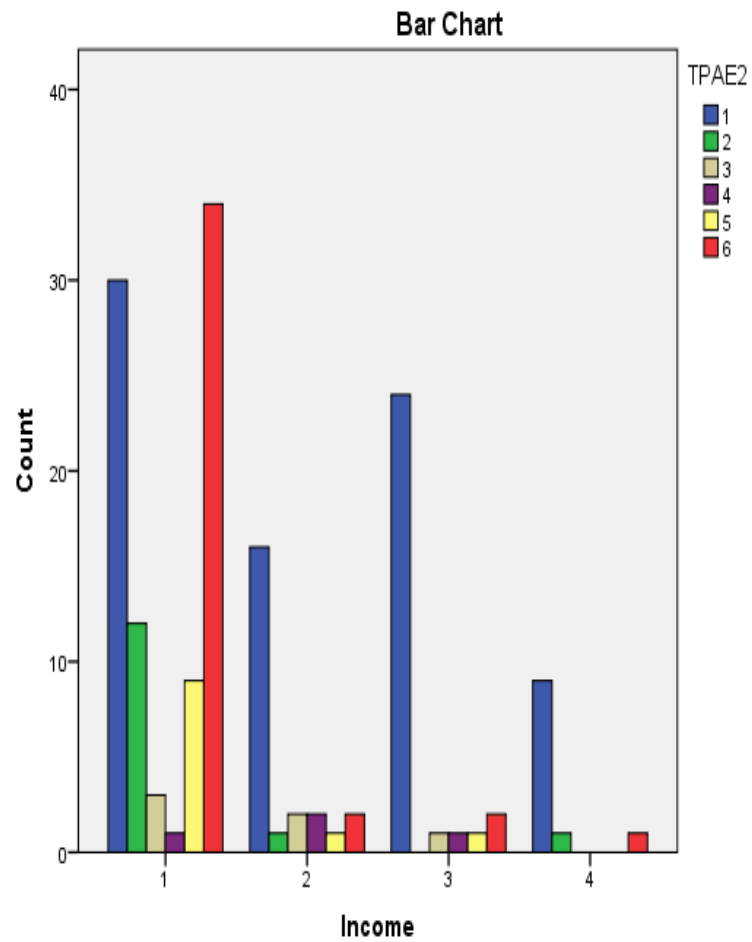
## STATEMENT OF PROBLEM

1. Lack of knowledge about various tax savings scheme.
2. The tax savings schemes can be manipulated and misused to avoid tax.
3. It also becomes a reason for major amendments in law which makes it difficult for common people to understand and invest.

## LIMITATIONS

1. Limited responses to the questionnaire which narrows down the study to small groups of individuals.
2. Primary data can be biased and may not reflect a 100% correct and true picture.
3. Lack of understanding of the questions on part of respondents.
4. Lack of awareness about the various tax saving schemes among the respondents
5. Ignorance on the part of respondents leads to unreliable data.

## DATA ANALYSIS AND INTERPRETATIONS



INTERPRETATION : The above bar chart represents the income level of various business and profession class and their investment in various tax savings scheme. This tells about their priority of investment in various schemes depending on level of income. We can see that most of the people choose 80C deduction like (life insurance premium, provident fund) and mutual funds as their investment option and many people are aware about this scheme.

