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A Study of Tax Evasion & Black Money Generation in India

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ABSTRACT: The Indian government is more concerned about the prevalence of the tax evasion and black money and various commissions are formed for controlling it but results are not so impressive. Thus, the paper suggests that recommendations of the commissions or laws should be implemented correctly for reducing bad effects of tax evasion and black money and need of separate direct tax code. The study shows that there is a significant positive impact of taxation on the economic development of India with Income tax being least effective. Corporation tax apart from other taxes was found to be one of most productive in such a shorter extent of time since its obligation. To control the generation of black money there should be a strong and appropriate legislative framework. It is evident from the study that government of India already introduced various commissions for estimating black economy but estimation reports are not same. This study also investigated the overview of the opinion of tax professionals regarding the tax evasion in India, delineating the number of factors responsive for tax evasion and examining the possible remedies to reduce the problem of tax evasion. Tax evasion in India is a serious affair and for any defaulters or fraudsters, the Income-Tax Act provides for adequate repercussions. The study has made an attempt to assess the overall profile of tax evasion and black money in India, particularly in terms of causes, impacts and government initiatives. Tax evasion occurs when individuals deliberately fail to comply with their tax obligation. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses. The results indicate that tax evasion and black money has been expanding very rapidly in India as well as in developing countries

KEYWORDS: tax evasion, black money, economic development, GDP, real estate, income tax law.

INTRODUCTION: One of the major obstacle before India Government is Tax evasion. Tax evasion is the way people evade tax by illegal and unfair means. They may claim lesser profit, gains or turnover than actual. Even if there is huge amount of tax to be paid, evaders get refund by making misrepresentations before tax authorities. Huge amount of revenue is lost through this way for government so that we cannot climb from economic stagnation. Most of the welfare activities for poor are put on hold due to lack of money while some people who can buy even the government with black money are growing daily.

Different ways of Tax Evasion in India Ways through which people evade tax are Smuggling, Evasion of Sales and Value Added Tax, Evasion of Income Tax, Evasion of Wealth Tax, Evasion of Customs Duty and Evasion of Excise Duty. Also, officials take bribery and help in making misrepresentations and fabricated financial statements instead of reporting to tax authorities. Evaders willfully fails to file return, submits false returns, submits false certificates to get deductions , exemptions and claim low income, charging personal expenses to revenue, fails to pay dues within due date and so on to evade tax.

Impact of Tax Evasion in India Taxes is the real wellspring of income of India government. Tax evasion causes economic imbalance that is the manner by which a few people are getting more extravagant and others are getting poorer. Numerous change measures and activities of government must be put aside and welfare activities are getting influenced. Dark cash causes inflation and value disintegration. Measures taken by India government to check Tax Evasion a few stages as beneath have been taken by India government to maintain a strategic distance from tax evasion. In India, tax evasion is viewed as a wrongdoing. Indictment and Penalties are forced under various acts by government. Income tax remunerate scheme has been presented by Income Tax Department which offers prizes to

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sources about tax evasion. As of late, India has gone into pact with US to maintain a strategic distance from tax evasion by Americans through Indian monetary associations. Special Bearer Bond Scheme (Immunities and Exemptions Act, 1981) empowers individual possessing black money to put resources into unique securities. Voluntary Compliance Scheme (Amnesty Scheme) was another.

People earning millions of rupees are out of tax bracket. Sources of revenue of many people in the city are not in notice of government. Due to this, some people are being rich day by day while many others are being poorer. Gap between haves and have-nots is growing yearly. Country has been suffering from resources constraint, severe poverty, repaid growth of population, increasing unemployment rate and so on. As Income tax is the best tool in democracy for the government to build welfare state. We have Income Tax Department to effectively implement of Income tax law but why large numbers of people still are possessing property without having clear source and without paying tax? This is the problem being observed at least by researcher as an informed citizen. In addition to Income tax and tax administration, issue of tax evasion also comes under this research study whose objective is also to make me able to answer this question and suggest necessary way forward to the concerned authority. This study will attempt to investigate the overview of the opinion of tax professionals regarding the tax evasion in India, delineating the number of factors responsive for tax evasion and examine the possible remedies to reduce the problem of tax evasion& black money generation. In a nutshell, there are problems of planning and enforcement of Income Tax Act and prevention of tax evasion in India.

Furthermore, this study would be useful to not only those who administer the law, but also to those who make the laws and to academicians who examine the statutory provisions and the judicial decisions critically. The legal prepositions and doctrines are to be gathered through the judgments of the Apex Court and the statute in respect of Income Tax Law. It appears that a very little work has been done in this area. Therefore, the researcher's contribution will be important in generating ideas, carrying forward discussions and to suggest reforms as to how consent is postulated and interpreted in taxation law, in different contexts.

