

# Legislative Provisions and Administrative Machenries Income Tax to Prevent the Tax Evasion & Black Money Generation

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**Abstract – Tax avoidance happens when the undertakings are made by individuals, Firm's Trusts and distinctive substances to swear off paying taxes by unlawful and out of line inferences. The avoidance of tax generally speaking happens when taxpayers purposefully cover their livelihoods from the tax specialists with a particular true objective to diminish their tax obligation. Avoidance of tax, happens when the all-inclusive community report corrupt tax that fuses declaring less picks up, benefits, or wage than what has been extremely earned and they even go for overstating findings.**

**The avoidance of tax level depends upon particular variables, for instance, financial condition which suggests that social orders tendency to pay less tax diminishes when the installment due from taxes winds up self-evident. The level of tax avoidance is moreover subject to the tax organization's profitability and debasement levels. The level of tax avoidance is furthermore depends upon the contracted clerks and tax lawyers who support organizations, firms and individuals evade taxes.**

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## I. INTRODUCTION

The piece of tax administration in growing income age and restricting tax avoidance can't be over underscored, this stay testing errand at each period of progression of a tax administration. This is in light of the fact that it isn't just an issue of lift or minimization, yet rather one of upgrade. In like manner, there has to a true blue risk and certifiable finishing of audit, examination, examination, discipline and train for an errant tax payer while, meanwhile, his consistence costs must be irrelevant, and he should be guaranteed and street for reviewed of veritable complaints for installment of tax, with lively frameworks of at domain, demand and authority conclusion. Moreover, to restrict protracted settling shapes, they should be down to earth streets, for instance, impelled choices or courts that would abridge an undue delay and empower snappy administration choices.

Computerization has transformed into a spine in gainful administration that can viably check tax avoidance. For example, for income tax, Electronic chronicle is possible, Tax Deduction at Source (TDS), the instruments including reporting at banks-and trade of data and income to moreover centers in the framework can be automated. For circuitous taxes, for example regard included tax (VAT), there must be a computerized strategy for cross-checking solicitations that is exact and sharp, and verifiably not blundering, for both household and universal trade.

## II. TAX EVASION – ITS STRUCTURES AND IMPACTS

Tax administration is immovably associated with three thoughts of tax shirking, tax avoidance and debasement; they are now and again used equally. Regardless, there are fundamental complexities among the three, essentially reflecting the level of carelessness included.

Tax evasion isn't unlawful as in it conventionally comes to fruition as a result of the creativity and organizing of tax accountants and legitimate advisors inside the gambit of existing tax laws in helping taxpayers to confine their tax. Tax shirking is unmistakably encouraged by complex tax statutes in which openings exist to decipher the tax in the taxpayer's help when it isn't so proposed by the drafters of the law. Thusly, tax shirking as an issue is generally tended to with respect to the tax approach change.

Tax avoidance, on the other hand, is illegal be that as it may, in the occasion that remembered, it usually prompts normal rather than criminal punishments. It creates an underground economy as income that isn't represented or spoken to in tax returns. Likewise, an underground economy begins to work in parallel to the formed economy with all things considered malevolent results for an incentive among taxable people, on the adequacy of benefit dissemination,

and on the security of income gathering and the full scale economy.

### **III. PROCLAIMING LESS INCOMES, PROFITS OR GAINS**

Tax payers announce less income than the certified income earned by them in any cash related year under various heads of income (ie., under enumerating of incomes) is given underneath:

#### **a. Income from salaries**

Salaried tax payers avoids tax by using any of the going with methods, for example, guaranteeing higher rent receipts than the bona fide rent paid to profit the HRA exclusion, breaking the compensation portion in to cash and cheque's, asserting exception for school charge, endowments and other sporadic winding costs like transport rewards, guaranteeing for exclusions of particular perquisites like LTC, guaranteeing HRA exclusion anyway staying in have house et cetera.

#### **b. Income from House property**

While preparing full scale income from house property tax payer may avoid taxes by guaranteeing undiscovered rent, opportunity settlement and besides eagerness on gained capital by making reports.

#### **c. Corporate tax avoidance and/professional income**

Endeavors and professional people maintain a strategic distance from taxes generally by non-recording/under enumerating of receipts and guaranteeing over communicated derivations. Organizations when in doubt get over devaluation of favorable circumstances, asserting exception for whole spent on coherent research works out, publicizing costs, horrible commitments, issue of salaries and wages in the names of their relatives, excess additional charges and commission paid to representatives.

