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## Individuals view on tax evasion and tax avoidance in direct taxation

**L Prabha, Ramya G and Priya Varshni KS**

**Abstract**

Direct taxes are those which are paid directly to the government by the taxpayer. These taxes levied and collected from the same person. It's imposed on the people and organizations directly by the government. Most of the tax evasion and tax avoidance are carried on in the direct tax. Hence an analysis has been made to find out the reason for tax evasion and tax avoidance. Analysis made were among individual taxpayers who file income tax return. It revealed that creation of awareness among public regarding direct tax and reduction in tax rate shall reduce tax evasion and tax avoidance.

**Keywords:** Tax evasion and tax avoidance

**Introduction**

Tax evasion is the illegal evasion of taxes by individuals, corporations, and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions.

Tax avoidance is the legal use of tax laws to reduce one's tax burden. Both tax evasion and avoidance can be viewed as forms of tax noncompliance, as they describe a range of activities that intend to subvert a state's tax system, although such classification of tax avoidance is not indisputable, given that avoidance is lawful, within self-creating systems.

**Importance of direct tax**

One of the essential characteristics of direct tax is 'the ability to pay'. Direct taxes are paid by the common people on profits and income. Thus, it is comparatively less burden to the individuals. Direct tax facilitate to more equitable distribution of income and wealth. The other main aspect of taxation is 'proper administration'. Direct tax enables the government to mobilise the substantial amount of revenue. Taxation acts as a tool for controlling inflation. The tax amount collected by the government is utilised for the development of backward regions.

**Tax Evasion**

**Some ways of tax evasion**

- Failing to pay the due
- Smuggling
- Inaccurate Financial statement
- Storing wealth outside the country

**Penalties for tax evasion**

Income tax evasion is a criminal offence in India. Under Chapter XXII of the Income-tax Act, 1961, the tax evasion can attract hefty penalties along with evaded tax or in some cases may even land you in jail.

**Tax Avoidance**

**Methods of tax avoidance**

- Deduction available in case of minor child
- There are no tax on long term capital gains
- Adult children re big tax savers
- Tax is not implied in case if parents
- Show the monetary transactions as loans.

**Penalty for tax avoidance**

The penalties for tax avoidance depends upon the individual’s transaction value and the avoidance level. The penalties are levied by the Income Tax department Authorities according to their carder and respective authority levels.

**Table 1:** Difference between tax evasion and avoidance

<b>Tax Avoidance</b>	<b>Tax Evasion</b>
i) It is reducing the tax liability in legally permissible ways and has legal sanction.	All methods by which tax liability is illegally avoided is tax evasion.
ii) Takes into account all legal provisions.	It is an attempt made to evade tax liability by unfair means.
iii) It is tax hedging within the framework of law.	Tax evasion is tax omission.
iv) It has legal sanction.	It is unlawful and the assessee may be punished.
v) It is intentional tax planning before the actual tax liability arises.	It is an intentional attempt to avoid tax payment after the tax liability has arisen

**Objective**

- To examine the factors influencing the tax evasion.
- To examine the factors influencing the tax avoidance.

**Statement of the problem**

India is the second largest populated country in the world. To have a sustainable economic growth and development the Government requires enough fund generation through effective taxation. Direct tax forms a significant part of an economy’s taxation system. It contributes more than 40% in Gross Total Income. When Direct taxes are based on the ability-to-pay principle, the burden of tax cannot be shifted to someone else. Problem arises when their view focus on changes in the amount of tax levied. Hence there is always a high risk of tax evasion and avoidance. Since most of the tax payers are individuals, we have decided to analyse the difficulties in tax payment, reason for tax evasion and avoidance among the individuals.

**Research Methodology**

**Data Analysis**

Data analysis, also known as analysis of data or data analytics, is a process of inspecting, cleansing, transforming and modelling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains.

**Sampling Technique**

Random sampling method is implemented in the study by preparing a questionnaire. The questionnaire contains basic personal and income details of the individuals. It is issued to randomly selected individuals and the details required are collected for the study. It is subjected to the informations filled by the individuals.

**Methods of data collection**

▪ **Primary data**

Primary data in this study is the questionnaire issued to the individuals and the information received by this source. The questionnaire contains 4 sections namely section A, B, C, D. Section A contains basic personal details of the individual. Section B contains the income details of the individuals.

Section C contains the difficulties faced by the individuals and Section D contains the suggestions given by the individuals.

▪ **Secondary data**

The review of literatures are collected from various journals, magazines and web pages. The details regarding the study are widely taken from the above mentioned sources. The details are subjected to the publishers and authors.

