



**Research Article**

**IMPACT OF TAX EVASION ON INDIAN ECONOMY**

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**ABSTRACT**

Taxation plays a critical and pivotal role in the process of advancement and growth of Indian economy. Tax evasion occurs when individuals deliberately fail to comply with their tax obligations. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses. India has been facing major problems like tax evasion, black money; the existence of parallel economy evidences the Indian taxation system requires few major reforms in future to address all these problems. The present study covers the overview of the effectiveness of taxation laws, impact of tax evasion on Indian economy, delineating the factors responsible for tax evasion and examining the possible remedies to lessen the problem of tax evasion.

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**INTRODUCTION**

Tax evasion and the resultant black money eating into the social and moral framework of Indian economy are undermining the socio-economic objectives and are responsible for manifest and lavish consumption. Tax evasion and black money foster concentration of economic power in the hands of undesirable groups in the country. With liberation of restrictions and relaxation of foreign exchange control, new opportunities have emerged for tax evasion; globalization has reduced the cost of these sophisticated methods thereby facilitating generation of black money. Tax evasion takes place when the people report dishonest tax declaring fewer gains, profits or income than what has been actually earned and they even go for overstating deductions from their income. Thus, the amount which would have been used for economic and social development is used for anti-social activities. It is possible that the black money procreated by Indians is being routed back to India (The Government of India,2012,para,2.8.5). It could be predicted once that India will become one of the greatest economies in the world be the top as regards developed country very soon, but unfortunately it did not happen. A multi-pronged strategy is needed to deal with the issue of tax evasion by the Central and State Governments in a co-ordinate manner.

**REVIEW OF LITERATURE**

Review of literature assists a researcher to know limitations of existing work or to extend prevailing study.

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Also, it helps in rationalizing the results of study when compared with previous results. Black money and tax evasion have induced many empirical studies. A brief review of the literature is presented here.

Vijay Kumar Singh (2009) in his paper on “Controlling money laundering in India-Problems & Perspectives” showed that controlling black money in India is a very difficult task only due to the existence of one reason i.e. poor implementation of laws which leads to sophisticated crime in the economy and thus creates black money.

Sukanta Sarkar (2010) in his study, “A Parallel Economy in India: Causes, Impacts & Government Initiatives” opined that the main reason behind the generation of black money and tax evasion in India is the political system. The Government here just focuses on making committees rather than to implement it; implementation of policies is not suitable to control black money and tax evasion in the country.

CA Lalit Mohan Agarwal (2012) edited the White Paper on Black Money and studied that violation of laws by the Central and State Governments lead to criminal activities which, in turn, leads to generation of black money in Indian economy.

Mr. Nishant Ravindra Ghuge and Dr. Vivek Vasantrao Katfare (2016) in his study ”A comparative Study of Tax structure of India with respect to other countries” observed that Indian tax structure lags behind on almost every indicator. There is a strong requirement for a serious review and action on the part of the Governments for simplifying the tax structure.

Dr. Devarajappa S.(2017) in his study on “Tax Reforms in India: A Study of its Impact on the Revenue of the Government” suggested that there is a need to calculate the

people about Indian law and create such an environment in which they pay their due taxes and that they do not evade the tax and feel proud in discharging their duty to pay the taxes.

### **Objective of the Study**

The prime objectives of the study are:-

1. To study the various aspects of tax evasion.
2. To study the main reasons behind the tax evasion.
3. To find out remedial measures to curtail tax evasion.
4. To study the international aspects of Indian taxation.
5. To study the impact of tax evasion on Indian economy.

## **MATERIALS AND METHODS**

### **Research Design**

The study being conceptual and descriptive expresses the author's own opinion and opinion of some reputed authors. The work is designed for a cross-section of those for making the issue easily understandable. The study is organized into several parts. Part- I discusses the conceptual setting of tax evasion; Part-II states the causes and consequences of tax evasion; Part-III examines the methods to evade taxes; Part-IV presents the measures adopted to curb tax evasion and black money; Part-V deals with the international aspects of Indian taxation and the last six parts relate to impact of tax evasion on Indian economy, concluding observation, suggestion, concluding comment, research opportunities and acknowledgement respectively.

## **RESULTS AND DISCUSSION**

### **Part-I**

#### **Tax Evasion-Conceptual Setting**

Tax evasion, an illegal attempt to reduce the tax liability deliberately under-reporting or not reporting taxable incomes or concealing one's true state of affairs from tax authorities is a grave problem in a developing country like India. The financial crisis of 2008 and the resultant need for protecting revenues further strengthened the necessity for coordinated global efforts to tackle the challenges posed by tax haven mediated arrangements for arresting tax evasion and black money. Various conventions held nationally and internationally from time to time are helpful to promote, facilitate and support international cooperation and technical assistance towards the prevention of and fight against corruption resulting from tax evasion and black money. The conventions will also help India get international cooperation in tracing, seizure, freezing and confiscation of the proceeds of crimes under a wide range of mutual legal assistance clauses, even with countries with which it has no mutual agreement.

