# Chapter four: - Tax Evasion

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4 Chapter Four: - Tax Evasion

4-1- Introduction:-
In the previous chapter (three), the researcher studied some of the studies (Literature Review) that have been done in the taxes and tax evasion area. In this chapter the researcher will discuss all the details about tax evasion. The Researcher will talk about the most important definitions of tax evasion, characteristics of tax evasion, types of tax evasion, causes of tax evasion, penalties of tax evasion, forms, models and methods of tax evasion in the final accounts of the business and professions. This chapter is one objective from the main objectives of this study and in the final we will discuss the Impact of tax evasion on the economy of the countries.

In the fact tax revenue nowadays is the backbone in most countries, because taxes have more than one objective in the present time, like economic, social, and political objectives, so taxes play a crucial role for helping to develop countries and mobilize their domestic resources. On the other hand, tax evasion is like a loophole in the pan, the pan will not be filled and the loophole is still without stopper, so the governments could not increase tax revenue during existing tax evasion. Therefore all governments try to reduce tax evasion as much possible as, the problem of tax evasion is a common denominator in all tax systems both in the tax systems in the developed countries, and also in the developing countries, with relative differences in the nature of tax evasion and the causes and effects on the economy and direction of the control of tax evasion for developed countries.

“Tax evasion is a universal phenomenon, it take place in all societies, social classes, all professions, all industries, and all economic systems. Two thousand five hundred years ago, plats was writing about it, and the aging Ducal placae of Venice has a stone with a hole in it” (vits tanzi,1993, 807)

The provision of public infrastructure and government services is a key factor in economic development. In many developing countries, lack of public service provision slows down economic growth and undermines the efforts to improve the living standard of the population. There are a number of reasons for the failure of many governments in developing countries to provide sufficient public services. A lack of tax revenue is one of them. In 2005, the average tax revenue to GDP ratio in the developed world was approximately 35%.1 in the developing countries, it was approximately 15%, and in the
poorest of these countries, the group of low income countries, tax revenue was just 12% of GDP. This gap can partly be explained by the fact that demand for public services increases more than proportionally as income rises. But it also reflects weaknesses in the ability of developing countries to raise the revenue required for the provision of adequate public services In recent years (Fuest and Riedel, June 19th, 2009, p2)

“In its ongoing drive against tax evasion, the Income Tax department has detected tax evasion of over Rs.1,700 crore and has seized undisclosed assets worth about Rs.228 crore in searches carried out during the current fiscal up to November, 2006”. (Government of India / Ministry of Finance Department of Revenue Central Board of Direct Taxes, New Delhi, the 25th January 2007)

Tax evasion is widely believed to be important factors limiting revenue mobilization; it has been present since the introduction of taxes Tax revenue is lost due to tax evasion in developing countries. Tax evasion is perhaps the most serious problem facing administrator worldwide. It is important for many reasons. It reduces tax collection, tax evasion, creates misallocation in resource use when individuals and firms alter their behavior to cheat on their taxes, tax evasion alters the distribution of income, and tax evasion may contribute to feelings of unfair treatment and disrespect for the law. It impacts country’s tax system. It causes significant loss in the revenue available to our community for funding services such as health, education, and other government programs. Tax evasion is one of the most common economic crimes, it raises many issues. How extensive is it? What leads individuals and firms to cheat on their taxes? What is the evidence on behavioral responses? What are appropriate government policies toward evasion? Each issue is considered here.

Evasion of Tax takes place when the people report tax dishonestly, that includes declaring less gains profits, or income than what has been actually earned and they even go for overstating deductions. The Evasion of Tax level depends on certain factors such as fiscal equation which means that people’s tendency to pay less tax declines when the payment due from taxes becomes obvious. The level of Tax Evasion is also dependent on the tax administration's efficiency and corruption levels.

The level of tax evasion also depends on the chartered accountants and tax lawyers who help companies, firms, and individuals evade paying taxes. Tax Evasion is a crime in all major countries and the guilty parties are subjected to imprisonment and fines.
Tax evasion is a felony under the laws of almost every jurisdiction in the world because it is considered a threat to the government's ability to fund its own operations. Tax evasion can carry both civil and criminal penalties, which can be dangerous because tax rules can be quite complex and innocent mistakes can be costly for taxpayers.

India like all countries is suffering from tax evasion, the last and present finance Minsters in India have declared for that problem. Finance Minister P Chidambaram's Budget speech for 2004-05 shows there were only 27 million taxpayers in the country on the date of the presentation of the Budget. This indicates the tax evasion rampant in the country. The finance minister, in his speeches, has expressed concern regarding black money and is reported to be toying with the idea of taking steps in this direction, including floating amnesty schemes or issue of bonds.

The researcher believes that, tax evasion in India is rampant in taxes on income and property, and in domestic trade taxes. This needs to be tackled on various grounds. Politically, the most important thing on the part of the government is to have a strong will to fight it out.

**4-2- Definition of tax evasion:-**

Tax evasion is one of the most common economic crimes and has been present since the introduction of tax. People don't like paying taxes, and they pursue many avenues to reduce their payment, some styles are legal and others are illegal.

There are numerous definitions of tax evasion but all of them don’t go out of some common points. We will state some of definitions of tax evasion as follow.

“Tax evasion this term is generally used to designate criminal tax fraud, in which the taxpayer intentionally and deliberately understates his income or overstates his deduction and/ or credit for the purpose of underpayment of tax liability”.(your dictionary.com)

“Tax evasion is an illegal practice where a person, organization or corporation intentionally avoids paying his/her/it’s true tax liability. Those caught evading taxes are generally subject to criminal charges and substantial penalties Tax evasion is the general term for efforts to not pay taxes by illegal means”.(wikipedia.org)
“Tax evasion illegal practice of intentionally evading taxes. Taxpayer who evades their true tax liability may underreport income, overstate deduction and exemptions, or participate in fraudulent tax shelters” (Dictionary of finance and investment)

“Tax evasion is the illegal act or practice of failing to pay taxes which are owed in businesses, tax evasion can occur in connection with income taxes, employment taxes sales and excise taxes, and other federal state, and local taxes” (biztaxlaw.about)

Tax evasion the illegal practice of paying less money in taxes than is due.(business definition)

4-3- Characteristics of tax evasion:
According to the definitions mentioned previously, the researcher can find out some of characteristics of tax evasion.

1-taxpayer behaves intentionally and deliberately:-
This means, Taxpayer follows the behavior of a deliberate and bad intention to not pay the tax, and that leads him to follow the ways and methods of fraud to cancel some of data to the tax administration in order not to show the entire annual income.