Professionals like specialists, contracted accountants, lawful counsels, Engineers et cetera, avoid taxes by not recording their receipts like dialog charges, endowments given by patients and clients and over communicating their own expenses as professional expenses, asserting for deterioration of office kinds of apparatus which are utilized or leased.

#### **d. Capital gain**

Capital get will be a champion among the most basic zone of tax avoidance because of the taxpayers grasp under valuation of properties sold and purchased for selection and maintaining a strategic distance from the stamp commitment by veritable

inheritances and others, guaranteeing for business, stamp paper and other offering costs more than the genuine utilization, purchasing another property in spite of the fact that they are the proprietors of more than one property, articulating wanders as crippled units and furthermore trade of ventures to common zones because of different rates of tax for whole deal capital gains and at this very moment capital gains.

#### **e. Income from various sources**

Since, it is a residuary head of income and tax payers take after self-evaluation methodology for tax installment, don't uncover data on winning from lotteries, confuses, wagering, betting, card redirections, Interest on stores, royalty's, enthusiasm on securities through security washing transactions, official cost and other additional incomes got by them in any cash related year.

#### **f. Avoidance under inspirations as per the IT Act**

Indian income tax Act, 1961 gave distinctive spurring powers to help in general populace for social speculation supports under segment 88 of the Act. Comparative plans are mishandled by tax payers as Rebate in respect of instructive costs of children, use on restorative treatment of self and weakened wards, blessings to various associations, enthusiasm on enlightening credits, reasoning for rent paid et cetera.

### **IV. OVER EXPRESSED EXPENSES**

Workers keep away from taxes by guaranteeing costs more than their genuine sum spent like children school charge, lodging costs, transport recompenses, rent costs, offering costs if there ought to emerge an event of offering of properties, costs on purchase of securities, gathering charges of intrigue and benefits, therapeutic costs of physically crippled wards et cetera.

Organizations similarly completed state costs relating to welfare costs of workers, transportation costs (oil, diesel, upkeep charges), publicizing costs, salaries and wages, commission costs paid to the representatives and coherent research costs and in this way avoiding the taxes by avoiding the genuine measure of income earned by the tax payers.

### **V. CONTROL OF RECORDS**

Taxpayer either as an individual or business firm controls the books of records either by non-recording of particular incomes or misrepresenting certain conclusions and exclusions. There are four techniques for tax avoidance practiced by organizations the country over. In the first place for the most part to exhibit extended consumptions, other than organizations routinely diminish amassing

figures thirdly organizations every now and again decrease stock valuation and fourthly the example is to make capital utilize especially in bona fide homes and show it in accounts as repairs which are not taxed.

### **Escape conditions in Indian tax framework**

The Indian tax framework so confounded that a run of the mill individual will never have the ability to appreciate it. One ordinary and standard man works so hard after multi month of sweating out when he gets his compensation near to, he comes to understand that starting at now a bit of his merited income has been accepted away by the legislature as TDS and he can't attest the markdown back due to the trapped structure of the tax framework and various tax courses of action can be deciphered by tax authorities and authorized clerks according to their enthusiasm to expand individual points of interest.

### **Progressivity of tax rates**

Tax risk of an individual is processed in light of segment framework at the rates proposed by the yearly spending designs of the central government. Income of the taxpayer is exempted from tax if the net income is up beyond what many would consider possible (Rs.1,60,000 for men) and tax will be gathered if the income is between certain compels (Rs.1,60,000 to Rs. 3,00,000 at 10 percent and Rs.3,00,000 to Rs. 5,00,00 at 20 percent or more Rs. 500,000 at 30 percent) and more tax if the income outperforms quite far. Along these lines the taxpayers reliably attempt tries to diminish their income at a piece which passes on cut down tax rate.

## **VI. SOURCES AND REASONS FOR TAX EVASION**

The evil of tax avoidance starts where the national intrigue closes. Generally there are three purposes behind tax avoidance (1) Exorbitant rates of taxes (2)Lack of straightforwardness/straightforwardness in tax laws (3) Inefficient and decline government administration. In India corporate evade taxes in order to keep up some dim money to be used for transactions with government bodies and government employees. Professionals avoid taxes remembering the true objective to set something aside for future/stormy days since tax rates are high that too much different in number. Government authorities and open laborers all around evade taxes since their income is out of prizes and unlawful. Tax avoidance is the consequence of individual taxpayer lead and social gauges on the supply side, and deficiencies in tax administration on the demand side. In any case, the tax structure needs to see as fair across finished distinctive gatherings of tax payers. Also, if negligible rates are too high, tax payers are likely going to find

ways to deal with maintain a strategic distance from tax. Over the world, these points are especially seen today, and the aftereffect of universal tax harmonization has been a bringing down in the rate structure (to improve inspirations) and attempts at extending the tax base (to diminish uneven characters).