#### **Part-II Causes and Consequences of Tax Evasion**

The factors responsible for tax evasion and the resultant generation of black money are mainly either through illegal or legal activities.

**Through illegal activities:** - Tax evasion is one of the criminal components of black money which includes a host of activities involving anti-social in nature. These illegal activities reflect the declining social and moral values and are punishable under the various Acts of the Central and State Governments and also the schedule of Prevention of Money Laundering Act, 2002.

**Through legal activities:** - To evade taxes, a substantial portion of black money is generated through legally permissible economic activities not disclosed to the public authorities as per provisions of the law. Too much procedural regulations sometimes create an incentive to conceal the true state of affairs and thereby remain outside the reported and accounted proportion of one's activities. Increased globalization and economic liberalization have an impact in cross-border transactions resulting thereby increased opportunities for sophisticated devices to avoid tax payment following different tax rules of different countries and use of tax havens. Global trade amongst multinational corporate has increased misuse of transfer pricing leading to estimations that developing countries like India might be losing significant resources owing to transfer pricing manipulation.

The factors or causes of tax evasion are high level of tax rates, less respect for the Government and its laws, lenient penal action, nature of the economy, etc. High tax rates make tax evasion more tempting as higher the rate of tax, greater is the tendency to evade taxes. Tax evasion is more in those countries where there is general apathy on the part of people towards the Government and its laws. Tax evasion by politicians sends wrong signals to the general public relating to non-compliance of rules, laws, etc. lenient penal action also sometimes encourages tax evasion. Usually, countries with relatively poor implementation of regulations tend to have higher share of unaccounted economy while countries with properly implemented regulations and sound deterrence have smaller black economies. Peculiar characteristics of underdeveloped countries with mostly agricultural-based, wide spread illiteracy, lack of accounting practices, limited monetization, shortage of administrative resources cause breed tax evasion and black money.

#### **Consequences of Tax Evasion**

The nexus between tax evasion and black money and its distortion of the redistributive role of tax policy is observed in India's Seventh Five-Year Plan. A reduction in the scale of black money generation can improve distribution of income and wealth after taxation. In addition, reduction in the extent of tax evasion can create high volume of tax revenue and more public expenditure will benefit the poorer section of the population of the society (The Government of India, 1985-90). The success of an inclusive growth strategy highly depends on the capacity of society to eradicate the evils of corruption and black money from its very foundations. Governance failure adversely affects the interests of vulnerable and disadvantageous sections of society. The effects of tax evasion resulting in black money on Indian economy are indeed disastrous. A few consequences/effects are as follows: -

1. Tax evasion resulting in black money hinders the resource mobilization efforts of the Government. Shortage of funds distorts implementation of development planning and forces the Government to resort to deficit financing in case public expenditure is inelastic.
2. Tax evasion interferes with the declared economic policies of the Government by distorting saving/investment patterns and availability of resources for various sectors of the economy.
3. Tax evasion seriously undermines the equity attribute of the tax system. Honest tax payers willingly bear

disproportionate tax burden, feel demoralized and lured to join the tax evaders' camp.

4. Tax evasion encourages concentration of economic power in the hands of undesirable groups in the country which, in turn, is a threatening to the economy in its way.
5. Tax evasion eats into the time and energy of tax administration to extricate the entangled manipulations of tax dodgers.
6. Degradation of social and moral values creates tax evasion. Bribery, intimidation, blackmailing, tampering with official records, submitting fake documents, etc. are all social evils creating ultimately tax evasion.

### **Part – III Methods to Evade Taxes**

Failure to comply with regulatory obligations or tax evasion on income from legitimate activities can create black money. Different kinds of manipulations of financial statements resulting in tax evasion and the consequent generation of black money are elaborated as follows: -

**Out of Book Transactions:** - This mode usually prevails among the micro and small enterprises and providers of unskilled and semi-skilled services. To evade reporting activities or the income generated, taxpayers either do not maintain books of account or may resort to keeping two sets of books of account - one for their own consumption to manage their own business and the other for the regulatory and tax authorities. The second set of books of account kept for the purpose of satisfying the legal and regulatory obligations of reporting to different authorities can be manipulated by omitting receipts or falsely inflating expenses for the purpose of evading taxes or other regulatory requirements. Unaccounted assets, investments in shares of listed companies through sham entities, etc. are also included under this category.