2-tax evasion as stealing:-
Tax evasion is certainly unlawful and dishonest, but it does not involve the taking of something that has already become the property of the state, in the sense, tax evasion is more like a breach of contract that is like theft.

3- Free choice knowledge:-
Though the taxpayer knows that, tax evasion is certainly unlawful and that act is crime he is applies it and practices it in his behaviour, so the taxpayer practices a wrong act.

4- Tax evasion as a breach of the moral obligation to obey the law:-
No taxes shall be levied or collected except by the authority of law (Indian constitution)
Taxes here have got legal status because it is made by a law, so the non-payment of tax is disobedience and breach of the law so when taxpayers don’t pay taxes or when they are making fraud plan to reduce the tax liability, such as those that occur in the case of trivial regularity violation, and tax evasion may contribute to feelings of unfair treatment and disrespect for the law.

5-Taxpayer follows fraud method:-
Methods of tax evasion depends on deception and fraud in order to persuade the tax
administration that net profit is right and taxpayer is ready for payment of taxes, evasion of tax takes place when the people report tax dishonestly that includes declaring less gains, profits, or income than what has been actually earned and they even go for overstating deductions.

6- Tax evasion is either overstatement in expenditure or reducing in revenue:-
Taxpayers use tax evasion in two sides, credit side and debit side in operating account, trade account and profits and loss account. Tax evader uses such techniques like recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results, omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period. This fraudulent for increasing expenditures and decreasing revenue.

7- Tax evasion as cheating:-
Tax evasion as a form of cheating is defined as the violation affair and fairly enforced rule with the intent to obtain an advantage. Tax evasion is also reflected in the fact that evading tax causes harm not just to the government but also to ones conduct. Tax evasion is morally wrong.

Conclusion that, tax evasion doesn't have fixed definition, and tax evasion is international phenomenon. All countries are suffering from that problem. Tax evasion is a felony under the laws of almost every jurisdiction in the world because it is considered a threat to the government's ability to fund its own operations and there are some characteristics of tax evasion, taxpayer behavior intentionally and deliberately, tax evasion is stealing and Taxpayer follows fraud method.

4-4- **Types of tax evasion:-**
After the researcher definition of tax evasion and characteristics of tax evasion, in this section he will study types of tax evasion.

Tax evasion is more than one type, so from our point of view, types of tax evasion are

1- Tax evasion, according to the standard size :-

In this kind of tax evasion, there are two types of tax evasion, micro tax evasion, and macro tax evasion.

a) Micro tax evasion. - In such case, taxpayers don’t pay tax due because they don’t declare their income, in this case when the taxpayers completely hide their economic activities or some of their economic activities- Hide economic, black economic, underground economic,
smuggling- and taxpayers don't inform tax administrations about their business. All of those are examples of micro tax evasion.

b) Macro tax evasion: - In such a case taxpayer might follow one of the methods of tax evasion, hide some business subject of tax, or follow the way of fraud and trickery in order to reduce taxes due, In this case taxpayers pay amount less than due amount due. For example hide capital gains when account tax liability, or overreport expenditures or deductible or underreport income, sales, these are macro tax evasion.

2- Tax evasion, according to the standard of region:

In this form tax evasion is national or international, national occurs inside the country and international occurs outside the state.

a) National tax evasion: - This type of tax evasion is common among in all countries of the world without exclude. This kind of tax evasion occurs inside the country, so the fight these kind of tax evasion is easy compared to international evasion, tax evasion in direct taxes are national tax evasion.

b) International tax evasion: - This tax evasion is opposite national tax evasion, it is occurs outside the country, international tax evasion occurs when taxpayer has more than one citizenship of two countries or residence in country or have some business in more than one country.

Both internal and external ones have effect in economics but internal tax evasion has less effect and is easy for fighting. On the contrary external tax evasion is difficult for effect and fight.

3- According to the routes of the taxpayer: - This form of tax evasion is tax avoidance or tax evasion: - a) Tax avoidance: - Tax avoidance is arrangement of the taxpayer’s affairs to reduce his tax liability which could be strictly legal, but is usually against the intent of tax laws, A taxpayer may create a device to arrange his commercial affairs to minimize his tax liability and its acceptance is based on operation of law. Tax avoidance is generally the legal exploitation of the tax regime to one's own advantage, to attempt to reduce the amount of tax that is payable by means that are within the law whilst making a full disclosure of the material information to the tax authorities. Examples of tax avoidance involves using tax deductions, changing one's business structure through incorporation or establishing an offshore company in a tax haven.
b) Tax evasion:- Tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade the payment of taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting for example underreport income, profits or gains; or overstating deductions

**4-4- penalties of tax evasion and Penalties of tax evasion in India**:-
Penalty ordinarily becomes payable when it is found that an assessee has willfully violated any of the provisions of the taxing statute. No law can be effective and satisfactorily implemented unless penalties and prosecutions are provided for. Under the Income tax Act also, certain penalties and prosecution have provided for as without such provisions there is a danger of evasion of tax.

“As the number of tax payers is increasing, the tax administration has necessity to rely more and more on voluntary compliance of tax law by the assessees and therefore appropriate penal and prosecution provisions from a necessary complement to this approach”. (Girish and Gupta, 2010, p1515)

Tax evasion penalty is an attempt by the governments to curb these malpractices. Tax evasion penalties are a way of recovering taxes from people. Tax fines in some countries go up to the death penalty, such as China. The tax evasion penalties in U.S.A can be a fine of around $1, 00,000 and/or a prison sentence of up to five years. Therefore the tax evasion ratio to GNP about 38%, there are strict laws to deal with those people who file a false return of their income tax so that the taxpayer will hesitate. So Tax evasion penalties can have serious repercussions and tax evasion will decrease, therefore the government imposes serious tax evasion sentence and penalties on offenders, including prison terms and hefty fines. In the other hand if the tax penalty is weak and not strict tax evasion will increase and government loses a lot of money from that as the case of developing countries. Governments can bear anything from their citizens but not fraud. Tax evasion is a kind of fraud or cheating on the part of the tax payer where he or she illegally a voids tax payment. The government imposes strict and serious penalties for tax evasion, when companies, individuals, or any other legal entities intentionally avoid their legal responsibility that is tax evasion and the penalties are severe, including prison terms and hefty fines.

Section 7201 of the Internal Revenue Code states in U.S.A
“Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, shall be fined not more than $100,000 ($500,000 in the case of a corporation), or imprisoned not more than 5 years, or both, together with the costs of prosecution”.

Characteristics section 7201 of the Internal Revenue states in U.S.A

1- U.S. law said that any person in any way trying to evade tax:— That means any person either a natural person or legal entity, he, she, it all of them will subject to the law in the case of evade or defeat tax imposed.