**Table 1 Value of goods seized and customs, Excise duty and Service tax evasion**

Years	Customs		Excise and service tax	
	Seizure value in Crore	No of evasion cases	No of cases of evasion	Duty evasion Rs in Crore
2004-05	859.30	1080.40	4813	2696.48
2005-06	675.17	760.32	7621	4663.33
2006-07	689.16	900.01	7199	4123.93
2007-08	890.78	1300.09	1015	6102.10
2008-09	1202.90	1600.01	1509	7150.92

Another strategy for tax avoidance is esteem included tax avoidance under which the creators who assemble from the customers the esteem included tax evade paying taxes by showing less arrangements aggregate.

## **VII. EVALUATING TAX EVASION**

The differentiation between genuine income accumulation and an estimation of potential gathering is the tax gap. It is a check of total spillage, including the impacts of tax evading, tax avoidance and pollution. Usually, nevertheless, the tax opening is implied as assessed tax avoidance.

Surveying tax avoidance can be prompt or underhanded. The circuitous procedure joins tax avoidance to the underground economy since the last could be thought of as the degree of money related action that would be taxed if reported in tax returns. A more direct system for surveying the tax opening, particularly for VAT, is to get potential VAT income from the country's data yield cross section and to differentiate it and VAT income accumulation. These procedures have revealed that as much as 33% of potential VAT gathering and half of income tax accumulation may remain uncollected.

## **VIII. GROWTH IN TAX EVASION**

There is a typical view that tax avoidance has developed of late and is developing. Various variables speak to it. The piece of tax association in

the control of tax avoidance is, in like manner, not a static one but instead one that is dynamic and remains reliably troublesome. Among the enormous reasons is that, in any case, finished the latest two decades the volume of all around adaptable overall capital has extended altogether and its streams keep growing. Its estimations both direct wander and budgetary capital in the last's various grouped structures furthermore transmute and develop. Open entryways for tax avoidance multiply and increase before even all around made and tax associations can grasp or go up against them.

## **IX. IMPACTS OF TAX EVASION**

Tax avoidances have different wiped out outcomes for the tax payer, signify income and the overall population. The critical impacts are

1. Despite flopping for brevity, there ought to be some indicate of the negative impacts of tax avoidance on the financial condition. It's most critical horrible impact is perhaps on esteem. An industrial sequential construction system worker pays tax. A diner master whose income is the same yet who gets some part of his income in tips does not reveal it for tax purposes.
2. The tax avoidance turns monetary efficiency. In part, that are less subject to the head's examination, there will be more prominent wander. That may one inspiration driving why certain administration area practices for example, the improvement business have developed, so phenomenally as associations move across finished national checks in a globalized world economy.
3. As dissimilarity and inefficiency incite bring down income affirmation for government, its practical point of confinement, capability and ampleness persist because of tax avoidance. Breaking point perseveres on account of lower openness of assets. Efficiency diminishes since essential limits may must be given less need than others and reasonability rots as pleasant taxpayers comprehend that legislature can't or unwilling to influence therapeutic move and, thus, to feel dynamically extraordinary in joining the rest in the exhibition of tax avoidance.
4. Tax avoidance being under-itemizing of income recommends under-estimation of GDP and all its comparable substantial scale budgetary outcomes. Since the denominator is under-surveyed, the extents of tax to GDP, the financial setback to GDP, and open commitment to GDP are altogether completed assessed.

## **X. MEASURES TO FIGHT TAX EVASION**

### **1. Decrease in tax rates**

Prevalence of high tax rates is the first and for most clarification behind tax avoidance, since this is the thing that makes the avoidance so gainful and charming paying little heed to the systematic threats. In case open heart is to be blended against tax avoidance and if tax dodgers are to be isolated by the overall population all over the place, the general population ought to be induced that tax avoidance is reserved. This objective is difficult to accomplish because of the fact that the minor rates of taxation are confiscatory. The high rates of taxation make a psychological deterrent to more unmistakable effort and undermine the farthest point and the will to save and contribute. The present anomalous condition of taxation leaves the Government with little degree for portability for bringing additional assets up amid emergency. The most outrageous minimal rate of income tax, including additional charge, should be cut down remembering the true objective to make an impact, the diminishment in the rates of taxation should be at one stroke

### **2. Minimization of controls and licenses**

A council of specialists should be assigned to enquire into the utility of each and every current control, allowing and allow frameworks, and prescribe transfer of such of these like never again saw as imperative. This board may similarly propose changes in law and strategies keeping in mind the end goal to ensure that the controls which are huge for the soundness of the economy are controlled more effectively and with insignificant baiting to people in general.