### **Manipulation of Books of Accounts**

**Manipulation of Sales/Receipts:** - Manipulation of sales or receipts is the easiest method of tax evasion. Diversion of sales to associated enterprises located in different tax jurisdictions can give rise to issues related to international taxation and transfer pricing. The associate entity may not report its activities or income at all or may show sales to such a dummy associate entity at a lower price, thereby reducing its reported profits. More complex scenarios can emerge if the dummy associate entity is situated in low tax jurisdiction having very low tax rates. Under reporting of production is another device of artificially reducing tax liability. In fact, suppression of sales/receipts, diversion of sales to associated enterprises (dummy or genuine), interrelation between unaccounted sales and purchases, artificial detourment of revenues, stamping of incorrect price, etc. are the other methods to manipulate sales/receipts, thereby creating tax evasion and black money.

**Manipulation of Expenses:** - Expenses can be manipulated under different heads and result in under-reporting of income with the help of inflation expenses by obtaining bogus or inflated invoices etc. to foreign entities in the form of advertisement and marketing expenses or commission for purchases or sales. The fund is remitted to the account of a foreign taxpayer and the money can either be withdrawn in cash or remitted back to India in the form of either non-taxable receipts or accumulated in unaccounted assets of the Indian

taxpayer abroad. Besides, inflation of purchase or raw material cost expenses like labor charges, entertainment expenses and commission can be inflated or untruly booked to lower profits.

**Manipulation of Closing Stock:** - Suppression of closing stock in both quality and value is a common method of understating profit. Undervaluation of inventory is done in the way of that while expenses are accounted for in the books but, the value added is not done so thereby artificially reducing the profits and taxes.

**Manipulation of Capital Expenses:** - Over valuation of fixed asset is an approach adopted to claim higher depreciation and thereby reduce the profit of business. Increase capital enabling the businessman to borrow more funds from lending institutions or capital market is also another device to evade tax.

**International Transactions through Associate Enterprises:** - Inter-corporate transactions between the associate enterprises belonging to the same group in different perspectives are often arranged and manipulated in such a way as to lead to tax evasion. These are possible by arrangements of shifting taxable income to the low tax jurisdictions or tax havens leading to accumulation of black money earned from India to abroad.

**Funding of Political Parties:** - There is an upward tendency of supporting of political parties with the help of black money. Big business houses are contributing to parties with the sole motive to tame the political leadership for deriving undue profit by manipulating policy decisions to evade tax.

**Inefficient and High Level Corruption:** - In India, corporate evades taxes to maintain black money to be used for transactions with several high level public and private bodies. Professionals evade taxes to save for rainy days since tax rates are high and multiple in numbers.

**Agricultural Income under Income-tax:** - Big industrial houses over the past few years have entered the agriculture sector in a big way by acquiring big firms. Black money accrued from other sources is sought to be transferred into white by viewing it on the agricultural returns account.

**Exorbitant Rates of Taxes in India:** - High tax rates have resulted in growing tendency of tax evasion among the tax payers. Tax evasion is common in income-tax, corporate tax, corporation tax, GST, etc. With high marginal rates, tax payers usually find ways to evade tax.

**Ineffective Enforcement of Tax Laws:** - Enforcement of tax laws relating to various taxes in India is weak leading to enormous unrestrained tax evasion and piling up of black money. Lack of simplicity and transparency in tax laws also induces tax evasion among the Indians.

**Capital Expenditure Manipulation for Higher Depreciation under Income-tax law:** - Over-invoicing plant and equipment or any capital asset is an approach adopted to claim higher depreciation and thereby reduce the profit of the business inducing tax evasion.

### **Devices Adopted to Evade Taxes**

**Income-tax:** - Income tax can be evaded through misreporting of income. Measures usually adopted to curb evasion of income-tax include misreporting of taxable income, maintaining multiple sets of books of accounts, knavish

changes in books of accounts, keeping transactions out of books, opening and operating bank accounts under assumed frames, doing business in the name of dummies, over-reporting expenses, fragmenting income for reducing tax liability, under-invoicing sales and other transfer pricing manipulations, etc.

**Excise Duties:** - Evasion of excise duties usually takes place by adopting malpractices like incorrect valuation of goods flouting the conditions subject to the exemption from duties.

**Value-Added Tax (VAT):** - As VAT is only a fraction of the total amount of tax, the incentive for evasion is relatively weak; but despite the self-policing nature of VAT, opportunities exist for evasion and fraud. Devices commonly applied to defraud tax authorities under VAT include use of fake invoices to claim tax credit, tax credit claims on purchases for personal use, over-reporting of sales of zero-rated goods, secret dealings as regards issuance of receipts, formation of fake companies selling receipts to traders to enable them to claim tax credit on inputs, etc. Hence, VAT is as impressionable to evasion and fraud as any other tax.

**Customs Duties:** - Evasion of customs duties usually takes place in the form of invoice misclassification, manipulation of documents, suppression of quantities imported, etc.