2- Any manner to evade or defeat any tax imposed:— Here this text includes the any method of tax evasion, tax evasion has many methods, the second condition is a breach of any tax imposed

3- Fix penalty:— Law may specify penalties in case of tax evasion and the law did not excludes any case.

Penalties of tax evasion in India:—The code states in India “A person shall be liable to a penalty if he has under reported the tax bases for any financial year. The penalty shall be a sum, which shall not be less than, but which shall not exceed three times the amount of tax payable in respect of the amount of tax bases under reported for the financial year,”.

1-Law in India does not explicitly mention any name for tax evasion or tax evade

2-Law in India doesn’t mention a specify penalties for persons or for companies but Indian law mention that “but which shall not exceed two times the amount of tax payable in respect of the amount of tax bases under reported for the financial year”( income tax Act 1961,,section 271(1)(c),p1.888”

3- Indian law doesn’t mention an imprisonment as penalty
4-6-Causes of tax evasion:-

Reasons of tax evasion are common factors among all countries, both developed and developing countries. The tax evasion reasons in developed countries differ from the tax evasion causes in developing countries, because, tax awareness in developed countries is high if we compare it to in developing countries, add to that the progress in the means of that fiscal controls in developed countries.

One of the results of tax evasion that leads to reduction of government revenue, which brings the tax system into disrepute. Tax evasion means reduced government revenues, result is a larger deficit, forcing the government to go for borrowing or to print more money, leading to inflation. One must look into its cases to suggest measures to remove or reduce them.

The problem of tax evasion and reasons can be categorized into economic reasons, administrative, legislative causes and even social reasons and others. We have done our best for discussion of all causes as follows

1- Level of tax rates:-
The level of tax rates is probably the most important reason for tax evasion. High tax rate makes tax evasion more tempting, any increase in tax rate is likely to produce a reduction rather than an increase in tax revenue, so tax rates is main reason for tax evasion in all countries. However, lowering of tax rate may not solve the problem of tax evasion. One percentage point increase in tariffs increases evasion by about 0.1 percent.( Prachi Mishra, February 2007,4)

As the Direct taxation Administration Enquiry committee 1958-59 observed, while we cannot deny that the higher the tax rate, the greater will be the temptation for evasion and avoidance, we feel that tax rate by themselves are not to blame for the large extent of tax evasion in the country. Even if the rates of tax are reduced, evasion will still continue, because it exists at all levels of income(tax evasion, theory and practice,2000,6)

2- Social psychology for taxpayer:-
The reasons why people evade taxes can also be viewed from the social psychological point of view. For psychologists, social psychological variables such as stigma, reputation and social norms have a great impact in taxpayer’s decision to comply or not.

Psychological reasons for tax evasion is the desire of the taxpayer to keep his money and not give to the state, non- satisfaction of the person for the services provided by the
government, as well as a sense of the tax payer that non-application of tax justice in the society, and the psychological burden of the tax plays an important role in the taxpayer decision.

3- The complexity of the tax system:-

The level of tax system complexity and the level of taxpayer compliance are important matters for taxpayers, government and policy makers for a number of reasons. Some of the factors that influence tax system complexity include the economic and social environment faced by taxpayers, the development, implementation and administration of tax policy and, lack of awareness among members of the community.

4- Misuse or mismanagement of revenue from taxes:-

More often than not there are reports in the news media of how government functionaries misuse taxpayers’ money. Evidences of wastage of public fund abound in the form of inflated, contract prices, in unexecuted but paid contract or in the criminal acts of using diverse methods. The cumulative effect thereby produced is the resolve of many honest taxpayers never to pay their due taxes again.

5- Inequitable distribution of amenities:-

The taxpayers are opposed to the payment of any form of taxes and rate when the government had been unfair in the distribution of amenities Non-equality in the distribution of welfare at the state level, leads to a disgruntled taxpayer of the governments.

6- Nature of the economy:-

Tax evasion is widespread in undeveloped countries more than in developed countries, as those countries depend upon agriculture economy. Developing countries are associated with the peculiar characteristics of their economies which, in most case, are agriculture-based in the sense that, a substantial part of nation’s income originates from agriculture and majority of the work force is engaged in agriculture.

7- Complexity of Tax Laws:-

The complexity of tax laws and procedures increases the magnitude of Tax evasion in the tax system. Tax evasion is more likely to occur in a highly corrupt environment. Lack of requisite information makes taxpayers unaware of their rights and more exposed to discretionary treatment and exploitation

8- Unwillingness of Taxpayers to Pay Taxes:-

In some developing countries, such as India, the extreme unwillingness of taxpayers to
comply with the law and hence their readiness to bribe tax collectors in order to reduce their tax liability. Many taxpayers are willing to abet tax collectors if there is clear gain. This phenomenon is common in many middle-income countries.

9- Corruption in Tax Administration:-
Tax evasion is also considered to be a corrupt behavior itself, An empirical study based on fieldwork conducted in 1994–95 indicates that Tax evasion in India occurs partly through collusion between taxpayers and tax officers. Corruption seems to be a problem of only governments and government officials, whereas tax evasion is a problem of private individuals. The government official is not selling a publicly provided private good with a bribe added to official price. Instead he is stealing the tax money of private individual with the knowledge of that private individual, Tax evasion itself can be considered a corrupt activity and corruption can include tax evasion conceptually; some government official will find it optimal to take bribes even if they get paid insufficient wages, well above their reservations wages.

10- Underground economy (black economy):-
The underground economy is a pervasive feature of countries throughout the World, Underground activities do not enter the official statistics on Gross Domestic Product (GDP), and the underground economy typically involves commercial activity that is unreported for tax purposes. The average size of the shadow economy as a proportion of GDP ranged between 14-16 percent in OECD countries; the equivalent numbers for developing countries were much higher at 35-44 percent, and in some cases reached the staggering figure of 70 percent or more.(Keith Blackburn and other, 2009, 2) So underground economy as transactions involve tax evasion.