Government expanded the tax chunk, diminished derivation rate, and expanded legal tax evasion measures. Most as of late, Tax Administration Reform Commission was set up by Government to make auxiliary change to tax matters to rearrange and streamline tax techniques. Prior India had set up a few committees like Taxation Enquiry Committee, Indian Tax Reforms Committee, and Direct Taxes Enquiry Committees and so on. Exchange Pricing Audit was acquainted by Finance Bill with audit undisclosed exchanges to control tax evasion. Impediments of Indian Tax Structure which result in tax evasion

1. High rate of taxation. High rate of taxation cause a burden to tax payer. So, they find ways to avoid tax.
2. Failure to curb bribery. There should be adequate system to curb bribery and corruption among officials. They help taxpayers to avoid tax by taking an agreed share of profit out of evaded tax.
3. Lack of simplified procedures. Tax structure in India is complex and people find it hard to go to different departments for a single matter.
4. Existence of large number of taxes. Existence of large number of different type of taxes causes burden on taxpayers. 5. Complex tax laws and loopholes to avoid tax in laws. Indian tax law is complex. In the same law, people find provisions to escape from tax liability.
5. Lack of organized and systematic Administration structure.
6. Frequent changes in Government and Political instability. Frequent changes and political instability is another reason of non-implementation of well-defined tax system. Different governments implement different tax system and it becomes difficult to follow.
7. Frequent changes in tax policies. Tax policies in India are changed frequently by government. It creates confusion among tax payers and officials about the relevant provisions.
8. Deficiencies in implementing Penalty Provisions. Best ways to avoid tax evasion-

a. Reducing tax rates.
b. Make more simplified laws and simplified system.
c. Design a well-organized tax administration structure.

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d. Strengthen anti-corruption policies.
e. Increase awareness among taxpayers by conducting seminars, conferences and through media.
f. Design a permanent tax structure.
g. Ensure the political changes do not affect well defined tax structure. Make tax administration more independent and autonomous without losing final control of Government.
h. Audit, tax collection, depositing and filing provisions to be more strengthened and updated.
i. Make penalty provisions more stronger and avoid it's non-implementation.

REVIEW OF LITERATURE

Komal Jaiswal (2017) in her paper tried to study the evaluation of direct tax revenue. She suggested that it Necessary to the appropriate in policy reforms or administrative to the increase the tax collection. To increase the income tax either by increasing tax base or encouraging the people to pay tax by simplifying the filing procedure and awareness.

Singh and Sharma (20017) made an attempt to try to investigate the role of tax consultants played in the revenue collection process by helping their clients in understanding the complex tax system and meeting their legal obligations. Factor Analysis of data showed that seven factors –reduction in tax evasion, an extension of relief to taxpayers, incentives for dependents and honest tax payers, broadening the tax base, filing of returns, adequacy of deductions and impact of exempt tax system played an important role in determining the effectiveness of Indian tax system.

Lalit Wadhwa and Dr. Virender Pal (2012) They opinioned that high tax rates, corruption in public sector units, multiple tax rates and inefficient tax authorities are the main causes of tax evasion. They suggested that reduction in tax rates, simplifications of tax laws, remove loopholes in the tax system and some extent proper processing of information available under the annual information return can be best for improving Indian tax compliance.

Mr. Nishant Ravindra Ghuge and Dr. Vivek Vasantrao Katdare (2016) (A Comparative Study of Tax Structure of India with respect o other countries) the study found that Indian tax structure lags behind on almost every indicator. There is a strong requirement for a serious review and actions from the government are needed in simplifying the tax structure.

Dr. Devarajappa S. (2017) (Tax evasion in India: A study of its impact on the revenue of the Government) opinioned that we should support the government by complying with the tax procedures and pay taxes promptly. So let us fulfill our duties first and claim our rights next. He also suggested that 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 and that they do not evade the tax and feel proud in discharging their duty to pay the taxes.

V. Kalpana (2015) this review paper focused on highlighting the causes and ill effects of tax evasion in the overall development of the Indian economy. Low tax morale, low quality of services in return for taxes and low transparency and accountability of public institutions have led to high tax evasion in our country.

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IMPACT OF INCOME TAX EVASION

1. Tax evasion and thereby establishment of parallel economy has been creating the following serious impacts on the social and economic system of the country. Tax evasion has been causing reduction in country's economic growth
2. The direct effect of tax evasion is the loss of revenue, increase in inflation
3. Impact on moral
4. Increase in corruption

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5. Increase in prices of land and houses
6. Black money has resulted in transfer of funds from India to foreign countries through clandestine channels which decrease country's reputation globally.

GENERATION OF BLACK MONEY:

• **High Tax Rates:** High tax rates and overregulation result in concealment of income and a labyrinthine regulatory regime is an invitation to bribery.

