

UNDERSTANDING TAX AVOIDANCE AND TAX EVASION

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ABSTRACT

The main purpose of taxation is to provide the state with money source which is used to meet the ever increasing demand of state for welfare schemes and other activities. Therefore, governments always try to maximize their revenue resources through more and more taxes on the one hand and on the other tax payers, whose attitude is to pay either minimum tax or not to pay at all. This attitude creates feelings of distrust between tax payer and tax administrators. The absence of general attitude of tax payers towards voluntary compliance is a hole in the bottom of revenue vessel of the government. Avoidance and evasion are the two most acknowledged problems in every system of taxation. Both affect the revenue in the same way but in the eyes of law there is a great difference between the two.

KEYWORDS: Tax Avoidance, Tax Evasion, Welfare Schemes, Revenue Resources, Income/Turnover.

Introduction

Avoidance and evasion are those two activities which cannot be separated from tax no matter what type of economic system, tax structure or administration a country adopts. Avoidance and evasion of tax will certainly take place in every country though with different magnitude. A tax payer, who reduces his tax liability through clever tactics and manipulation of law for his advantage within legal preview, is resorting to tax avoidance. When he does so by flouting the law i.e. conceal facts/figures activities and/or falsify the information deliberately to misguide the tax authorities for his gain, he is said to be evading the tax.

Avoidance of tax

The action by which a person acts within the letter of law but succeeds in reducing his tax liability by legally manipulating or exploring any lacunae in the law is tax avoidance. This situation arises out of ambiguity or loopholes or inherent limitation in tax laws. By twisting the meaning of the existing complex and ambiguous tax system the tax payer can extract unfairly certain advantages and avoid the tax. Although it is not termed as unlawful activity but it is an activity which legislature never, intend to encourage. To be more precise, the avoidance of tax is affected by abusing the defective phrasing of tax provisions and secondly by manipulating the figures/facts about income/turnover. It could be termed as twisting of law, of gain. Stephen Potter rightly defined avoidance as "The art of dodging tax without actually breaking the law." But the people who want to garb avoidance in honorable cloak term it as "Tax planning" especially after the publication of the "General Principle of Tax Planning" a well known. book by Wheatcroft. We can say that avoidance of tax is a social evil and it is undesirable from the point of view of national welfare.

Evasion of Tax

A considerable loss of revenue occurs when there is deliberate concealment of taxable income / turnover with a clear intention of not to pay the tax. It is termed as tax evasion. Evasion is the result of

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