**Income \* TP AE2 Cross tabulation**

	TP AE2	Total
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		1	2	3	4	5	6	
Income	Count	30	12	3	1	9	34	89
	Expected Count	46.0	8.1	3.5	2.3	6.4	22.7	89.0
	1 % within Income	33.7%	13.5%	3.4%	1.1%	10.1%	38.2%	100.0
	% within TPAE2	38.0%	85.7%	50.0%	25.0%	81.8%	87.2%	58.2%
	% of Total	19.6%	7.8%	2.0%	0.7%	5.9%	22.2%	58.2%
	Count	16	1	2	2	1	2	24
	Expected Count	12.4	2.2	.9	.6	1.7	6.1	24.0
	2 % within Income	66.7%	4.2%	8.3%	8.3%	4.2%	8.3%	100.0
	% within TPAE2	20.3%	7.1%	33.3%	50.0%	9.1%	5.1%	15.7%
	% of Total	10.5%	0.7%	1.3%	1.3%	0.7%	1.3%	15.7%
	Count	24	0	1	1	1	2	29
	Expected Count	15.0	2.7	1.1	.8	2.1	7.4	29.0
3	% within Income	82.8%	0.0%	3.4%	3.4%	3.4%	6.9%	100.0
	% within TPAE2	30.4%	0.0%	16.7%	25.0%	9.1%	5.1%	19.0%
	% of Total	15.7%	0.0%	0.7%	0.7%	0.7%	1.3%	19.0%
	Count	9	1	0	0	0	1	11
	Expected Count	5.7	1.0	.4	.3	.8	2.8	11.0
	4 % within Income	81.8%	9.1%	0.0%	0.0%	0.0%	9.1%	100.0
4	% within TPAE2	11.4%	7.1%	0.0%	0.0%	0.0%	2.6%	7.2%
	% of Total	5.9%	0.7%	0.0%	0.0%	0.0%	0.7%	7.2%
	Count	79	14	6	4	11	39	153
	Expected Count	79.0	14.0	6.0	4.0	11.0	39.0	153.0
	% within Income	51.6%	9.2%	3.9%	2.6%	7.2%	25.5%	100.0
	% within TPAE2	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0
Total	% of Total	51.6%	9.2%	3.9%	2.6%	7.2%	25.5%	100.0

Figure 1

INTERPRETATION: In the above table we can see the various income levels and their investment in various tax savings schemes. The first slab of income i.e. 300000 and below, majority of investment is in 1 and 6 most of the respondents are in this slab of income. The second slab of income from 300000-500000 more people have invested in scheme 1. At the same time 500000-1000000 and above have also

invested in scheme 1. Overall we can come to the conclusion that out of 153 people 79 have invested in scheme 1, 39 people have invested in scheme 6 and 14 people have invested in scheme 2. There are only few people who have invested in other schemes.

**Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Income * TPAE2	153	99.4%	1	0.6%	154	100.0%

Hypothesis:

H<sub>0</sub>- Investment is independent of Income level in various tax savings scheme

H<sub>1</sub>-Investment is dependent of Income level in various tax savings scheme

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	41.159 <sup>a</sup>	15	.000
Likelihood Ratio	45.918	15	.000
Linear-by-Linear Association	22.282	1	.000
N of Valid Cases	153		

a. 15 cells (62.5%) have expected count less than 5. The minimum expected count is .29.

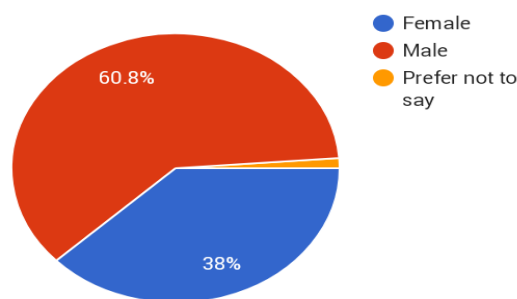
Figure 2

INTERPRETATION: In Chi - square test we need to see significant value to check whether null hypothesis(H<sub>0</sub>) should be accepted or not. In the above table we can see that significant value is less than 5%. In this test we need to accept null hypothesis if level of significance is more than 5% otherwise reject null hypothesis. Here value is less than 5% i.e. (0.001). Therefore, we need to reject null hypothesis and accept alternative hypothesis. To conclude income level and investment in various tax savings scheme are dependent to each other.

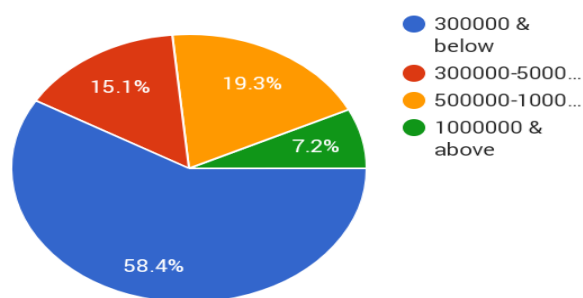
**Symmetric Measures**

	Value	Approx. Sig.
Nominal by Phi	.519	.000

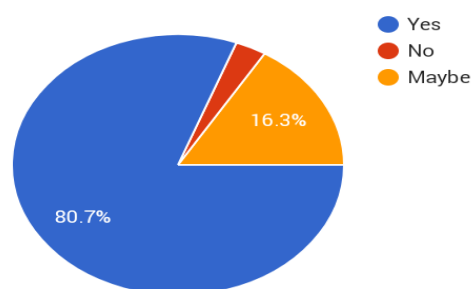
Nominal	Cramer's V	.299	.000
N of Valid Cases		153	



INTERPRETATION: This study was conducted to know how many people invested in tax savings scheme and their knowledge about various scheme. The above graph shows how many male, female have responded to questionnaire. We have also included option has prefer not say and very little percentage of people have chosen that option. There are 38% female respondents and 60.8% male respondents which takes the majority. We can conclude that more male respondents have invested in tax savings scheme.