#### **Tax Havens**

The term 'Tax Havens' is used to describe any country or locality levying very low taxes or none at all on foreigners. The most common device is to use tax haven only as a conduit for transactions, the real economic impact of which locates elsewhere. Internationally two high tax rate countries can be channeled through a tax haven company in such a way that any resulting profit in the haven leads to minimization of tax. They usually offer strong confidentiality regarding wealth and accounts creating very attractive locations for safe keeping of unaccounted wealth and thus, make them highly desirable for multinational entities willing to reduce their global tax burdens. The multinational entities consisting of several corporate and non-corporate bodies set up corporate in tax havens and artificially transfer their income to such conduit corporate designing low tax regime.

#### **Investment through Complex Derivative Instruments**

With the increasing growth of sophistication of derivative instruments, new opportunities or scopes for investing and making profits without being subject to taxes and regulations are also opening up. Such innovative means are sometimes abused by unconscientiously parties to produce dormant unaccounted income.

#### **Part – IV Measures Adopted to Curb Tax Evasion**

Efforts have been made from time to time to restrain tax evasion and the resultant black money with the help of various means like lowering tax rate, tax amnesties, advance tax payments, withholding tax or tax deduction at source, presumptive tax for small traders, permanent account number or general register number, survey of income tax, summons and search and seizure, penalties and prosecutions, use of information technology in tax administration, etc.

**Lowering of Tax Rate:** - Low tax rate is welcome provided it improves compliance and revenue yield. However, expecting low tax rate to improve compliance automatically is unrealistic because tax evasion occurs at almost all levels of income.

**Tax Amnesties:** - Tax amnesties or voluntary disclosure schemes bring concealed money in the open, widen the base of investment and hence foster economic development. In India, tax amnesties with varied characteristics have been proposed from time to time to unearth black money. However, tax amnesties are criticized on the ground that they provide premium on dishonesty and are unfair to honest taxpayers. They set precedents and encourage tax evaders with the hope that they will be let off mildly for their past misdoings any time in the future. Honest taxpayers are demoralized. Tax enforcement machinery also loses respect in the eyes of the common men. Also, the Government announces different schemes and bonds like Bearer Bonds, Voluntary Disclosure of Income Scheme (VDIS) to harness black money for generative purposes. Abundant money transferred outside India might actually have been returned through these means (The Government of India,2012,para,2.4.9).

**Advance Tax Payment:** - Advance payment through the regular assessment of income is another device to evade tax.

**Tax Deduction at Source (TDS):** - Improvement in the percentage share of direct taxes has taken place due to the widening of the tax base, presumptive taxation and broadening the scope of TDS. But, TDS scheme suffers from lack of proper monitoring and scrutiny(The Government of India,1997-2002).

**Presumptive Tax for Small Trades:** - Tax Reforms Committee examines the problems and possibilities of taxing the small business houses and suggests presumptive taxes on such business. However, failure of yielding the desired results, estimated income scheme for retail traders takes place in its place.

**Permanent Account Number (PAN) or General Index Register Number (GIR):** - To strengthen the efforts at enforcement, the Government makes it obligatory for assesseees to quote PAN or GIR mandatorily in respect of certain transactions.

**Survey of Income - tax:** - Income-tax authorities conducting survey from time to time shop-to-shop or house to house rope is useful measure; a person failing to comply with a notice under section 133B is liable to pay the penalty under section 272 AA.

**Summons, Search and Seizure:** - Under Section 131, an authorized income tax officer can issue summons subject to satisfactory reasons to suspect that any income has been concealed by any person within the jurisdiction to enforce presence for verifying the authenticity of transactions like capital contributions, business transactions, borrowing of funds, investment transactions, etc. The authorized officials can carry out search and seizure operations in any building, place or vehicle in occupation of the person being searched, break the lock and examine any box, locker, almirah, etc. and seize any books of accounts, other documents, money, bullion, jewelers, etc.

**Penalties and Prosecutions:** - Income-tax Officers as per the Income-tax Act containing provisions for penalties and prosecutions for various defaults and offences committed by taxpayers can permit u/s 273A (4) to reduce or waive penalties for tax evasion on the ground of genuine hardships. Further, under section 279(2), officers are empowered to compound an offence either before or after the institution of prosecution

proceedings although these powers are discretionary and cannot be challenged in the court of law.

**Use of Information Technology in Tax Administration:** - E-payment of tax is a facility provided to the taxpayers for making tax payments through internet banking facility or internet by using debit or credit cards. A person willing to furnish income-tax return can use E filing and sign it digitally or manually.

**Legislative Measures to Prevent Generation of Black Money:** - A large number of proactive steps have been taken to prevent tax evasion and generation of black money and for its detection like Prevention of Money Laundering Act (PMLA), 2002, Benami Transaction (Prohibition) Bill, 2011, Public Procurement Bill, 2012, Lokpal and Lokayukta Bill, 2011, Citizens' Grievance Redressal Bill, Indicial Standards and Accountability Bill, 2010, Public Interest Disclosure and Protection to Persons Making the Disclosure Bill, 2010, Electronic Delivery of Services Bill, 2011.