**Tools for analysis**

▪ **Percentage analysis**

Percentage Analysis is applied to create a contingency table from the frequency distribution and represent the collected data for better understanding.

▪ **Chi square distribution**

A chi square statistic is a measurement of how expectations compare to results. The data used in calculating a chi square statistic must be random, raw, mutually exclusive, drawn from independent variables and drawn from a large enough sample.

$$\text{Chi – Square test } (\chi^2) = \frac{\sum (\text{O} - \text{E})^2}{\text{E}}$$

**Review of Literature**

Rajni Arora (2012) [12] conducted a study on the topic “Black Money in India: present status and future challenges” with an objective to study the present level of black money in the economy. The study focuses on the areas of generation of black money and its effects. The study has suggested that use of e-governance and digital modes can reduce black money.

Dr. Devendra Vishwakarma (2016) [6] made a study on the topic “Effects on black money on Indian economy”. The objective of study is to identify the effect of black money on Indian economy. The study focuses on the various areas of black money generation and its impact on the economy. The study has suggested that simplifying tax laws and proper filing of returns by citizens may reduce tax evasion.

**Analysis and Interpretation**

**Percentage Analysis**

**Table 2:** Opinion on tax evasion and avoidance

S. No	Particulars	Strongly Agree		Agree		Disagree		Strongly Disagree	
		NO	%	NO	%	NO	%	NO	%
1	Risk of getting caught is low	17	34	27	54	4	8	2	4
2	Tax collected is utilised poorly	21	42	21	42	7	14	1	2
3	Potential consequences are not serious enough	25	50	19	38	5	10	1	2
4	People think they pay too much of tax	26	52	22	44	1	2	1	2
5	Government lags in providing transparency	26	52	16	32	6	12	2	4
6	It's wrong if the taxpayer do not report correct income	27	54	17	34	4	8	2	4
7	Capital gains can be avoided by channelising the profit	14	28	32	64	3	6	1	2
8	Substantial fine would deter people from tax evasion	14	28	23	46	8	16	5	10
9	Unnecessary taxes encourage tax avoidance	27	54	17	34	8	16	1	2
10	If tax rates are reduced, tax avoidance will reduce	27	54	18	36	2	4	3	6

**Interpretation**

Its apparent from the above table that out of the total respondents.

- 34% of the respondents strongly agree, 54% of the respondents agree, 8% of the respondents disagree and 4% of the respondents strongly disagree that Risk of getting caught is low. Majority of the respondents agree that Risk of getting caught is low.
- 42% of the respondents strongly agree, 42% of the respondents agree, 14% of the respondents disagree and 2% of the respondents strongly disagree that Tax collected is utilised poorly. Majority of the respondents agree and strongly agree that Tax collected is utilised poorly.
- 50% of the respondents strongly agree, 38% of the respondents agree, 10% of the respondents disagree and 2% of the respondents strongly disagree that Potential consequences are not serious enough. Majority of the respondents strongly agree that Potential consequences are not serious enough.
- 52% of the respondents strongly agree, 44% of the respondents agree, 2% of the respondents disagree and 2% of the respondents strongly disagree that People think they pay too much of tax. Majority of the respondents strongly agree that People think they pay too much of tax.
- 52% of the respondents strongly agree, 32% of the respondents agree, 12% of the respondents disagree and 2% of the respondents strongly disagree that Government lags in providing transparency. Majority of the respondents strongly agree that Government lags in providing transparency.
- 54% of the respondents strongly agree, 34% of the respondents agree, 8% of the respondents disagree and

- 4% of the respondents strongly disagree that Its wrong if the taxpayer do not report correct income. Majority of the respondents strongly agree that Its wrong if the taxpayer do not report correct income.
- 28% of the respondents strongly agree, 64% of the respondents agree, 6% of the respondents disagree and 2% of the respondents strongly disagree that Capital gains can be avoided by channelising the profit. Majority of the respondents agree that Capital gains can be avoided by channelising the profit.
- 28% of the respondents strongly agree, 46% of the respondents agree, 16% of the respondents disagree and 10% of the respondents strongly disagree that Substantial fine would deter people from tax evasion. Majority of the respondents agree that Substantial fine would deter people from tax evasion,
- 54% of the respondents strongly agree, 34% of the respondents agree, 16% of the respondents disagree and 2% of the respondents strongly disagree that unnecessary taxes encourage tax avoidance. Majority of the respondents strongly agree that unnecessary taxes encourage tax avoidance.
- 54% of the respondents strongly agree, 36% of the respondents agree, 4% of the respondents disagree and 6% of the respondents strongly disagree that if tax rates are reduced, tax avoidance will reduce. Majority of the respondents strongly agree that if tax rates are reduced, tax avoidance will reduce.