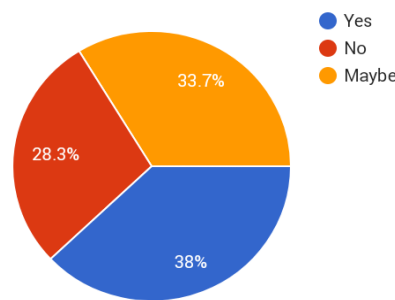


INTERPRETATION: The above graph shows the level of income of people who have responded to the survey. We can see that majority of people are in 1st slab of income i.e. 300000& below which covers 58.4% of total income. There are 19.3% people who earn income from 500000-1000000. There are very small percentage of people who earn 1000000 & above income.

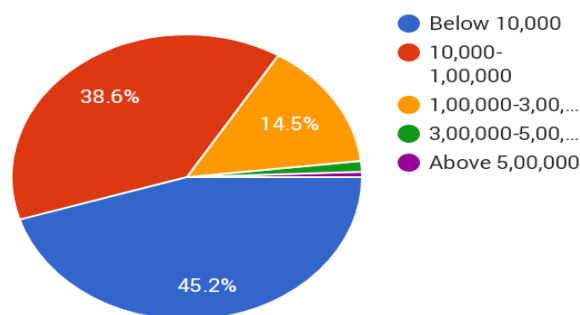




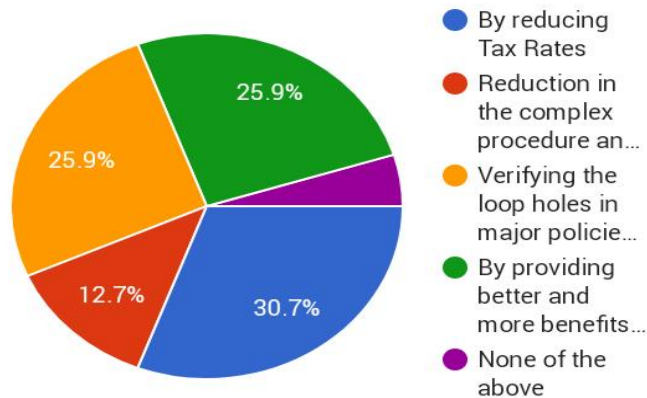
INTERPRETATION: The question asked was whether people are aware about tax avoidance, tax evasion and tax planning. This was asked to know the knowledge of people about these topics. So 80.7% people agree that there is a difference between tax avoidance, tax evasion and tax planning. The point to concentrate here is 16.3% of people have selected maybe option this can be analyzed that people are unaware of the concepts or people are not sure about the concept.



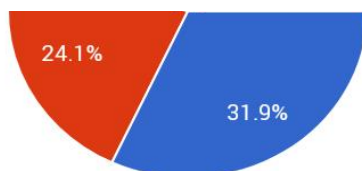
INTERPRETATION: The next question which was asked whether people will invest only on those schemes in which they get tax benefits. There is slight difference between answers yes and maybe so majority of people have chosen these two options. 33.7% have chosen maybe and 38% have choose yes. 28.3% of people have chosen no. So we can conclude that majority of people are agreeing that they are investing in these schemes because they get tax benefits. And it is kind of investment in which people can secure their future.



INTERPRETATION: The above graph shows the amount of investment made by the respondents in various tax savings scheme. Majority of people invest below 10000 which covers about 45.2% of total investment next people are investing between 10000 - 100000 which covers 38.6% and 100000-300000 about 14.5% and remaining respondents invest above 300000 which is less in terms of percentage. By this we can analyze that majority of respondents invest in 1st slab of income because when income is below taxable limit, people feel there is no need to invest in tax saving schemes. On other hand if the income is on higher side the amount invested increases as people want to take benefit.