Demonetization expecting to cleanse the formal economic system and discard black money and counterfeit notes may not curb tax evasion and black money completely, but certainly, it has major impact in arresting tax evasion and black money.

Tax evasion is one of the basic causes to generate black income. So, various measures based on the recommendations of committees and commissions like Taxation Enquiry Commission, Administrative Reforms Commissions, Direct Tax Enquiry Committee, etc. have been undertaken to plug the loopholes in tax evasion. Most of the recommendations were an up gradation of tax laws.

Identification of persons through PAN card, Aadhar card, etc. in the country citizens and foreigners is also a direct step to arrest tax evasion and black money in the country.

Chapters XXI & XXII of the Income-tax Act, 1961 provide for monetary penalty at different rates with imprisonment for various defaults such as concealment of income, failure to comply with statutory notices, file tax returns, maintain books of accounts /documents, deduct/collect taxes at the source, etc. "Major Breakthrough" has been made with the Swiss Authorities and certain critical and actionable information has been included as:-

1. Punishment of 10 years' rigorous imprisonment in case of tax evasion relating to foreign assets penalty of 300 percent with no recourse to Income-tax settlement Commission.
2. Non-filing of IT Returns with insufficient disclosures results in 10 years' rigorous imprisonment.
3. Concealment and evasion of income relating to foreign asset to be made predicative offence under PMLA can attract a separate prison term.
4. Further, FEMA subject to amendment ensures punishment in such cases too.

In a nutshell, illicit foreign asset would attract imprisonment under the new money law, get taxed at the maximum marginal rates, invite 100 percent penalty besides being prosecuted under PMLA and possibility of assets of equivalent value within India being attached with appropriate amendment to FEMA.

## **Part – V International Aspects of Indian Taxation**

Business operations are becoming increasingly international in the wake of current wave of globalization and openness sweeping across the countries of the world. Varying tax practices of different countries complicate decision-making by multinational enterprises relating to the selection of most profitability on an international basis. International double taxation arises due to overlapping of two tax claims of two or more countries. Mostly, individuals work in countries where they live and corporate invest in countries in which they are resident. A person undertaking cross-border activities or maintains connections in two or more countries is likely to encounter the tax laws of another country. This is how the tax systems of different countries get linked with each other. Taxes are not international because they are not levied at an internal level by any supranational authority.

Two fundamental assignment rules administer the right of nations to impose taxes on foreign income: - i) the source rule or the territoriality rule and ii) the residence or domicile rule. The problem of international tax duplication can be avoided if all the countries follow either the source or the residence rule. In practice, most countries exercise source and residence rules concurrently. International tax duplication arises when the country or residence extends the tax net to the world income of a taxpayer and the host country follows the source rule. This discourages international movement of factors of production. Various methods can be followed by concerned countries to reduce or even eliminate double taxation of foreign-source income of their residents such as exemption method, foreign tax credit, tax sparing credit, bilateral tax treaties, multilateral tax treaties, etc.

### **Indian Law on Double Tax Relief**

India gives unilateral as well as treaty relief in respect of foreign taxes suffered by the Indians on their foreign income. Broadly speaking, India's tax treaties contain two alternatives: - i) Income arising in the territory of one of the contracting states is not taxed by the other contracting state (exclusion method); ii) Income is taxed in both the countries in accordance with their respective tax laws but the country of the residence of the taxpayer allows credit against the tax charged thereon in the country of the source of such income (tax credit method). India has entered into tax treaties with many countries indicating that there are agreed tax rates and jurisdictions on specific incomes arising in a country to a tax resident of another country. Section 91 grants unilateral relief from double taxation to the residents in respect of foreign tax paid abroad. Thus, if an Indian resident proves that tax has been paid in respect of income accruing or arising in the countries with which India has no agreement for double taxation relief, he/she is entitled to deduction from the Indian income-tax payable. As tax treaties are country-specific, the contours of taxation and concessions granted vary based on the comparative advantage India enjoys with them. With globalization of the Indian economy, necessity arises for detailed and separate regulations for governing transfer pricing as its absence not only results in litigation but loss of revenue to the exchequer as well. However, transfer-pricing solutions need to be flexible enough to suit to the growing business of multinational groups taking into account the organization's perception of the risks of adverse tax assessments. Necessary legislative changes for transfer pricing are made in the Finance

Bill. Notwithstanding the various concessions/exemptions given to non-residents under the income-tax law, a stringent and pervasive system of assessment and collection of tax is followed. Income of non-resident assessee is assessed for tax purposes either directly or indirectly through agent. The problem of tax recovery from the non-resident having no agent to be made liable by the tax authorities for the purposes becomes more serious. In this respect, the income-tax law has contrived two methods: - i) Deduction of tax at source; ii) Recovery of tax from assets. Income-tax law is concerned with specifically the assessment and collection of taxes: - i) on profits of non-residents from shipping business; and ii) on persons leaving India for good (Section-230). In such a case, total income of an individual for the period from the expiry of the previous year up to the probable date of his/her departure from India is chargeable to tax in the same assessment year. Any individual falling under this provision of the income-tax law is required to collect a tax clearance certificate from the foreign section of income-tax office before leaving India.