11- Absence of spirit of civic responsibility:-
Due to illiteracy and ignorance people fail to understand that they owe certain responsibility to government one of which is the payment of tax. Even when the government says it is poor they would rather argue that, the government should print more money to solve her problem.(kiabel, 2009, 9)

12- The instability of tax legislation and the multiplicity of amendments:-
In a situation of instability and frequent changes, the time gap to apply the new amendments, as well as several interpretations of the taxpayer, creating an opportunity for tax evasion, especially if the taxpayer has consulted tax adviser in that.
13-tax penalties:-
Higher penalties usually act a detergent to evasion; Tax fines play an important role in the decision of the taxpayer. When there are strict and harsh penalties, the taxpayer may alter his decision. Having proper tax evasion penalty is an attempt by the governments to curb these malpractices. Tax evasion penalties are a way of recovering taxes from people. Tax fines in some countries go up to the death penalty, such as China. The tax evasion penalties in U.S.A can be a fine of around $1, 00,000 and/or a prison sentence of up to five years. Therefore the tax evasion ratio to GNP is about 38%. There are strict laws to deal with those people who file a false return of their income tax. The taxpayer will then hesitate. So Tax evasion penalties can have serious repercussions and tax evasion well decrease, therefore the government imposes serious tax evasion sentence and penalties on offenders, including prison terms and hefty fines, On the other hand if the tax penalty is weak, no strict tax evasion will increase and government loses a lot of money from that as the case of developing countries.

14- Economic situation of the country:-
In the case of high economic growth, recovery, prosperity, high level standard in living and increased investment, lead to an increase in the income of individuals and companies, as well as increase the transfer tax burden on the one hand to another. Here the taxpayer will not feel the burden of taxation. In the case of recession and the economic recession the opposite occurs and the taxpayer resort to tax evasion.

15- Political corruption:-
Tax evasion and political corruption are inseparable and mutually reinforcing. One causes the other. Tax evader need protection against the rigors of law. Most of them also seek a share in the distribution of government largesse and patronage.(suraj B.Gupta,1992,34)

16-Economic conditions for the taxpayer:-
If the taxpayer is suffering from lack of income to satisfy their basic needs to live, in this economic situation, the taxpayer resort to tax evasion, because that tax deductions a lack of financial ability for the taxpayer to satisfy the essential needs on the other hand if the economic source for the taxpayer is enough, the withholding tax will not detract from the financial capabilities to satisfy his basic needs, and then the taxpayer will not resort to tax evasion.
17- Overstatement and abuse of concessions- exemptions, deductions and allowances:-
All tax laws have passed some exemptions, deductions and allowances from total income of individuals. Those exemptions are mentioned in the income tax. For example in India income tax according to income tax act 1961 for assessment year 2009-2010. There are about 43 cases for exemptions from tax, and also there are a lot of from allowances like children education allowance, transport allowance, and also there are some deductions such as, entertainment allowance. When tax payer is overreporting in exemptions, deductions and allowances that means needs more than actual, the taxpayer intends tax evasion. Income from agriculture is totally free from income tax, irrespective of the amount of income one makes in the farm. Sometimes taxpayer adds agricultural income to non-agricultural income for tax evasion.
18- Moral reasons for tax evasion:-
This is awareness of tax and financial ethics at the taxpayer, the taxpayer believe that the government takes from him more than it gives to him. The taxpayer's belief that, the government misuses tax revenues, taxpayer is angry by heavy tax burden, higher tax rates or multiple taxes on the same income. Here taxpayer is feeling injustice of tax system, so he resorts to tax evasion
19- Inaccuracy of the number of taxpayers:-
Tax administration must count the persons subject to tax and register their names in the particular records. In this regard they must count tax payers so as to apply the principle of tax equity for everyone, and everyone must contribute in the development of their country by paying tax. In the case of no enumerated taxpayers, the Tax evasion will be huge, and the government loses financial resources, which the Government needs.
20 - Double taxation:-
Double taxation occurs when a taxpayer is taxed twice for the same asset or income; double taxation is internal or external. In this situation taxpayer is feeling heavy tax burden, so he resorts to tax evasion.
21- Taxpayer Education:-
Tax education plays an important role in bringing about tax awareness and also a vibrant tax culture. Taxpayer education also helps to reduce the tension that is usually present between the Government and The Tax authority on one hand and Taxpayers on the other, The tension only leads to one thing, low compliance levels usually as a result of Tax
evasion. When taxpayer has high education, he knows his duties towards his society and spirit of civic responsibility well. Therefore he pays his tax in compliance and tax evasion decreases and vice versa.

Conclusion:-

Reasons of tax evasion are common factors among all countries, both developed and developing countries. Tax evasion reasons can be categorized into economic reasons, administrative, legislative causes and even social reasons and others causes. Main reasons of tax evasion are level of tax rates, social psychology for taxpayer, the complexity of the tax system, Misuse or mismanagement of revenue from taxes, inequitable distribution of amenities, Nature of the economy, Unwillingness of Taxpayers to pay taxes, corruption in Tax Administration, underground economy(black economy), Absence of spirit of civic responsibility, the instability of tax legislation and the multiplicity of amendments, tax penalties, Economic situation of the State, overstatement and abuse of concessions- exemptions, deductions and allowances, moral reasons for tax evasion, Inaccuracy of the number of taxpayers, double taxation, and lack of Taxpayer Education.

4-7-Tax evasion according to kinds of taxation:-

In the last section we discussed reasons of tax evasion. In this section we will talk of tax evasion according to kinds of taxes. For every form of tax there is a method for tax evasion. Tax evasion is one of the most common economic crimes, and has been present since the introduction of taxes. People do not like paying taxes, and they pursue many avenues to reduce their payments, Tax Evasion entails the efforts that are made by trusts, individuals, firms, and various other entities to avoid paying taxes by illegal and unfair means. No serious government tolerates tax evasion by individuals or companies, tax evasion takes many forms and facets, Individuals and firms evade taxes by underreporting incomes, sales, or wealth; by overstating deductions, exemptions, or credits; or by failing to file appropriate tax returns.

In reality, taxpayers can use multiple modes of tax evasion to avoid paying tax, for example, by understating income and exaggerating deductions. There is considerable evidence that taxpayers misreport some sources of income more intensively than others.
4-7-1- Tax evasion in income tax:

In contemporary times, researchers have begun to study the problem of income tax evasion in a systematic manner. When studying tax evasion, it is important to distinguish between different types of income. One kind of tax evasion that is a particular problem in many developing countries is income tax evasion. With regard to India, Weisman (1987) has noted that an underground economy of illicit payments and tax evasion, including income tax evasion, has reached huge proportions. (Amitrajeet A. Batabyal and Hamid Beladi June 18., 2009,3).

In almost on countries, one can make a distinction between income that is officially registered and unregistered income. Avoiding the payment of taxes through misrepresentation can be done in two ways: presenting false information and presenting true facts selectively, so as to leave a misleading impression that underestimates actual tax liability.

Individuals evade income taxes in several ways. Some fail to file a return or make false declarations on a return, such as exaggerated or fake deductions and unreported income. People have been known to claim a second address as their filing address to avoid paying a certain state’s taxes. Finally, many corporate executives have been known to write off personal expenditures as business expenses in order to avoid paying personal income tax on them. Concealment occurs when someone hides assets or income or destroys financial records and can result in prosecution, even if the person concealing the assets or income has not yet filed a misleading tax return.