### **3. Control of donations to political parties**

There is a need to keep political associations free of degradation. Clearing of the limitation on gifts by associations to political gatherings is, thus, not favored. Before long, it is a recognized unavoidable truth that in a majority rule set-up, political gatherings need to spend noteworthy sums of money and those significant totals are required for races. As in West Germany and Japan, in our country furthermore, the Government should subsidize political gatherings. Sensible honors in-assist should with being given by the Government to national political gatherings and proper criteria should be produced for seeing such gatherings and choosing the level of permit in-help to each one of them. For agreeing affirmation to a political get-together hence, it should be vital, bury alia that it is enlisted under the Societies Registration Act, 1860 and its yearly records are reviewed and distributed inside a supported time. Notwithstanding the decision of government regarding the matter of financing political gatherings, the gatherings may be



required to get their records examined and distributed each year.

Blessing by taxpayers, other than associations, to see political gatherings should be allowed as a deduction from the gross total income subject to particular controls. The most extraordinary total met all requirements for thinking on account of gifts to political gatherings should be 10 for every penny of the gross total income, subject to top of rupees ten thousand. The inference to be allowed should be 30 for each penny of the qualifying measure of the blessing.

#### **4. Making Confidence among Small taxpayers**

The act of being excessively watchful in little cases, where no advantageous income is incorporated, has done much to mischief of the workplace in people in general eye. The activity for settling the peril lies with the workplace. The rules issued by the Central Board of Direct Taxes on the new strategy for making examinations in little income cases make a striking departure from the past and are likely going to accomplish more gigantic results than the earlier little income plot.

#### **5. Reward of Certain Business Expenses**

Beguilement consumption which is achieved basically for the help of the tax payers business and is particularly related to its dynamic lead should be allowed to be deducted up to the roofs suggested under region 37 (2A) of the Income-tax Act, 1961.

#### **6. Changes in Penal Provisions**

Discipline fills its need only in light of the fact that it is inside as far as possible. When it crosses that breaking point, it will likely form the inflexibility of the taxpayer's stiff necked attitude than to transform him. A discipline in perspective of income instead of tax hits the humbler taxpayer more ruthlessly. The quantum of discipline imposable for mask of income should be with reference to the tax endeavored to be avoided, as opposed to the income covered up.

#### **7. Incredible Prosecution Policy**

The division should thoroughly reorient itself to a more lively prosecution approach with a particular ultimate objective to confer fear and whole some respect for the tax laws in the brains of the taxpayers. Further, where there is sensible plausibility of securing a conviction, the tax dodger should never-endingly be charged.

#### **8. Information and Investigation**

To adjust to the extending refinement and innovation of the methods of tax avoidance, there is a necessity for complete re-introduction in the workplace's approach to manage its techniques for learning as examination. The mechanical assembly for understanding and examination at the charge of the division should in like manner be totally refreshed and streamlined to deal with adequately the danger of tax avoidance.

#### **9. Taxation of horticultural income**

Horticultural income, which is at present outside the focal tax net, offers a considerable measure of expansion for covering dull money. There is sincere prerequisite for rural income being subjected to a uniform tax basically keeping pace with the tax on various incomes so as to discard the augmentation for avoidance of direct taxes constrained by the Union Government.

#### **10. Vital upkeep and audit of records**

A statutory plan may be made requiring upkeep of records by all people in calling, and by delegates where the income from business is in wealth of exempted farthest point or turnover or gross receipts are in excess of Rs. 50 lakh in any of quickly three going before years. A game plan may be exhibited in the law making presentation of examined accounts required in all cases of business or considering where the arrangements/turnover/receipts surpasses as far as possible.

#### **11. Changeless Account Number**

The nonappearance of a uniform arrangement of requesting all taxpayers in the country consistently has to some degree been accountable for the inconveniences encounters by the division in dealing with tax avoidance. It will be imperative to have an additional code, a 'Records Locator Code', to help discover the records of a taxpayer when the case is traded beginning with one circle then onto the following after the lasting record number has been appropriated. To keep up a vital separation from disorder with the changeless numeric code, this records locator code may be short alphabetic code. It won't be a bit of the perpetual code and won't in any way vitiate its lasting character.

