



A Study On Impact Of Tax Evasion And Avoidance On An Indian Economy

Dr. Neena J. Parekh

Assistant Professor,

Swami Sahajanand College of Commerce and Management,

MKBU, Bhavnagar, Gujarat, India

Abstract

Tax is the ultimate source of income for any economy specially economies like India which runs on a mixed economy basis runs smoothly because of cash inflow of tax income. Tax is a compulsory liability for citizens who earns in a particular economy and is the source of revenue for the government. Tax Evasion is an illegal act which reduces the growth of an economy. Tax Avoidance creates a gap in the estimated and actual amount of government revenue which puts break on the growth of nation.

This paper attempts to study the level of tax evasion and avoidance and its impact on Indian economy. This paper shows a large number of tax payers who pays tax time to time but due to tax evasion and tax avoidance the distribution of income is not stable which affects the overall economy.

Key Words: Tax, Tax Evasion, Tax Avoidance, Mixed Economy, Tax payers, Income Distribution.

Introduction

Background Tax evasion and avoidance represent significant challenges to revenue collection and fiscal stability in India. The government relies on tax revenues to fund essential public services, infrastructure development, and social welfare programs. Thus, the extent to which individuals and corporations evade or avoid taxes can have far-reaching implications for the nation's economic wellbeing.

Tax refers to the compulsory exaction from the public by public authorities for public purposes. There are various types of taxes, such as income tax, corporatetax, property tax, inheritance tax and they are classified as direct or indirect taxes.

Review of Literature

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.

Objectives of the study

- To study the concept of tax evasion and tax avoidance by persons employed in an unorganised sector
- To spread the awareness amongst selected group regarding tax evasion punishments in India.
- 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.

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 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. 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

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.

Reference

- Chandrappa, M. (2016). Tax Evasion and Black Money in India: Causes and Remedies. *International Journal of Management Research and Review (IJMRR)* ISSN: 2249 - 7196, 6(10), 1376–1381
- Devarajappa, S., &Devarajappa, S. (2017). Tax Evasion in India: A Study of its Impact on the Revenue of the Government. *EPRA International Journal of Economics and Business Review*, 5(9).
- Kalpana, V. (2016). Tax Evasion-A Major Threat to Economic Development and Growth–Causes and Remedies. *International Journal of Scientific Engineering and Research (IJSER)*, 4(5), 54-56.
- Khera, Diksha. (2020). Tax Evasion in GST Regime and Measures to Alleviating the Tax Evasion. *Pramana*. 8. 77-91.
- <http://www.incometaxindia.gov.in>
- <https://www.legalserviceindia.com/legal/article-3712-the-concept-of-tax-evasion-and-its-impact-on-national-economy.html>
- <https://gsdrc.org/topic-guides/tax-reform/approaches/taxing-the-informal-sector/>
- https://en.wikipedia.org/wiki/Taxation_in_India
- <https://www.thehindubusinessline.com/opinion/columns/unorganised-growth/article29385181.ece>