#### **PART-VI**

##### ***Impact of Tax Evasion on Indian Economy***

India has been facing serious problems like tax evasion and thereby establishment of black money and the existence of parallel economy evidencing that the Indian socio-economic system requires some major reforms in future to address all these problems. Tax evasion has serious effects on the entire economic system of India. Some of the important impacts are:

***Less Tax for the Government-*** Often, the Indian Government has failed to collect the estimated amount of tax from the Indians. As a result, credit has to go to the black money driven underground economy showing impact of illicit wealth on GDP.

***Creation/Growth of Mass Poverty-*** The misdistribution of wealth and income in India has seriously affected the growth of underground economy. The common people get affected in many ways. The tax evaders keep the money away from the deserved. Recovery of black money in the tax havens and use thereof by the Indian Government can pay off all the outstanding liabilities of the country and the money will still be left for spending.

***Uncontrollable Inflation-*** The direct effect of tax evasion is the loss of revenue causing the increase prices of commodities to a level beyond normal. Consequently, the people having more money offer more money on specific items. Black money upsets the Government's move resulting in some sorts of pressure on the economy.

***Investment on Gold, Stones and Jewelers-*** People willing to convert black money into white money to evade tax are largely investing in precious metals like gold and other jewelers with the belief that investment in gold is difficult to trace. Gold can be bought and converted back to money any time with less effort and time. Thus, flow of underground money has caused Indian economy to stall on its growth. Estimation says that if all the money in the underground economy could be diverted to our main economy, Indian economy would grow more.

***Transfer of Indian Funds Abroad to Safe Havens-*** Black money generated in India is kept in foreign tax havens through secret channels mostly with the help of two important

methods, under-invoicing of exports and over-invoicing of imports.

***Corruption-*** Corruption creates tax evasion and the resultant black money in the economy which can also be a result of the growing underground market. Black money holders bribe different parties to reach their desired goals and are able to get what they want and others are pushed down the stack.

***Effect on GDP of the country due to less tax collection-*** Black income has been causing underestimation of GDP in India. The direct effect of black money due to tax evasion is the loss of revenue to the state exchequer.

***Higher tax rate on existing taxpayers-***Owing to tax evasion by mostly the rich, the Government is forced to enhance the tax rates every assessment year for increasing its revenue resulting in high tax burden of those paying taxes promptly.

#### **PART -VII**

##### **CONCLUDING OBSERVATION**

Prevention and control of tax evasion is pre-requisite for establishing an equitable, transparent and more efficient economy. Tax evasion, the fiscal malady is undermining the socio-economic objectives and is responsible for manifest and lavish consumption, reduced savings and increasing gap between the rich and the poor. Generation of black money and its stashing abroad in tax havens and offshore financial centers have predominated discussions and debates publicly. Of late, Members of Parliament, the Supreme Court of India and the public at large have definitely expressed concern on the issue. Even after uproar in Parliament, the Government of India came out with a White Paper on Black Money in May, 2012 presenting the different facets of tax evasion with its consequent black money and its complex relationship with policy and administrative regime in the country which also reflected upon the policy options and strategies the Government has been following to address the issue of tax evasion, black money and corruption in public life. Globalization and liberalization of restrictions on cross-border flow of goods and services, relaxation of foreign exchange control etc. have accelerated new opportunities for tax evasion through tax havens, misuse of transfer-pricing and other sophisticated methods. Effective implementation of tax laws can arrest tax evasion. Reduction and simplification of tax laws, removal of loopholes in the tax system, proper processing of information available, etc. are effective tools for improving Indian tax compliance. There is a need to educate the people about the Indian tax laws and create such an atmosphere in which they pay their due taxes, do not evade taxes and feel the proud in discharging their duties to the nation. The Government of India has announced several schemes offering opportunities to bring black money overboard but the result is not fruitful. DTC Bill, 2010 is crying need for effectiveness of tax laws for the prevention of tax evasion. Tax evasion and generation of black money have been creating serious impacts on the social and economic systems of the country.

