



A review on the avoidance and evasion of income tax by urban unorganized sector of Punjab, India

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ABSTRACT

Taxes are major source of revenue to the government. Tax evasion and avoidance are pervasive in all countries and which hampers the economic development to greater extent. The present research brings out the issue that integrate avoidance and evasion by the urban unorganised sector of Punjab state which consist of workers or professionals who neither have registration number nor monitored by government directly. To meet the objective, the require data it is collected from primary as well as secondary sources which are collected from 50 respondent which cover the aspect relevant to income factor, total revenue, tax payment or non-payment related to prescribed sector. This review paper focuses on highlighting the cause and ill effect of tax evasion by unorganised sector which hinders the overall development of state and country and finding the relevant measure which the tax administration authorities can strategically and efficiently apply to combat with the tax evasion in income tax by the unorganised sector.

Introduction

Tax plays a very important role in the nation's economy. The economy of the country is heavily reliant on

taxes. It is one of the key ways the government makes money. As stated in our Constitution, it is also viewed as a vehicle for accomplishing our society's social and economic goals. Because of their regulatory impact on

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the economy, tax laws now serve as more than just a means of earning money for the state's policymaking; they also serve as a tool for social engineering and a precursor to social security and welfare policies. One of the main ways that the government gets money from individuals to spend on other useful things, administer the government, and improve the welfare of its citizens is through taxation. In general, taxes work as a tool to control consumer purchasing power for goods and services by offering incentives for production, investment, and savings. Taxation may be used to allocate resources, redistribute income, and stabilize the economy, in addition to serving as a fusing agent between savings and investments to narrow the gap between the two. These varied taxing purposes necessitate that taxes be coordinated with development strategy and changing economic structure and not only as a way to generate more money quickly or to meet short-term financial needs. Tax dodging is not a new phenomenon and is not exclusive to India. They go hand in hand. In both rich and developing nations, tax evasion is a widespread practice. Tax evasion was a practice that dates back to the beginning of taxes, according to research on the subject. But regrettably, after the Second World War, its size has greatly risen. Currently, a significant portion of tax payers are tax evaders. Of course, there are those who may be honest, but they are the exception rather than the rule. Tax evasion is the practice of avoiding taxes by dishonesty, false statements of fact, fabrication of financial records, or outright fraud.

About Unorganised sector:- The urban informal sector comprises a large segment of street vendors, self employed people working from home, craftsmen, carpenters, electricians, plumbers, beauticians, tiffin service providers, artists, fashion designers, or professionals who have neither registrations nor formal benefits. Of late, a large part of the growing "Geek Economy" is also adding to this sector

Many smallholder farmers who earn barely enough to live over the poverty line also work as informal traders, selling surplus products. Other unofficial employees also own and operate small enterprises like market stalls, hair salons, and minibuses. Construction work and other paid services like housekeeping are frequently provided informally. Even while the majority of unorganized firms are tiny and their employees are typ-

ically impoverished, unorganized company operations are also common among better

off urban professionals (such as physicians, attorneys, actors, and architects) and owners of bigger companies. The most common ways to evade taxes are to hide income, inflate company expenses, or claim a lot of deductions and allowances. *Clearly, informal workers and businesses do not pay income tax in the same way as formal ones – and most would in any case fall below the thresholds their countries set for paying personal income tax. Informal businesses also do not pay tax to the government because they are unregistered. But they do pay GST on inputs they purchase, without any chance of a refund which are available only to GST-registered companies

Review of Literature

Singh and Sharma (2007) through their paper threw the light upon the issue that how tax professionals felt about the Indian Income Tax System, With regards to collecting the data from operating consultants in Punjab and Haryana. They attempted ,look at the contribution tax consultants made to the revenue by assisting their consumers in comprehending the collecting procedure satisfying their legal duties and the complicated tax system. Data factor analysis revealed seven components, including decrease in tax evasion, providing aid to taxpayers, and providing rewards for dependents, truthful tax payers, expanding the tax base, electronic filing of forms, adequate deductions, and the effect of exempt organizations The exempt tax system was crucial in deciding how well the Indian tax system works.

AroraR.S. and Rani Vanita (2010).The author studied the causes and solution for tax evasion and corruption in India. They looked into the views of tax experts from various Punjabi areas regarding tax evasion and corruption in the Indian tax system. They emphasized that the primary reasons of tax evasion include high tax rates, corruption, social acceptability of tax evasion. They also stated that the absence of procedures, harassment of tax payers, abuse of the enormous discretionary powers granted to income tax authorities, and the officers' lack of integrity are the

main causes of corruption. They recommended reducing tax rates, streamlining tax legislation, utilizing the TDS system extensively, and properly processing.

V. Kalpana (2015) "Tax Evasion: A Major Threat to Economic Development and Growth: Causes and Solutions"; This review study highlighted the reasons and negative impacts of taxation. Evasion in the growth of the Indian economy as a whole. Low tax morale and poor service quality in exchange for taxes and poor public institution accountability and transparency have caused significant tax evasion in our nation.

M Chandrappa's (2016) "Tax Evasion and Black Money in India: Causes and Remedies that, tax evasion happens when people purposefully disregard their tax obligations obligation. The resultant reduction in tax revenue may seriously harm the appropriate danger to the public sector's ability to operate the ability to pay for its essential costs This research examines a variety of issues responds to inquiries about tax fraud the potential fixes to lessen the issue of tax fraud.

Dr. Devarajappa S. (2017) In his paper "Tax Reforms in India: A Study of its Impact on the Revenue of the Government proposed the need for Indian awareness of the tax legislation and regulations that will foster such a climate in which they will not dodge paying their taxes when they are due, They feel gratified to have fulfilled their obligation to make the payment.

