

Tax Evasion and Tax Avoidance: Effects on the Internal Revenue

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Abstract

Tax is that part of an individual's total income which helps the government to increase their revenue. This amount is being utilized by the government for the purpose of development of the country such as for the purpose of construction of buildings, roads etc. But, it has been found that the country has to face various problems through tax evasion and avoidance. The aim of the study is to identify the reasons and effects of tax evasion and tax avoidance. This study has used the secondary data from the annual reports, from magazines etc. The findings of the study showed the amount of actual revenue collected by the government have had a huge difference than the revenue expected by the government. The reason behind this is tax evasion and avoidance. It has been conclude in this study that that these two affects the internal economy badly. The revenue of government gets decreased due to which government is not able to take positive measures for the benefits of the country. It has been recommended that if the amount of taxes will decrease, the problem can be reduced to a great extent.

Keywords: Hospitals, Service quality, SERVQUAL, Healthcare.

Introduction

Tax is the major source of government through which they earn revenue. The government collects their revenue through the amount which is paid by an individual in the form of taxes. The tax amount is used by the government for the social and economical development of the country. This amount is also contributed by the government for the progress of various sectors. Without this amount, the government will not give

contribution for the welfare of society. There are many types of taxes which an individual has to pay and is classified as DIRECT TAX and INDIRECT TAX.

Direct tax is that tax which is directly paid by the individual to the government on his/ her income or profits which they earn such as INCOME TAX. Indirect tax is that which a person has to pay on the goods and services rather than the income or profits which they

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earn. The example of this tax is GST

But in today it becomes a major problem as so many people do not pay tax and most people do not want to pay tax so they evade their taxes due to which major problem create, known as tax evasion and tax avoidance. Tax evasion and avoidance is the problem which is facing in all over the world including India. Many people assumed tax evasion and avoidance is the same thing but there is a huge difference between the two. And according to the various researches, it has been concluded that tax evasion impacted more on revenue of the country than tax avoidance.

“Tax evasion is when people do not pay tax or avoidspaying tax by illegally way. In tax evasion, people show their false amount knowingly, and also minimize their revenue in order to avoid tax.”

“When people legally try to minimize their tax liability in order to avoid tax is called tax avoidance. In this, people minimize their tax liability or avoid paying taxes within the law.”

The country has to face various problems due to the tax evasion and avoidance. The major effect due to tax evasion is that the taxable amount which people do not pay is used by them on the other activities and not used for the economic development of the country which may be harmful for the development of the country as this amount is not using for the welfare of the country. Due to tax evasion, public sector cannot be functioned properly. Through tax avoidance, the government revenue is getting reduced. As we know, government revenue is increased through the amount of taxes which people pay but when people avoid paying tax, this revenue is going to reduce which also effects the economic growth. Tax evasion arises due to the showing wrong statements, manipulating the statements, changing the cost of sales etc.

There are many cases held in India which is directly related to tax evasion and avoidance.

For Example: -NIRAV MODI CASE which is related to tax evasion. Nirav Modi was said to be a famous businessman in India. His business has been deal in the diamond business for the last many years. He has a global jewellery business. Modi is said to involve in the scam of 11,500 crores rupees of PNB. There was also aailable arrest warrant against Modi of the purchase of that property which has been turned to BENAMI. It is that property which is not actually bought and registered of its real owner. If anyone taken that property, it is said that the person offence the law. It is also said that the Modi had not given the right statements to the Income Tax Department. So, it is tax evasion.

It is the primary duty of an individual to pay the tax on time and not evade and avoid their taxes as it effects on the internal revenue and the growth of the nation. If we are not paying our taxes regularly and on time, how our country will actually develop. Tax evasion and avoidance are considered as twin devils for the country because they adversely affect the economy of the country. As compared to developed countries, in developing countries the amount of revenue which the government expects through taxes is very less. And the developing countries are much depend upon only that revenue for the purpose of construction, renovation etc. This is because of this twin devils our country is not growing and develop properly, if people do not pay tax, how government will give its contribution for the development of the nation. There could be also a problem of disequilibrium in the country because due to tax evasion, the rich people get become richer and poor people get poorer.

The paper is having different types of sections in this research paper.

Section one Introduction, Section two deals with Review of Literature, Section three deals with need of the study, Section four deals with the Objective of the study, Section five deals with the Research Methodology, Section six is having the details of the actual study, Section seven deals with the analysis and interpretation and Section eight with the conclusion.