##### ***Part-VIII***

##### ***Suggestion***

To curb tax evasion and unearth black money, the following suggestions are put forward: -

1. In a federal structure and democratic nature of Indian governance, any long-term strategy to deal with tax evasion and black money must ensure public acceptance, broad-based political acquiescence and commitment to implement it necessitating co-operation between the Central and State Governments.
2. In a fast-growing economy like India, storage and cross - checking of economic information through computer and related facilities is essential to generate actionable intelligence.
3. Appropriate legislative framework and speedier judicial processes are required to deal with tax frauds and illicit money.
4. Social sector schemes involving public expenditure under various programs reportedly suffer from possible manipulations and leakages. Direct transfer to the accounts of beneficiaries can provide a solution because it would prevent manipulations like bogus muster rolls, etc. The Hon'ble Prime Minister, Mr. Narendra Modi has constituted a Special Investigation Team (SIT) soon after assuming office on May 26, 2014 to look into the issue of black money, investigation, initiation of proceedings and prosecution in some high-profile tax evasion cases.
5. Mix strategies for curbing tax evasion from legal and legislative activities consist of different pillars such as: - a) Reducing Disincentives against Voluntary Compliance (e.g. rationalization of tax rates, reducing transaction costs of compliance and administration, further economic liberalization, etc.); b) Creating Effective Credible Deterrence (e.g. integration of databases leading to actionable intelligence by monitoring agencies strategies to strengthen direct and indirect tax administration, strengthening of the prosecution mechanism, enhanced exchange of information, income-tax overseas units, efforts to be undertaken at international forums, international taxation and transfer pricing, effective curbing of structuring through tax havens, strengthening of Financial Intelligence Unit, strengthening of Central Economic Intelligence Bureau, strengthening of the Directorate of Revenue Intelligence and Enforcement Directorate, Joint Task Force, etc.); c) Supportive Measures (e.g. creating public awareness and public support, enhancing the accountability of auditors, protection to whistleblowers and witnesses, need to join international efforts and use international platforms, requirement to fine-tune relevant laws and regulations, strengthening of social values, etc.)
6. Strategies for curbing tax evasion through illegal or criminal activities require active participation of state governments. All political stakeholders should commit themselves to pursuing these activities. Both the Central and State Governments should actively draw out long-term strategies to bring them to a halt.
7. Strategies for repatriation of black money stashed abroad and issues related to confidentiality of information: a) The Government should sternly work to evolve an environment and create legal mechanisms through global consensus and specific bilateral treaties with other countries. b) Voluntary Disclosure Scheme is another strategy for arresting tax evasion and bringing back black money stashed overseas. c) Agreement between countries for revenue sharing is also a strategy to arrest tax evasion and consequent generation of black money. India has already taken up this issue with Switzerland requiring assessment of the costs and likely benefits of the steps before taking any policy decision. Thus, India will decide first, as to whether such type of agreement will meet its national objective of tax evasion and prevention of black money.
8. Efficient tax machinery capable of cross-checking a large number of invoices through an elaborate computer system is pre-requisite for the successful implementation of the VAT.
9. It is necessary to change the attitude of the people towards Government and its laws.
10. The disparity between resources deployed by the multinationals and those available with tax administration, particularly of developing countries requires vast reforms for improving the capacity of tax administration and equipping it with necessary resources to deal with such modern challenges.
11. Prevalence of high tax rates is the first and foremost reason for tax evasion as it makes the evasion so profitable and attractive in spite of the attendant risks.
12. The public needs to be convinced that tax evasion is antisocial.
13. High rates of taxation create psychological barrier and undermine the capacity and the willingness to save and invest.
14. Current high level of taxation leaves the Government with little scope for maneuverability to raise additional resources in times of emergency.
15. A committee of experts should be appointed to enquire into the utility of all existing controls, licensing, permit systems, and suggest elimination of such of those as are of no use.
16. Changes in law and procedures are needed to ensure the control necessary for the health of the economy with effective administration and least harassment to the public.
17. The Government should recognize national political parties and determine the extent of reasonable grants-in-aid to such parties. Donations to the parties by taxpayers other than corporate should be allowed as a deduction from the income subject to certain limitations.
18. The basic criteria for selecting cases for annual scrutiny should be uniform throughout the country.
19. Entertainment expenditure incurred for the betterment of the taxpayers' business and directly related to its active conduct should be deductible up to the ceilings prescribed under section 37(2) of the Income-tax Act, 1961.
20. A penalty based on income instead of tax hits the smaller taxpayers more harshly and as such, it should be concerning the tax sought to be evaded, instead of the income concealed.
21. The current policy of having a statutory minimum for penalties has, on the whole, had a healthy effect and it should, therefore, continue.
22. The Department should completely reorient itself to more vigorous prosecution policy to instill fear and wholesome respect for the tax laws in the minds of the taxpayers. Further, where there is reasonable chance of