4-7-2- Tax evasion in excise duties:

Excise duties are duties or tax on the domestic manufacture of commodities. In India this tax is collected by the union government. The evasion of excise duties leads to the evasion of several other taxes, namely, sales tax, corporation tax, personal income tax and wealth tax (suraj B.Gupta,1992,34)

Some methods of excise duties evasion

1- Underreport of production

a) Raw materials are not fully account for, especially when a close relationship exists between the raw materials and finished products. The producers get away with duty evasion by buying a part of the raw material in black or claiming extra wastage in
production.
b) Statutory records are not kept up-to-date to enable the manufacture to make last-minute manipulation
c) Gate passes are issued without indicating the time and date of removal of goods from factory to facilitate the use of the same gate pass for duplicate transportation particularly when the movement involved is in the same town or city.
d) Duty-paid depots are kept in areas adjacent to the place of manufacture.

2- undervaluation this is the most important method of duty evasion:- Some methods are used
a) under-invoicing the product and taking the balance of the under-valued amount under the table
b) Reducing the sale price of the product to the dealer and, at the same time maintaining the retail price of the product, thereby increasing the dealer's margin of profits.
c) Showing certain expenses as technical expenses. Invoices for them are raised at the headquarters office whereas output invoices are raised from the factory which alone involves excise duty.
d) Invoices are manipulated to show a certain portion of manufacturing expenses as post manufacturing expenses, which are not includible in the assess able value.

3- Misclassification of goods: - The tariff provides numerous classifications and sub-classifications carrying different rates of duty, depending on such factors as chemical composition, blend, thickness, fineness, and count and denier age.

4- Misuse of exemptions: - Exemptions of various units, their misuse, especially by the small-scale industry units, is also believed to be widespread exemption.

4-7-3- Evasion of customs duties:-
Customs duties are duties or taxes on the flow of goods traded across the borders of the country. In India customs duties are levied and collected by the central government, Government protects domestic industries against foreign competition. There are several methods of customs duty evasion. Evasion of Customs duty may take place without or in collaboration with customs officials. Some methods of evasion of customs duties are discussed briefly below.
1- Undervaluation:-
Undervaluation is accomplished through the under invoicing of imports, so the trader under-declares the value so that the assessable value is lower than actual. Undervaluation occurs when a merchandise’s value is reduced than once declared at customs. It is considered fraudulent when it is done with the purpose of reducing the taxable base and obtaining a minimum liquidation.

2- Mis-declaration of goods:-
False declarations about important goods in the document submitted to the customs are made and higher- duty goods are cleared on payment of lower duty charger on the misdeclared goods.

3- Changing the product description:-
This method is deliberately used by the merchant, to Changing the product description from the highest production description to the poor product description in order to show the goods at a low price.

4-7-4- Evasion of value added tax (VAT) and sales taxes:-
VAT is a consumption tax which is levied at each stage of production based on the value added to the product at that stage and sales tax, a tax levied by a state or city on the retail price of an item, collected by the retailer. Another method of Tax Evasion is value added tax and sales taxes evasion under which the producers who collect from the consumers the value added tax and sales tax evade paying taxes by under-reporting the amount of sales. In addition, most jurisdictions which levy a VAT or sales tax also legally require their residents to report and pay the tax on items purchased in another jurisdiction. This means that those consumers who purchase something in a lower-taxed or untaxed jurisdiction with the intention of avoiding VAT or sales tax in their home jurisdiction are in fact breaking the law in most cases. Such evasion is especially prevalent in federal states like the US and Canada where sub-national jurisdictions have the constitutional power to charge varying rates of VAT or sales.

4-7-5- Smuggling:-
Smuggling is importation or exportation of foreign products through unauthorized route. Smuggling is resorted to for total evasion of leviable customs duties as well as for importation of contraband items. A smuggler does not have to pay any customs duty since the products are not routed through an authorized or notified customs duty and therefore, not subjected to declaration and payment of duties and taxes.
4-8-Tax evasion in Business and professions:-

In the previous pages we have discussed tax evasion according to kinds of taxes. In this section we will focus our efforts in order to explain tax evasion ways in business and professions. This section is core and main scope our research, and also it is backbone of our research and it is the title of our study. Our study concentrates on investigation of impact of tax audit in order to find out tax evasion in business and professions because income from business and professions are fertile field for tax evasion. If we compare with another income this type of tax evasion is widespread in all countries without excluding the developed countries, the developing countries as well. India Income tax act 1961, mentions audit of accounts of certain persons carrying on business or profession, section 44AB. Although evasion of tax is a common tendency among people belonging to different groups, opportunities for it vary according to the nature of income earned by taxpayers. In the case of income from salaries and interest from deposits, evasion is less likely because of proper recording and auditing of transaction, and deduction of tax at source. However, opportunities for tax evasion are very large in the case of self-employer in business and professions, doctors, lawyers, architects, property dealers, individual contractors can evade tax more easily than others. (Indian tax institute, 2000, P5)

Suppression of income also is widespread. Example are provided by film stars and film producers, self-employed professionals (such as medical practitioners lawyers, architects and chartered accountants) and persons engaged in business (trade, industry, including small-scale industry, construction). In most of these activities, regular accounts of business are either not maintained or they are false or manipulated account (Suraj. B. Gupta, 1992, 34). Salaried persons envy tax evasion opportunities available to self-employed professionals and retail traders, and are tempted to conceal their income from non salary source (international dictionary of taxation, 1997, 159)

All previous views show clearly that business and profession area are prone to tax evasion. The Researcher supports these views, and combines his opinion with those opinions that business and profession are Fertile field for tax evasion and they deserves attention from the tax authorities.
**Business tax evasion** :-

Business sector is the most widespread in the country. Business sector is subjected to impose high tax rate. Tax rate for companies is 30% of net profit in India, government levies huge amount from business as taxation. In India income tax act text section 44AB makes compulsory audit for business in order to avoid tax evasion, and it contains the biggest capital, so the opportunity for tax evasion is available. Indian lawmaker wisdom privileged when he enactment section 44AB income tax Act, 1961, compulsory tax audit in the year 1984 because, There are three main reasons why the business and profession are common audit targets.

First: - is the high amount of cash used in their activities. Most business and professionals receive a substantial part of their income and payments as cash, thereby creating an easy opportunity for under-reporting of this income or over-report of these payments. The under-reporting over-reporting may be either planned willfully, or in some cases, it may just be the result of poor accounts management. Either way, it leads to tax evasion. Even when there is no tax evasion, the high proportion of cash received or deposited in the banks is enough to attract the attention of the tax-auditors.