Shoba Jasmin and G. Tarun (2018), The author shed light on the connection between government revenue and tax revenue and tax avoidance. Studies show that even when the amount of tax is little, many individuals still view it as a hardship. This occurs as a result of the government's inefficient use of their tax dollars.. As a result, between 70 and 80 percent of people believe that the increased tax burdens them, while the remaining 20 percent do not. The study comes to the conclusion that corruption and an ineffective tax system cause tax evasion and avoidance.

Objectives of the study

This study is carried out with the following objectives

1. To study the concept of tax evasion and tax avoidance by persons employed in an unorganised sector

2. To find the main reasons behind tax evasion by selected group of people.
3. To find the problems involved in checking the tax evasion among this sector.
4. To spread the awareness amongst selected group regarding tax evasion punishments in India.
5. To suggest the remedial measure to curtail the tax evasion by person employed in an unorganised sector.

Causes of tax evasion and avoidance:-

1. Out of book transactions.
2. Manipulation of books of accounts, sales/receipts, expenses
3. Under reporting production
4. Manipulation of capital, closing stock and capital expenses
5. Financial market transactions, non-profit sector
6. Cash economy.
7. Parallel books of accounts
8. Low level of voluntary tax compliance
9. Weak enforcement of tax laws

Research Methodology

To meet the requirement, the primary data has been collected with the help of structured questionnaire from 50 respondents, by interviewing the individuals, which will cover the aspect relevant to income factor, total revenue, tax payments or non-payments. The secondary data have been collected from sources, such as IT departments, Internet, websites, professional magazines, referred journals, newspapers and conference books. For The sample collection Snowball sampling method has been followed and appropriate statistical tools has been applied for analysing and classifying the data.

Questionnaire:-

1. How much are you aware about the Tax structure, compliance and responsibility. 1.extremely aware 2. Very much aware 3. Slightly aware 4. Not at all aware.
2. For unorganised/ informal sector how fair the income tax structure is. 1.exceptional 2. Good 3.Fair 4.Poor
3. Do you agree that taxation is a method to help government in providing essential services and bene-

- fits to specially unorganised sector. 1.very much 2. To some extent 3.not much 4.not at all
4. In your opinion, What makes a selected person to evade tax? 1.ill-knowledge 2.inadequate maintenance of accounts 3.affraid from jurisdiction 4 To retain income in pocket
 5. Evasion is to be considered as:- 1.Only a crime 2.A moral deviance 3.neither a skill nor habit 4.can't say
 6. Does tax evasion activities improvise strict penalties and strongest punishments? 1.very much 2.to some extent 3.not at all 4.can't say
 7. Size of business and evasion are: 1.correlated 2.positively correlated 3.negatively correlated 4.not correlated
 8. Do you think that more procedure controls are needed to prevent evasion? 1.very much 2.some extent 3.not much 4.can,t say
 9. Are you aware about the penalties, punishments, violation by government for avoiding and evading tax? 1.very much 2.to some extent 3.Not much 4.not at all 5.can,t say

Finding of the study: The organized sector contributes two third to the GDP,Whereas the remaining 1/3 is by unorganized sector that is neither taxed nor monitored by a government; and is not included in the government's Gross National Product (GNP); as opposed to a formal economy. As a result Among the 50 respondents it was founded that 20 respondents pay their tax according to the regulation and the limit prescribed , 15 persons are unaware by the tax structure and its basic knowledge, remaining didn't showed the interest and ignored the researcher. Most of the person and their organisation do not have the registration number, ISSN code, fails to file the returns and payments. According to the reports and papers, to improve the areas The Central Board of Direct Taxes (CBDT) has pulled up the Income Tax (I-T) department to add more workers from the unorganised sector to the tax basket in the last financial year. The report also showed that in urban areas, the share of unorganised sector is 32.4 per cent and was also the major source of income for 52.2 per cent of rural households. According to the NCEUS report 2005 out of the 458 million persons employed in India, 95 per cent or 435 million worked in the unorganised sector, generating 50.6 per cent of the country's Gross Domestic Product. India has a large

informal economy with around 93% of its total workforce earning their livelihoods as informal workers (National Sample Survey Office 2014),”

It was founded that people want to enjoy the major rights, benefits and servings by the government but do not firm the tax payment as an obligation and formality and resulted They just want to entertain the earnings and enjoy their profits.

Conclusion or discussion

This study has surveyed with the employees of unorganised sector regarding tax evasion in India and also consulted with the CA about the knowledge and the education of suggested group related to Income tax and compliance. As per their opinion income tax evasion is prevalent in India. They gave the opinion that high tax rates, tax education, corruption in public sector units, multiple tax rates and inefficient tax authorities are the main causes of tax evasion. They suggested that proper tax regime, benefits, reduction in tax rates, simplifications of tax laws, removing loopholes in the tax system and some extent proper processing of information available the under the annual information return can be best tool for improving Indian tax compliance. Therefore there is a need for creating transparent, friendlier and less discriminatory administrative system. Further there is also a need to educate the people about Indian Tax law and create such an environment in which they pay their due taxes, do not evade the tax and feel proud in discharging their duty to pay the taxes.

Implication:-

Effectively implementation of the Income Tax Law can curb tax evasion As Income Tax plays the vital role in the development of Indian economy and good tax structure if implemented by every sector efficiently, will lead to the enhancement in the growth of the economy. As, the unorganised sector has wide area than organised, so the tax structure, payments and collection will leads to the boost in the revenue of the government which will directly leads to the country's economic stability. The several benefits like Increase in planned expenditure of government, Decrease in inflation rate due to lesser availability of disposable income to persons , Increase in efficiency of producers, Increase in standard of living of people. But this can help only if the selected sector

pay their taxes, oblige the regimes and comply with the government regulations.

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