• **Illegal Activities:** It is earned through Illegal means such as drug trafficking, weapons trading, terrorism, selling counterfeit or stolen goods etc.

• **Corruption:** By corruption which includes bribe given to and by public officers.

• **Trading:** Hiding income through Legal activities i.e. not reported to public authorities or we say to the government for the purpose to evade taxes. Even commercial classes generate black money through trade.

TAX EVASION IN INDIA: Tax evasion happens when people intentionally neglect to consent to their tax commitment. The subsequent tax income misfortune may make genuine harm the best possible working of the public sector, debilitating its ability to finance its fundamental costs. This examination researched the diagram of the sentiment of tax professionals with respect to the tax evasion in India, outlining the quantity of components responsive for tax evasion and looking at the conceivable solutions for decrease the issue of tax evasion.

This investigation is done with the goals like the reasons for income tax evasion, The effect of tax evasion in India, and so forth. To gather the data in regards to tax evasion in India very much outlined survey with five point Likert scale has been utilized. According to their assessment income tax evasion is predominant in India high tax rates, corruption in public sector units, different tax rates and wasteful tax authorities are the fundamental driver of tax evasion.

IMPACTS OF TAX EVASION: Tax evasions have various sick consequences for the tax payer; add up to revenue and the general public. The important impacts are

1. Despite failing in favor of curtness, there should be some specify of the negative impacts of tax evasion on the monetary environment. It's most important unfavorable influence is maybe on value. A blue collar assembly line laborer pays tax. An eatery specialist whose income is the same yet who gets some portion of his income in tips does not uncover it for tax purposes. Accordingly, one manual laborer gains to the detriment of the other. This is even imbalance. An advocate charges his expenses, to some extent, in non-financial terms, for instance, a remote trek for his family, all costs paid. This isn't accounted for on his income tax return. A salaried representative in the sorted out corporate sector procures an indistinguishable revealed from the advocate. Their incomes give off an impression of being the same for tax purposes.

2. The tax evasion twists financial productivity. In sector, that are less subject to the head's examination, there will be greater venture. That may one motivation behind why certain service sector exercises for instance, the development business have grown, so extraordinarily as organizations move crosswise over national obstructions in a globalized world economy. Also, the sloppy sector may sidestep taxes substantially more effectively than the sorted out sector. It is no big surprise that, in the VAT where there generally a limit level beneath which taxpayers are not anticipated that would keep nitty gritty accounts, enabling them to pay a little level of their turn over as tax (named exacerbating), there is a bunching of registrants just underneath this edge. Little taxpayers have stayed exceptionally hard to tax and keep up a consistent nearness in the rundown of administrative corners. In view of a hypothetical model, presume that exclusive incomes beneath some limit level ought to be reviewed with a likelihood that is sure and not as much as solidarity.

3. As disparity and wastefulness prompt lower revenue admission for government, its practical limit, proficiency and adequacy endure as a result of tax evasion. Limit endures because of lower accessibility of resources. Productivity decreases since important capacities may must be given less need than others and viability decays as agreeable taxpayers understand that government can't or unwilling to make remedial move and, consequently, feel progressively great in joining the rest in the demonstration of tax evasion. The outcome could in all likelihood be an

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expansion in tax rates, or the inconvenience of distortive taxes, in this manner starting an endless loop of imbalance and wastefulness. Obviously, the acceleration in property tax rates or the burden of entry taxes by numerous regions, turnover taxes notwithstanding the business tax at the level of states or areas, or imaginative extra charges and cesses at the level of the focal government are take these examples.

4. Tax evasion being under-detailing of income suggests under-estimation of GDP and all its equivalent large scale financial consequences. Since the denominator is under-assessed, the proportions of tax to GDP, the monetary shortfall to GDP, and open obligation to GDP are all finished evaluated. The apparent higher tax/GDP proportion prompts false solace; however overstated deflationary move might be made to rein back a misrepresented monetary deficiency or open obligation proportion. Strategy could in this way turn ace repeating, prompting concealment of the sorted out economy and intensifying an endless loop of less revenue age and higher tax rates. On the off chance that the underground economy assimilates work, at that point the antagonistic effect of joblessness by concentrating basically on the sorted out sector-will likewise be over-underlined. Swelling evaluations would be comparably contorted except if mind is taken to incorporate all fragments of the market economy, both composed and underground.