Second :- and the most important reason is that the business and profession are placed at a great advantage to claim their personal expenses as business expenses, and a significant proportion of them actually abuse this privilege to lower their tax liability. For example, business and profession taxpayer is likely to use his car for both official and personal purposes, but he may claim all the expenses related to the car, like interest paid on car loan, gasoline, repairs & insurance and the depreciation on car as business expenses. Similarly, business and profession can project his personal pleasure trips as business visits and claim all expenses thereof as deduction. Many business and profession also claim expenses on their home as office expenses, while others claim deduction on account of entertainment and gift expenses as business expenses, even though they may not be actually so. The high probabilities of such practices mean that business and profession are always a target for audit.

Third: - Many business and professions maintain their books of accounting themselves, without having the necessary understanding of accounting and law to do a perfect job. As a result, they may end up claiming more deductions than are permitted by the tax code. Sometimes, the self-employed also get involved in abusive tax-evasion schemes or
practitioners who misguide them and make them vulnerable to audit. The three reasons are justifications for business tax evasion. It can be defined as the willful attempt by a business entity to avoid paying a tax burden that is legally theirs by all accounts. Business tax evasion usually involves the intentional misstatement of business income and/or expenses. This can happen in several different ways. Fraudulent reporting of false business expense deductions is a common evasion plan. There are a lot of method of tax evasion in business we will explain it in next section.

**Tax evasion in Professions:**

Profession is, occupation, practice or vocation requiring mastery of a complex set of knowledge and skill through formal education and practical experience. Every organized profession (accounting, law, medicine) is governed by its respective professional body. A profession arises when any trade or occupation transforms itself through "the development of formal qualifications based upon education, apprenticeship, and examinations, the emergence of regulatory bodies with powers to admit and discipline members, and some degree of monopoly rights." (free encyclopedia)

Methods of tax evasion in the professions are the same as in business, but if there is a difference, it is in the nature of the business, and also the nature of the professions, because the nature of the business is different from professions. For example capital in business is the biggest player contract the biggest player in profession is labor. So tax evasion in profession is also either overstatement in expenditures, deductions, allowances, or understatement in revenue. We will discuss all methods of tax evasion in the next section.

**4-8-1 Devices adopted to evade taxes in business and profession:**

Underreport of taxable income, maintaining multiple set of account books, fraudulent change in account books and ,keeping transaction out of account books, opening and operating bank account under assumed names, doing business in the name of dummies, over-reporting expenses ,fragment income to reduce tax liability, under-reporting sales and other transfer pricing manipulation, abuse of tax concession-exemption and deductions, Tax disputes and tax arrears , fictitious dealing , hide some of assets or some of income, presenting false information, presenting true facts selectively, failing to declare assessable income, claiming input credits for goods that goods and services tax has not
been paid on, misrepresentation filing annual tax returns, Failing to lodge tax returns in an attempt to avoid payment, presenting false annual return income tax, misuse some of exemption, misinterpretation of tax law, using a false business name, address, providing false invoices, hides money in accounts outside the country, putting assets in another person's name paying by cash to avoid any written record of income, lying about ownership of assets, mischaracterizing capital gains, hiding assets overseas

4-8-2- Technique and method of tax evasion in businesses and professions:
People do not like paying taxes and they pursue many avenues to reduce their payments. For every form of taxation, there is a method for tax evasion. In this section we will pay our efforts for discussion of all styles and methods of tax evasion in businesses and professions in order to achieve one goal of the study (to study all methods of tax evasion in businesses and professions). Without a doubt the taxpayer seeks to invent ways and means to reduce the tax burden, leading to different and multiple ways of tax evasion, so the researcher will discuss tax evasion in businesses and professions from more than one angle, all methods of it as follows. Methods of tax evasion in the accounting records, methods of tax evasion in the documents, methods of tax evasion in the trading account, methods of tax evasion in the profit and loss account.

4-8-2-1- tax evasion in the accounting record:
Tax evasion starts at early stages of the work of accounting, by failing to maintain accounting books in accordance with the principles of accounting, as it leads the taxpayer to search many ways to evade tax.

(a) Recorded systems in the accounting books.
The theory of double-entry is the heart of the accounting work. This method is easy to know the result of business through the preparation of trading account and profit and loss account, and helps to discover accounting errors through the preparation of trial balance. The theory of double-entry facilitates the work of tax auditor to audit the accounting books easily and in short time. Tax evasion is possible by way recorded double-entry shortcut in the book keeping, This method is recorded by cash transactions only. Non- cash transactions like credit purchases, credit sales, accrued expenses, accrued revenues, and …etc
These transactions are recorded in the main book. In this case the trial balance doesn't show
all accounts and errors; this leads to result of incorrect trade account and profit and loss account. This method relies mainly on cash transactions. It is recognizes cash sales and cash purchases and ignores the credit sales and credit purchases. Second method is single entry method is recorded one part from the double-entry by another hand this method is recorded only credit transaction, this method is interesting for personal account only, but real and nominal accounts are ignored and difficult to prepare correct trial balance.

From forgoing it is clear that taxpayer can make tax evasion by manipulating in records of transactions and he also can hide certain business transactions, in order to decrease the due tax.

(b) Manipulation in accounting principles.

Accounting depends upon the standards, conventions, postulated and rules. Accountants are following those standards and principles at recording and summarizing transactions and in the preparation of financial statement. Some principles are like, Principle of regularity, Principle of consistency, Principle of the permanence of methods, Principle of continuity, Principle of periodicity

“Principle of Full Disclosure/Materiality. All the previous principles, the entity has to follow from year to another. That means non-consistency in some principles leads to the difference in net profits, The policy is objected to tax evasion. For example, matching principle text revenue and expenses on an income statement must be matched” (Adman abdeen,1986.86)

Matching principle : transactions affecting both revenues and expenses should be recognized in the same accounting period, irrespective of their actual receipt or actual payment, but when taxpayer recognizes only collected cash revenue and ignores the revenue not collected, he abolishes also accruals concept.

Accruals concept: Revenue is recognized when it is earned and expenses are recognized when they are incurred, irrespective of their actual receipt or actual payment. In this case leads to tax evasion, taxpayer in this case makes overstatement expenses and understatement revenues.

Consistency principle: - there should be uniformity in accounting processes and policies from one period to another. Material changes, if any, should be disclosed even though there is improvement in technique.
A change of method from one period to another will affect the result of the trading materially, for example, there are several methods for calculating depreciation, Straight-line depreciation, and Declining-balance method. In the case of inconsistency between those methods of depreciation leads to inaccurate result of net of profit and loss account. Then it leads to tax evasion, this is for example, and not for account.