REVIEW OF LITERATURE:-

The effects of tax evasion and avoidance have been studied by different authors and have given the different opinion regarding this problem:-

Manoj and Gopal (2019) studied to know about the major consequences of Tax Evasion and Avoidance in India. The main objective of this study is that to know about the main trap in the tax system of the country. The methodology which they adopted in this study was through the secondary data which has been taken from the annual reports. As we know, tax is the major source through which the government generates revenue but it was found that there are many taxpayers who do not pay their tax on time or they evade their tax by showing wrong amounts. It can be concluded that it is the major problem which are facing by our country. So, it is the duty of individual to pay their tax on time and to pay tax on actual income. By doing this, we can help our government for the better development of the country. The future scope of this study could be that in this they try to cover all the areas in relation to this problem but all the areas not covered. So they can cover all the areas so that the actual problem which is facing must be known and the study will be much improved if they cover all the areas.

D.O. and A.G. (2018) have studied to determine various effects due to tax evasion and

avoidance on Government Revenue Generation in Oyo State of Nigeria. In this study, they prepared a questionnaire in order to collect data and randomly selected about 165 respondents. They also used secondary data in their study and it was gathered from National Bureau of Statistics and from International Revenue Office from 2011-2016. From this study, it was concluded that the amount of revenue which they was expected during 2011-2016 does not meet with the Internally Generated Revenue that result in revenue loss. This study also showed that tax evasion and avoidance had an adverse effect on Oyo State, Nigeria. It was found that the effect of this may cause inevitable distraction in the overall performance of Government in the public sector. It could be suggested that in order avoid tax evasion and reduction in tax rates, the government should start public campaign to enlighten the public about the tax.

Tarun and Jasmin (2018) have studied on tax evasion in India. The paper mainly tries to come up the relationship between the tax evasion and tax revenue with govt earnings. Both primary as well as secondary data has been used. Because of the tax evasion and avoidance, the government revenue also decreased. This paper concluded that most of the people feel burden on them at a time of paying the taxes if their tax liability is even too small. Means people do not want to pay tax.

Francis (2017) conducted another study on the effects of the twin devils on Economic Growth and Development in Nigeria. The main aim of this is to study about the various effects and problems arise due to the tax evasion and avoidance on the economic growth of the country. The source of data which is used for this study is secondary data means there is no use of primary data while doing this study. The study concluded that tax evasion and avoidance creates no problem in the economic

growth of Nigeria means there is no relationship between them. It can also be concluded that tax avoidance is approx half of the century in the country with payment of low tax. It can be suggested that there should have proper database on all the amounts of taxpayers in federal and local govt. and there should be the establishment of federal revenue court by govt. so that they look upon the problems which arises due to these two major devils.

Mehrara and Farahani (2016) conducted a study about the effects of tax evasion and tax revenues on Economic Stabilities in OECD countries. The main motive of this study is to investigate about the effects of tax evasion and revenue in economic stabilities. The data from 1990-2013 has been used for this study. It had been concluded that the both have U shape relationship means the probability of tax evasion increase due to the increase in tax revenue.

Macharia (2014) has conducted a study on the problems of tax evasion and tax avoidance in Kenya. For this study, the survey has been decided through response of individuals to the main questions which he decided to ask. The sampling method used while doing this study. The main objective was this to understand in Kenya, what are the main reasons due to which taxes are evaded? The study concluded that problem of tax evasion has adversely affected the revenue system of Kenya because there are many taxpayers who are not willing to pay their tax so they evade their tax due to which this problem has been arisen in Kenya. The suggestion to this study can be that this study only tells about the tax evasion problem in Kenya. So, another study should be undertaken in other countries such as east Africa and many other countries. As this will provide a basis if anyone wants to compare the effects of that problem in those countries.

Dalu (2012) studied about the impact of tax evasion and avoidance on the economy in Zimbabwe. The study mainly tries to come up with the various effects and consequences faced due to twin devils and their impact on the economy. Using questionnaire and a non-probability sampling technique the study found that through corruption and by doing other wrong things, the tax payers showing their actual amount wrongly which was one of the major problems faced by Zimbabwe. It was concluded that taxpayers in Zimbabwe is minimize their annual income in order to evade tax. In Zimbabwe, the penalty system also started on those persons who do not pay tax on time but this system also not work because the persons who evade and avoid tax did not yet caught. The future scope of this could be to find out various factors which are responsible for tax evasion and avoidance and to work on those factors first because it may help in reducing that problem in the country.

NEED OF THE STUDY:-

Tax is the major source of government through which they earn revenue. The government collects their revenue through the amount which is paid by an individual in the form of taxes. The tax amount is used by the government for the social and economical development of the country. But there is a problem arises that there are many who do not want to pay their taxes because they feel that if they pay taxes their income will become less. So, they evade their taxes illegally and through legal way try to avoid their taxes. Due to this, there is a need arises to study upon the effects of tax evasion and avoidance on internal revenue. These two are also considered as twin devils for the country because they badly effect the growth and development of the nation.