**Chi-square distribution**

**1. Income level and tax collected by government (Two Way Table)**

**Table 3**

Income level	Strongly agree	Agree	Disagree	Strongly disagree	Total
21000- 40000	11(23.91)	6(20)	1(7.14)	2(20)	20
41000- 60000	8(17.39)	5(16.67)	3(21.43)	1(10)	17
61000- 100000	2(4.35)	3(10)	2(14.29)	1(10)	8
10000 & above	2(4.35)	1(3.33)	1(7.14)	1(10)	5
Total	23	15	7	5	50

**Table 4:** Income level and tax collected by government chi square test

Factor	Calculated value	Table value	Degree of freedom	Significant value
Income level	8.93	16.919	9	5%

Hence the calculated value 8.93 is lesser than the table value 16.919, the hypothesis is accepted and independent at 5% significant level.

## 2. Percentage of income saved and tax paid (Two way table)

**Table 5**

Percentage of income saved	Strongly agree	Agree	Disagree	Strongly disagree	Total
10%	11(22.92)	6(21.43)	3(21.43)	2(20)	22
20%	8(16.67)	4(14.29)	2(14.29)	1(10)	15
30%	4(8.33)	2(7.14)	1(7.14)	1(10)	8
40% & above	1(2.08)	2(7.14)	1(7.14)	1(10)	5
Total	24	14	7	5	50

**Table 6:** Percentage of income saved and tax paid chi square test

Factor	Calculated value	Table value	Degree of freedom	Significant value
Percentage of income saved	8.84	16.919	9	5%

Hence the calculated value 8.84 is lesser than the table value 16.919, the hypothesis is accepted and independent at 5% significant level.

## 3. Occupation and the avoidance of capital gains (Two way table)

**Table 7**

Occupation of the assessee	Strongly agree	Agree	Disagree	Strongly disagree	Total
Govt employee	3 (12.5)	7(14)	2(14.29)	1(8.33)	13
Own business	2(8.33)	5(10)	1(7.14)	1(8.33)	9
Private employee	1(4.17)	4(8)	1(7.14)	1(8.33)	7
Professional employment	4(16.67)	8(16)	2(14.29)	2(16.67)	16
Others	2(8.33)	1(2)	1(7.14)	1(8.33)	5
Total	12	25	7	6	50

**Table 8:** Occupation and the avoidance of capital gains chi square test

Factor	Calculated value	Table value	Degree of freedom	Significant value
Occupation of employee	6.71	21.026	12	5%

Hence the calculated value 6.71 is lesser than the table value 21.026, the hypothesis is accepted and independent at 5% significant level.

## 4. Age and tax avoidance (Two way table)

**Table 9**

Age of the tax payer	Strongly agree	Agree	Disagree	Strongly disagree	Total
20-30	1 (2)	1(2.94)	1(12.5)	1(12.5)	4
30-40	2(4)	1(2.94)	1(12.5)	1(12.5)	5
40-50	15(30)	9(26.47)	1(12.5)	1(12.5)	26
50-60	7(14)	6(17.65)	1(12.5)	1(12.5)	15
Total	25	17	4	4	50

**Table 10:** Age and tax avoidance chi square test

Factor	Calculated value	Table value	Degree of freedom	Significant value
Age of the taxpayer	8.93	16.919	9	5%

Hence the calculated value 8.93 is lesser than the table value 16.919, the hypothesis is accepted and independent at 5% significant level.

### Findings

- Majority of the respondents strongly agree that Tax collected is utilised poorly, Potential consequences are not serious enough, People think they pay too much of tax, Government lags in providing transparency, Its wrong if the taxpayer do not report correct income, Unnecessary taxes encourage tax avoidance, If tax rates are reduced, tax avoidance will reduce.
- Majority of the respondents agree that Risk of getting caught is low, Tax collected is utilised poorly, Capital gains can be avoided by channelising the profit, Substantial fine would deter people from tax evasion.

### Suggestions

The government shall reduce the rate of tax to increase the

number of taxpayers and will reduce the tax evasion and tax avoidance.

Penalties should be made high for those who evade tax.

### Conclusion

Tax evasion and tax avoidance are the prime cause of backdrop of our economy. Since direct tax is paid by person, each one should contribute to the development of our economy. The analysis made revealed that utilisation of funds in creating awareness among public regarding direct tax will pave way for reduction in tax evasion and tax avoidance. The government shall reduce the rate of tax to increase the number of taxpayers and will reduce the tax evasion and tax avoidance. Penalties should be made high for those who evade tax.

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