(c) **Non-Existing documents attached with journal entries:**
Documents are the main reference for record in the journal and posting to ledger as well, in any accounting system. The documents are strong evidence for any transaction. Any transaction deal or any expense or revenue is done in the firm or company, whether the amount is big or the amount is small the documents are very necessary for entry in accounting books, so Non-Existence documents attachment with journal entries especially when the transactions are huge amount for sale or purchase, This involves the manipulation in order to hide the documents and that leads to tax evasion

(d) **Existence of all types of conditions in documents whether of formalities or of objectivity.**
Taxpayer has to keep all documents including all conditions whether formalities conditions or objectivity conditions like
1- Name and signature of contractors and their addresses, making sure the authenticity of the name of the taxpayer, in order to ensure his ownership of the documents.
2-Definition of the contract subject, in order to make sure it is related to the taxpayer business. Here, we must determine the amount, and type of goods in order to control the movement of goods.
3- To check the date of the documents, in order to make sure the year under examination.
4-Determine the purchase price and sales per unit, in order to verify the authenticity of the value of documents, and also to assess the closing stock.
5- Do not scrape or delete, or correct the documents; do not write the document with pencil in order to be difficult to change the contents of the documents. Documents are kept on a regular basis in order to go back to it easily.

From forgoing all conditions are necessary for recorded bookkeeping and to dispel all doubt on the taxpayer of tax evasion. If some of these conditions are not available that means the taxpayer has the intention to evade taxation.
4- 8-2-2 – Tax evasion in the documents:-

Methods of tax evasion in the documents:-, Documents are original evidence for records in books accounting. The evidence document is necessary for a financial transaction, such as debit/credit memos, invoices, receipts, orders, vouchers. Source documents are those documents in which all kinds of business transactions are recorded. The source document is the original record of a transaction.

During an audit, source documents are used as evidence that a particular business transaction occurred. Examples of source documents include these include, invoice, sales order, purchase order, debit note, credit note, goods received note, goods dispatched note, quotation, statement, remittance advice and receipt cash receipts, credit card receipts, cash register tapes, cancelled checks, customer invoices, supplier invoices, purchase orders, time cards, deposit slips, notes for loans, payment stubs for interest. At a minimum, each source document should include the date, the amount, and description of the transaction. When practical, beyond these minimum requirements, source documents should contain the name and address of the other party of the transaction. When a source document does not exist, for example, when a cash receipt is not provided by a vendor or is misplaced, a document should be generated as soon as possible after the transaction, using other documents such as bank statements to support the information on the generated source document.

a- Evasion in the purchase documents:- Purchase documents are strong evidence and are external documents. Purchase documents are necessary for any financial transaction, so the firm should keep it and arrange it according date of occurrence. No scrape or delete, or correct in the purchase documents. Documents should contain the name and address of the other party of the transaction. Any corrections, modification, deleting or scrape in the purchase leads to lose the confidence of the document. In case it is not available purchase documents shows a mock purchase and all that leads to tax evasion.
the following chart shows purchases cycle. A simplified activities chart for a trading company’s purchases cycle (assume purchase on credit term) is as follow:

Chart No. 4-1 purchases cycle

**Simplified Purchases Activities For A Typical Trading Company**

- Raise purchase requisition
- Generate purchase orders
- Place orders with selected supplier
- Select supplier in accordance with policy set
- Contact suppliers and obtain quotations
- Receive goods ordered together with delivery orders and invoices
- Generate goods received notes
- Delivery notes, invoices, goods received notes to Accounts Department for checking and payment

In the previous chart each step needs documents, so tax auditor has to examine all documents in each step to make sure there is no overstatement in cost of purchase.

b- Evasion in the sales documents: - Sales documents are internal documents because those documents are issued from internal department in the firm, so a chance to manipulate in the documents is available. In this situation taxpayer can issue several documents for one transaction. There are several methods for Manipulation in sales documents like

1- Manipulation of the amount of sales, by way to issue tow invoices, original one is manipulate, these invoice is record in the bookkeeping, and affect the stores, therefore the taxpayer can reduce his sales and thus reduce his profits.

2- Manipulation in the price of the goods, by way of a fraud in the documents, or issue two invoices, first invoice price is original right, and another bill includes manipulation, and it is recorded in the books accounting.
The following chart shows sales cycle

A simplified activities chart for a trading company’s sales cycle is as follows:

- **Receive customers’ inquiry**
- **Check availability of stocks**
- **Complete customer orders**
- **Store prepares stocks for delivery**
- **Delivery to customers**

In the previous chart, each step needs documents, so tax auditor has to examine all documents in each step to make sure there is no understatement in price of sales.

Thirdly: manipulation in cash sales:

- Manipulation of cash sales may be by agreement between the seller and the buyer. In this case, the seller issues two receipts for the cash sales. The first receipt is the correct amount, the second is an incorrect amount, and the second receipt is attachment and recorded in the accounting records. This act leads to a decrease in cash sales, then reduces the profit or increases loss.

Second way for tax evasion in cash sales is the following. In the present time machines are used for counting money as means of recorded and verification of cash sales transactions, but those machines have some disadvantages like it doesn’t issue any receipt to the payer at the time of payment of value of goods, and the tape in the machines doesn’t include the type and quantity of goods in order to control goods movement and inventory of the goods as well, this leads to disinformation for the tax auditor.

Fourthly: Manipulation in cash receipts of non-cash sales:

- Other cash incomes are diverse and numerous like vehicle hire, real estate rent, interest of bonds and sale of some assets... etc. In this case, tax evasion is either concealment of cash receipt or shows the cash receipt with less than actual.
Fifthly:- Evasion in the expenditure documents:-One way of the tax evasion is overstatement of expenses for increasing total of expenses against total of revenue to reduce profit or increase of losses. In this case taxpayer may make magnification for some expenditures, for example, fanciful expenses, and increase in expenditure bills

4-8-2-3- Tax evasion in trade account:-
Trading account shows gross profit or gross loss arising out of trading activities. Trade means buying and selling. The account mainly focuses on finding the result of goods bought and goods sold.(T.V.Narasimha,2010,P142)

The trading account shows the income from sales and the direct costs of making those sales. It includes the balance of stocks at the start and end of the year. Items of trade account are important because they impact on the profit. In the following we will discuss items of trade account about tray tax evasion.

1- Tax evasion in purchases:- Intentionally taxpayer to tax evasion by way increasing value of purchase than actually value. Taxpayer tries to make tax evasion by way of hiding some purchase transition and at the same time manipulation in Turnover. In the following some important given examples of evasion.