OBJECTIVES OF RESEARCH:-

1. To study about the influence of tax evasion and tax avoidance on internal economy of India.
2. To investigate upon the measures for reducing the tax liability.

In this study, secondary data from the various sources has been used:

- From annual reports of the company, various magazines and journals and amounts obtained from ministry of finance
- For this study, the time period have been selected from the year 2009-2017

RESEARCH METHODOLOGY:-

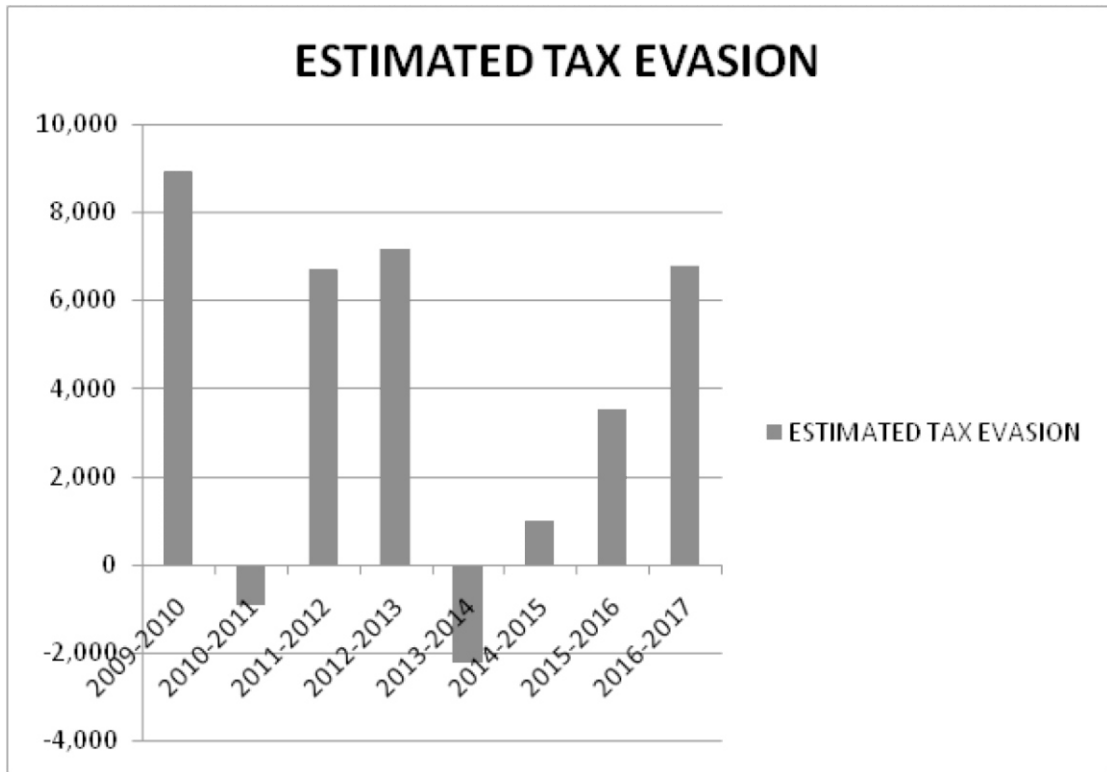
Research mainly refers from where we search in order to gain knowledge.

ANALYSIS AND INTERPRETATION:-

METHODS OF DATA COLLECTION:-

Shows the amount of tax Evasion for the past 8 years

YEAR	REVENUE ESTIMATED	ACTUAL REVENUE COLLECTED	ESTIMATED TAX EVASION
2009-2010	3,87,008	3,78,064	8,944
2010-2011	4,46,000	4,46,936	-934
2011-2012	5,00,651	4,93,948	6,703
2012-2013	5,65,835	5,58,659	7,176
2013-2014	6,36,318	6,38,544	-2,226
2014-2015	7,05,628	6,95,798	983
2015-2016	7,45,470	7,41,946	3524
2016-2017	8,56,496	8,49,714	6,782



From: Ministry of Finance

From the above, it can be analyzed that the revenue which is expected by government from the taxes not collected. The revenue they collected always less than the expected amount. This is because of tax evasion. Many people evade taxes and avoid taxes due to which this problem establishes. In our country, people evade taxes and not paying their amount so that they keep that amount themselves as black money and further utilized it for the purpose of hirelings. People also evade and avoid taxes for future because they feel the amount of taxes will rise in future. Tax avoidance is when people avoid their tax liability legally but due to this there is also a loss in revenue. And people avoid their taxes when they do not want to pay that amount. Tax avoidance generates the occurrence of deficiency in tax administration on the demand side.