#### **12. Intensity of Survey**

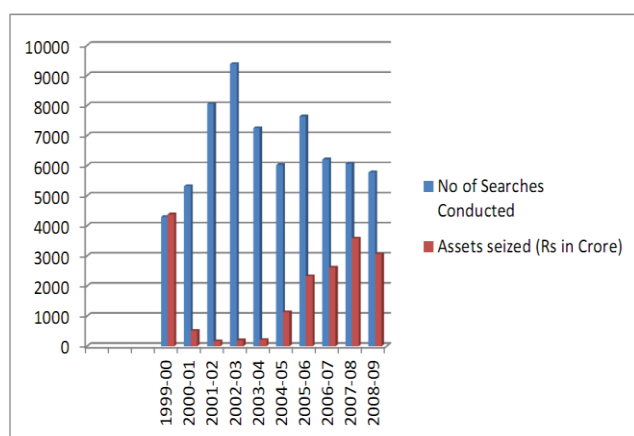
Another course of action may be familiar as a partner with zone 133A of the Income-tax Act, 1961 to engage the Income-tax Officer to visit any premises of an assessee for the purposes behind checking money, affirming stocks, and looking at such records or records, as he may require and which may be available there. He may in like manner get any

additional data and record articulation of any individual who is found at the premises, in respect of issues which would be noteworthy for making an appropriate evaluation

Data made open by Central driving gathering of Direct taxes reveals that there had been a continuing and persevering undertakings to uncover the income tax avoidance through journeys. The advantages seized in the midst of 2008-2009 were to the tune of Rs. 3059.89 crore. Sorted out data giving the purposes of enthusiasm of number of endeavors, assets seized and unaccountable income uncovered for the years 1999-2000 to 2008-2009 is displayed underneath. The bits of knowledge of prosecutions that are begun against the tax avoidances reveal that conviction allowed was low for such arraignments. In the midst of the year 2000-01 of the 678 cases in which arraignments were picked under Direct taxes organizations, 254 cases were bothered, 22 cases were cleared and only 17 cases realized sentiments.

**Table 2 Seizures by income tax Department Disclosed for Direct taxes in India (1999-2009)**

Year	No of Searches Conducted	Assets seized (Rs in Crore)
1999-00	4299	4384.18
2000-01	5321	512.36
2001-02	8054	163.60
2002-03	9385	193.65
2003-04	7248	209.49
2004-05	6028	1133.90
2005-06	7639	2324.57
2006-07	6207	2612.77
2007-08	6071	3581.42
2008-09	5777	3059.89



**Fig 1 Seizures by income tax Department Disclosed for Direct taxes in India (1999-2009)**

## XI. CONCLUSION

From the Expanding Survey Operations Sufficient number of study hovers should be set up to ensure extensive and continuing with diagram on rotational premise. Further, an officer of the rank of Assistant Commissioner should be placed in completed all control of study task in each Commissioner's charge and he should similarly hold charge of the Special Investigation Branch. Also, in the more noteworthy urban territories like Delhi, Bombay, Calcutta, Bangalore and Madras, an examination Range should be made in various urban networks too. The Central Board of Direct Taxes should set out each year a program and decide centers for gathering, examination and dispersal of data. It should in like manner ensure that the program is altogether clung to and tries are made to accomplish the goals settled. The sources to be tapped every year should be picked at the national level by the Board toward the beginning of consistently, to be taken after and executed totally at all levels. Unmistakable sorts of data may be accumulated in different years to keep a part of stun.

The genuine game plans under which the arrangement of changeless record numbers is exhibited should in like manner incorporate that tax payers should refer to their lasting record number in applications for bank draft, mail trades, transmitted trades, et cetera. In the event that the aggregate connected with such trades surpasses twenty thousand rupees.

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Ibid.

Laffer curve is a relationship between government revenue raised by taxation and all possible rates of taxation.

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Ref: Para 1.5 of the Report of the Committee on Public Procurement, 6 June 2011

RuPay is the Indian domestic card payment network being set up by National Payments Corporation of India (NPCI).

TDRs are rights for construction beyond the usual limits, which can be transferred by the owner. These rights can be made available in lieu of area or land surrendered by the owner.

The Union Bank of Switzerland was known as Swiss Banking Association before 1921.

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