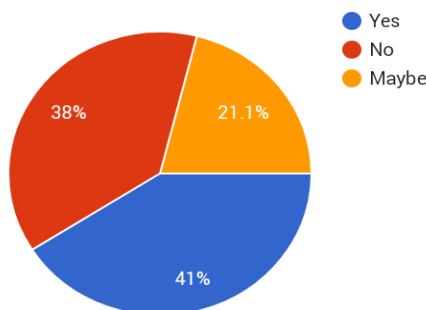
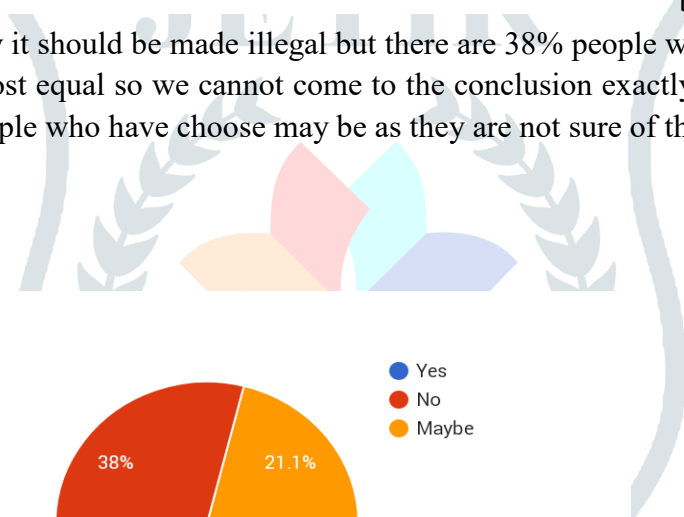


Tax avoidance due to this undue tax avoidance



There are 41% people who say it should be made illegal but there are 38% people who told it should not be made illegal. Both are almost equal so we cannot come to the conclusion exactly what should be the situation. There are 21.1% people who have choose may be as they are not sure of the situation.

INTERPRETATION: is legal in India. But many people take advantage so we respondents should be illegal in India.



INTERPRETATION: which we asked is tax tax system is unfair and

pocket of politicians. The respondents have choose 31.9% strongly agree with the statement, 24.1% have agreed, 23.5% have neutral opinion, 13.3% disagreed , 7.2% have strongly disagreed. We can come to the conclusion that respondents are in different in opinion, as there is only less difference between each option.

The next question evasion is right if the money goes into the

INTERPRETATION: There would be solution to any problem in this world. One of the problem which is faced by the people in this country is tax related issues. One of the question asked was what should be done to eliminate tax evasion in India. The above mentioned options was given to take opinion from the respondents. 30.7% respondents have chosen option one i.e. by reducing tax rates. There is equal weightage given for option 3 & 4 i.e. 25.9%. There is very small percentage who have chosen the option none of the above. We have done this survey to know the general public opinion on various tax laws in our country and it is the right of the citizen to know and give opinion on our tax system.

## FINDINGS AND SUGGESTIONS

### FINDINGS:

Through the use of chi square technique and hypothesis, it has been concluded that income and investment in tax schemes are dependent on one another.

The other findings are

- 1 There are more number of male tax payers as compared to female tax payers and others who invest in tax saving investment schemes.
2. Majority people invest less than Rs 10,000 in the tax saving schemes.
3. Respondents are against tax avoidance and about 41% of the respondents want it to be made illegal.

### SUGGESTIONS

Our suggestion to the public, as a whole, would be to make themselves more aware of the various saving schemes and invest in it. There are various sections in the Income tax act ,1961 where the assesses can claim deductions from Gross Total Income , such as 80E Interest on Educational Loan, 80U Deduction for Disabled person, 80DDB deduction for specified diseases , 80 C Housing Loan Interest and Principal Amount Also, tax avoidance and evasion fails to provide long term benefits in nature and can also be penalized whereas tax saving and tax planning will prove beneficial to the assessee in the long run.

## CONCLUSION

This research paper is an attempt to understand the new generation's point of view on tax evasion and the general awareness about the various tax savings scheme. It is to be noted that the investment in tax savings scheme is very less as compared to the income earned and the reason for this is many people are still unaware about these schemes. Also, it is each of our responsibility to abide by the laws and pay the taxes at the applicable rates without evading it. It can be seen that the current generation is against the whole idea of avoidance and evasion which is good for the future of the economy and the country. Let us fulfill our duties first, then fight for our rights and let every single one of us pay taxes on first and then complain about the government's non functionality.

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