MAJOR EFFECTS DUE TO TAX EVASION:-

Tax evasion is a major problem in all over the world including India. Instead of decreasing this problem, it becomes arise day by day and due to this, government may have to face various consequences because the revenue of the government do not generate much and the proper step for the growth of the country cannot take by the side of government. Following are the major problems arise due to tax evasion:-

1) LOSS IN REVENUE:

The main effect due to tax evasion is the loss in revenue. The revenue of the government is decreased due to that devil. When people evade taxes, how government will give its contribution for the welfare of the country.

2) REDUCTION IN ECONOMIC GROWTH:

The economic growth of the country gets also reduced. Due to tax evasion, there are no possibilities to increase the growth of country.

3) INCREASE IN INFLATION:

There is also an increase in corruption and inflation. If people evade taxes, government may increased the prices of things.

4) LESS DEVELOPMENT:

Because of tax evasion, government revenue gets decreased, so the development of the country could not be possible.

5) REDUCTION IN THE GROWTH OF POOR PEOPLE:

The growth and development of the poor standard of people and under developed region is not possible because government cannot take any step for the welfare of those people.

6) INCREASE IN TAX RATES:

Because of those people who evade taxes, the tax rates is increased by the government in order to increase the outcome of revenue due to which those people have to face consequences who pay their tax on time.

7) INCREASE IN LAND PRICES:

The prices of house and land also increased because of that devil. The government will increase the rates of buildings so that people pay taxes on time.

8) AFFECTED THE REPUTATION:

The reputation of the country also gets affected all over the globe because tax evasion encourages black money to be transferred between India and all other countries secretly.

9) ARISING DISEQUALIBRIUM:

There could be disequilibrium in the country because due to tax evasion, the rich people get become richer and poor people get poorer.

It can be said that the country has to face

various consequences due to the problem of tax evasion and tax avoidance. It is increasing regularly in India and effect the internal revenue to great extent. If proper steps must be taken related to that problem, it may eliminate from the country and the growth of the country will b increased.

MEASURES TO CONTROL TAX EVASION AND AVOIDANCE:-

Tax evasion and avoidance can be controlled through the following measures:

1. DECREASING TAX RATES:

The government should try to minimize the tax rates in order to decrease that problem. The high tax rates may force people to evade their amount of taxes, if the government will reduce the tax amount, the problem can be eliminated.

2. BY REGULATING THE DONATIONS TO POLITICAL PARTIES:

As many corruption arises due to the political parties. So, there is a need to keep public parties away from corruption. If the amount which is given to them evaluated properly, this problem can be reduced to a great extent and develop a huge change in today's problem.

3. BY MINIMIZING LICENCES AND CONTROLS:

There is a committee of professionals which is appointed so that they can interrogate how the permit system is utilized and also suggest whatever is not important should be eliminated. If that committee has given that power to make laws for the beneficial of the economy, the problem can be reduced.

4. AMENDMENT IN PENALTY SYSTEM:

Penalty should be collected from the individual upto certain limit. If penalty is taken beyond the limit, the payer will try to not pay

that penalty because more penalties affect the taxpayers badly.

5. PROVIDING EDUCATION:

If the proper education related to taxation system and what consequences the country has to face due to tax evasion and avoidance is provided to the students on schools, this can be eliminated.

6. SHOWING PROPER RESULTS:

The government should give proper services to all those who pay their taxes. So that, their trust on the government rules and laws cannot be go down and they pay their taxes later also without the thinking of evade their amount of tax.

7. MINIMIZATION OF TAX PROCEDURES:

Government should try to minimize the procedure of the payment of taxes. They will help the taxpayers to show his proper contribution towards the growth of economy.

CONCLUSION:-

From this study, it can be concluded that Tax evasion and avoidance affects the economy badly because there are many ill effects of these two devils. There are many cases happened in India which is related to tax evasion and avoidance means this is a very serious problem which reducing the amount of internal revenue also. It is the primary duty of an individual to pay the tax on time and not evade and avoid their taxes as it effects on the internal revenue and the growth of the nation. If we are not paying our taxes regularly and on time, how our country will actually develop. Because of tax evasion, government revenue gets decreased, so the development of the country could not be possible. Every individual should show his proper contribution towards the growth of the

country by paying taxes regularly. It can be said that the country has to face various consequences due to the problem of tax evasion and tax avoidance. It is increasing regularly in India and effect the internal revenue to great extent. If proper steps must be taken related to that problem, it may eliminate from the country and the growth of the country will b increased. The problem of tax evasion and avoidance can be fully eliminated from the country if we will fight with it.

The government should lower the amount of taxes so that people will not hesitate to pay the tax and contribute some amount for the welfare of the nation. It is also important to educate the students on schools about the laws of tax so that they fell proud to contribute something towards the development of the country.

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