- securing conviction, the tax dodger should invariably be prosecuted.
23. There is a need for complete re-orientation in the Department's approach to its methods of intelligence and investigation to cope with the increasing refinement and sophistication of the techniques of tax evasion.
  24. The tools followed at the command of the Department should be thoroughly overhauled and streamlined to tackle the menace of tax evasion efficiently.
  25. The Union Government should urgently include agricultural income for uniform tax more or less on par with the tax on other incomes to eliminate the scope for camouflaging black money and evasion of direct taxes. Article 269 of the Constitution can be amended to include taxes on agricultural income in the list of taxes levied and collected by the Union. Agriculture should also contribute to the National Exchequer in much the same way as other sectors are doing for equity and distributive justice.
  26. Unexplained expenditure should also be brought to tax.
  27. Presentation of audited accounts in prescribed format is mandatory in all cases of business or profession where the sales turnover or receipts exceed certain limit.
  28. Legal provisions are necessary to make it obligatory for all permanent account number holders to intimate any change in their addresses to the appropriate authorities. The law will also have to provide adequate measures for ensuring compliance.
  29. A sufficient number of survey circles should be set up to ensure comprehensive and continuing survey on a rotational basis.
  30. The CBDT should lay down every year a program and specify targets for collection, collation and diffusion information to secure efficient functioning of the set up, standards of work and performance.
  31. The Government should seriously prescribe a uniform accounting year for all taxpayers to concur the accounting year with the budget year.
  32. Stringent legal measures alone are not sufficient to tackle tax evasion; rather, it should be supported by strong public opinion against tax evasion and black money. The foremost course of action is the withdrawal of the privileges still available to the tax evaders.
  33. Taxpayers having found filing their correct returns and meeting their tax obligations regularly and promptly should be treated by the department as starred assessees.
  34. The GST Act, 2017 should be expeditiously implemented as the spin-off from its implementation would provide ample resources to more than compensate the loss apprehended by certain state governments.
  35. Provisions for NOC should be introduced in the income tax laws with safeguards to reduce administrative complications and increased ease of compliance so that an appropriate and uniform database is also set up. The electronically generated NOC within a specified period would also act as a tax clearance certificate.
  36. The Income-tax Department having large database of financial transactions should immediately set up the Directorate of Risk Management for proper data mining and risk analysis. The third-party reporting mechanism of the Income-tax Department should be made

computer-driven and cover most high-value transactions in the financial sector.

37. The Government must find out ways to mitigate the manpower shortage issues which are seriously hampering the functioning of various agencies particularly the CBDT and CBEC. These require be taking up and implementing on a fast tract basis to show the Government's resolve to tackle the issue of black money.
38. The Direct Tax Code, 2010 (DTC) Bill pending before the parliament should be passed. It will streamline the entire system of direct taxes by improving tax structure, mitigating room for litigation, plugging the loopholes leading to tax avoidance and tax evasion. General Anti-avoidance Rules (GAAR) under the Chapter XXIV will help minimize the tax evasion.
39. The Double Taxation Avoidance Agreement (DTTA) specifically liking the one between India and Mauritius has become a source of tax evasion and litigation. The DTC will help to resolve the conflict tax law and DTTA.

#### **Part-IX**

### **CONCLUDING COMMENT**

A multi-pronged strategy is essential to deal with the issue of tax evasion and generation of black money. The factors leading to tax evasion in India along with the various measures attempted to controvert it make it clear that there is no single remedy to curb, control, and finally prevent it. The effect of tax evasion on the economy of the country cannot be described as calamitous. Now, India is seriously handicapped in its endeavor to march forward. The resources required for development are not adequately appearing for the reasons that business is carried on in the 'black'. Tax evasion is like a cancerous growth in the country's economy which, if not checked timely will surely guide to its ruination. This paper makes an attempt to present the various aspects of tax evasion and also its relationship with policy and administrative measures in India. It shows the policy and strategies pursuing in the context of current initiatives or need to take up in near future to address the issue of tax evasion and corruption in common life. Tax evasion is a curse to any country and grows underground market. Needless to mention that existence of tax evasion has a significant impact on social, economic and political levels of the Indians having significant impact on every organization of governance and conduct of public policy in our country. It is not possible to curb, control and finally prevent tax evasion in near future as well as repatriation of black money rather, it may be possible if comprehensive mix of well defined strategies and policies is pursued with patience and perseverance by the Central and State Governments and put into practice in co-ordinate manner. It is a big challenge for our Government to properly form committees and run them in a very efficient and effective manner.

#### **PART -X**

#### **Research Opportunities**

Research work on tax evasion in India is insufficient. The basic reason behind this may be attributed to the insufficiency or non-availability of reliable data. Legal framework is not sufficient, more and more emphasis should be given on morality. Unless a detailed and transparent break-down of total



assessed income is brought to light, scientific study of the trend of tax evasion is complex. Extent of tax evasion is only a guess estimate based on certain assumptions. Here, considerable difference of opinion may exist for want of adequate and reliable data. Another gap is that the tax-evaded income is not at all lying stored which can be seized by the appropriate authorities. A considerable portion of it may either be converted into assets or spent away in consumption or else which is in circulation in undisclosed business dealings.

## **PART-XI**

### **Acknowledgement**

I dedicate this paper to **ALMIGHTY GOD** who always shows **HIS** kindness and bestows inspiration in all walks of my life.

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