FACTORS LEADING TO GENERATION OF BLACK MONEY: Black money emerging from illegal activities, for example, wrongdoing and debasement has a fundamental hostile to social component. The 'criminal' part of black money may incorporate continues from a range of activities including racketeering, trafficking in fake and stash merchandise, carrying, generation and exchange of opiates, forgery, illegal mining, illegal felling of c, unlawful alcohol exchange, burglary, grabbing, human trafficking, sexual abuse and prostitution, tricking and monetary misrepresentation, misappropriation, sedate money, bank frauds, and illegal exchange arms . A portion of these offenses are incorporated into the calendar of the Prevention of Money Laundering Act 2002. The 'degenerate' segment of such money could come from bribery and robbery by those holding public office –, for example, by concede of business, leakages from government social spending programs, speed money to go around or quick track strategies, black marketing of price-controlled services, and adjusting land utilize regularizing unapproved development. Every one of these activities are illegal per se and a consequence of human insatiability joined with declining societal values and powerlessness of the state to forestall them. Elements prompting their age are both social and administrative.

GLOBAL CONCERNS AGAINST TAX EVASION/BLACK MONEY GENERATION: Noteworthy measure of black money, however, is generated through legally permissible economic activities, which are not represented and uncovered or reported to the public authorities as per the law or regulations, thereby converting such income into black money. The failure to report or uncover such activities or income might be with the objective of evading taxes or avoiding the cost of consistence related to such reporting or disclosure. It might likewise be the result of rebelliousness with some other law. For instance, a factory owner may under-report production because of robbery of electricity which thusly prompts evasion of taxes. Generally, a high burden of taxation, either actual or perceived, provides a strong compulsion to evade taxes and generate black money. Now and then the procedural regulations can be to such an extent that conforming to them may increase the probability of further scrutiny and thereby the rate of the burden of consistence, creating a perverse incentive not to report at all and remain outside the reported and accounted proportion of the economy. Culture and social practices may likewise assume a vital role in choosing the preferences of natives between tax consistence and black money generation. In a general public where tax evasion and under-reporting of activities and income is perceived to be very normal or the norm, such activities might be considered worthy and honest tax consistence and paying one's expected share to the public reserve may not be considered a virtue. Studies show that countries with relatively poor usage of regulations have a tendency to have a higher share of unaccounted economy, whereas countries with properly executed regulations and sound deterrence have smaller 'black' economies.

EXTENT OF BLACK MONEY IN INDIA AND ABROAD DUE TO TAX EVASION:

This technique is misleadingly basic and, however it might apply all the more properly to the industry part, disregards the quick changing innovative leaps forward, which thusly add to the changing yield input proportions.

The strategy is hard to apply with regards to nations where the tertiary area develops at a speedier pace contrasted with the essential and optional segments. As the official economy is known, the distinction between this sum and the money available for use could be thought to be the flowing 'black' segment. In one model, the speed of money (in other words the circumstances cash moves in multi-year) empowers the estimation of income circled every year. An examination of this with the income caught in National Accounting System (NAS) gives the income not caught, which the 'black' income is created. The supposition that NAS speaks to 'white' incomes isn't generally evident – all incomes which are not caught in NAS are not 'black' incomes – for example, incomes of the huge chaotic area. They might be on the utilization example of a delegate test, which is then contrasted and the aggregate utilization of the country. Now and again, such studies are conveyed to check unlawful exercises pervasive in a specific example. In this strategy, the issues are of a genuinely illustrative example, unambiguous arrangement of inquiries; the ability of people in the example size to uncover substantiates realities inferring a specific solace level with the questioners – as nobody needs to concede any illicitness before outsiders. There is no consistency of philosophy or approach, or sureness of estimation identifying with 'black' money. The fundamental trouble emerges on account of the way that the 'black' economy exists in the shadows. There is, along these lines, wide variety in the figures revealed as assessments are required to be made in indirect ways. The 'shadow' economy isn't particular, and the 'parallel' economy entraps the white economy. Diverse techniques received have their own impediments. One of the strategies is the information/yield strategy. In this way, where the info yield proportion is known, the yield can be evaluated. The technique comprises of utilizing this proportion alongside the contribution to figure the genuine yield. At the point when this is contrasted and the announced yield, the distinction between the genuine yield and the pronounced yield speaks to undisclosed yield of the shadow economy. The commitment of these parts is independently worked, which when included would give the measure of the whole 'black' economy. In any case, the way of recognizing the 'black segment' in these areas and presumptions experience the ill effects of innate subjectivity of the specialist.

CONCLUSION: Effectively implementation of the Income Tax Law can curb tax evasion. Income Tax plays the vital role in the development of Indian economy. It is suggested that reduction in tax rates, simplifications of tax laws, removal of loopholes in the tax system and to some extent proper processing of information available the under the annual information return can be best tool for improving Indian tax compliance. Therefore, there is a need for creating transparent, responsive and less discriminatory administrative system. So let us fulfill our duties first and claim our rights next. 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. Over the past 70 years, the government has at various times announced several schemes offering opportunities to bring black money overboard but the result is not so effective. To pass the DTC Bill, 2010 is need of time for the effectiveness of Income Tax Law for the prevention of tax evasion.

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