1-1- Increase in purchases expenses:-
Increased expenses of purchases is easy way, expenses purchases are transportation expenses, the salaries of purchasing department, the expenses of purchasing advertisement. The impact of increase of purchase expenses leads to decrease of profits. Methods of increase of purchase expenses are.

a- Recording of expenditures for another activity in the accounting books of the activity that is examined like transport expenses, wages of worker and another expenses in one nature, as if the taxpayer has commercial activity, agriculture activity as well.
b- Excess in purchases transport expenses, either records it two times, or transports the goods by company vehicle, and despite from that is recording transport expenses once again.
c- Sometimes condition of purchases of goods freight-out that means cost of transporting goods to a customer. It is a selling expense. But taxpayer resorts to record the purchase in the condition of freight- in, that means transportation charges the company pays when it receives goods from a supplier. Taxpayer seeks to inflate the value of purchases expenses form forgoing taxpayer tries to make tax evasion.

1-2- Hiding purchases transactions, Hiding sales transactions as well:-

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May Taxpayer is hiding the purchasing deal, at the same time he is also hiding sales transaction, for the purpose of tax evasion. Here taxpayer is hiding some financial operations whether those operations belong to firm transactions or he uses money of the firm to complete any transaction.

Speculative subject to tax even if the one-time, as long as the money is used from capital firm, the taxpayer is withdrawing the necessary insurance for the process of speculative from cash in hand in the firm, and issued his order to his broker to buy and sell, the taxpayer earns profit from the difference in price without recording in the accounting books. Taxpayer sometimes is doing agreement with the Buyer in order to complete the process of buying and selling before the arrival of the goods to the warehouses of the company without recording these financial transaction in the books of accounting.

1-3- Recording one transaction two times in the books accounting:

Purchases are recorded two times, when the buyer is claiming the loss of the original purchase invoice, he is requesting from the supplier a copy of the purchase invoice. In this case taxpayer is recording once again purchasing in the accounting books after first time recording by original invoice, because the date of the second invoice is different from the date of the first invoice.

1-4- Integration between the purchase of assets and the purchase of goods:

Purchases of goods for resale again and earn a profit, this is the main objective of the firm. Purchases are recorded in the debit side in the trading account, taxpayer sometimes is recording some assets in the trading account in order to increase purchases and decrease profit in order to tax evasion.

1-5 Manipulate in the Transfer price of currency:

Some companies import goods from abroad. In such a situation the company may open documentary credits by foreign currency and pay the value of goods, and also all expenditure concerning the goods like transport expenses, import duty by foreign currency. The taxpayer can manipulate in transfer price of currency by way when converting from foreign currency to local currency, taxpayer takes the highest prices for conversion of foreign currency, for purpose of tax evasion.

1-6- Higher pricing of goods purchased from other activity is owned by the taxpayer:

When taxpayer has two separate activities, one is agricultural and second is commerce.
Taxpayer buys some goods from one activity to another to resell those goods, for example he buys some fruits from the production of his farm to resell in trading activity. In this case taxpayer buys these goods on the highest price, these prices are different about market prices for the purpose of increasing the costs of purchases, for decrease profit and for tax evasion

1-7- Increase in expenses are related with buying and selling:-
Taxpayer may resort to increase some of expenses related to buying, selling as well. In such case taxpayer is forgery some of expenditure related to import duty, royalty, The expenses of transportation sales, wages of employment in stores… etc.
Increasing those expenditure in order to increase cost of purchase and decrease of profit, all that for tax evasion.

8-1- The integration of tax-free income with the company's operations:-
Income from agriculture is totally free from income tax in India, irrespective of the amount of income one makes on the farm. Agriculture income in such cases is added to non-agriculture income only to determine the total income. The integration of income from agriculture with the financial operations of the company to mislead the tax authorities for tax evasion.

2- Tax evasion in sales:-
A sale is the pinnacle activity involved in selling products or services in return for money or other compensation. It is an act of completion of a commercial activity. Sales are effective element for generating income and thereby realization of revenue. The methods of tax evasion in sales are diverse. The following are the most important methods of tax evasion in sales.

2-1- turnover:-
Turnover is the number of times a particular stock of goods is sold and restocked during a given period of time. Turnover also may be used to refer to a company's annual sales or revenues. As long as turnover is responsibility for revenue, Taxpayer will work hard to reduce the value of sales by means of all various ways and means

2-1-1- No record of some sales taxpayer hides some revenue from eyes of tax authority in order to evasion from tax.

2-1-2- Reduce the value of sales in the accounting records:-
The taxpayer resorts to issue two invoices, first invoice is actual sales value, second invoice is less value from the actual value. Taxpayer is recording value of sales by second invoice in order to reduce sales thereby reduce profit, for tax evasion.

2-1-3- Increase in sales of one type of goods:-
Government from time to time is changing tax rate of some of goods, either by increasing or decreasing tax rate. Tax authority is announcing tax exemption in some of essential goods, here taxpayer is resort to increased sales of the exempted goods or those goods which are decreasing in tax rate for tax evasion.

2-2- Tax evasion by drawings of the goods
The proprietor of a firm usually draws goods from store without recording those drawing in accounting books for hiding its effect in the accounts.

2-3- Manipulation in sales documents:-
We have discussed these items previously, like Manipulation of the amount of sales, Manipulation in the price of the goods, Manipulation in cash sales.

2-4 Manipulation in the category card Taxpayer sold some of goods without record of it in the category card and then manipulation in its inventory. We will see that in manipulation in inventory.

2-5- Evasion in returns:-
When the businessman purchases the goods and finds that the goods are not as the per the specification or the goods are damaged or for any other valid reason, he may decide to return the goods to the supplier from whom the goods were purchased. returns are divided into two types, sales returns or returns inwards and purchase return or returns outwards.

2-5-1- Returns Inwards or sales
It is associated with a Sales transaction. Whenever a customer returns goods due to reasons like defects and incorrect specifications, these are returns inwards. Taxpayer intentionally is recording some sales as return inwards, in order to decrease total profit for evasion.

Employees of the company embezzle the cash received from customers, but they are hiding the embezzlement in a manner, by recording these amounts such as sales returns. Also in the case of liquidation taxpayer takes some of sales return for personality purpose but those goods estimate by cost price. But in the fact returns inward are estimate of by sales price,
this cheating for tax evasion only.

2-5-2- Returns outwards or purchase return:-
This is associated with purchase transactions. When a trader returns goods to his supplier, these are called return outwards. In such case taxpayer has obtained insurance against damaged goods, but this amount does not appear in the firm account. He has resorted to hiding amount collected from insurance company for tax evasion.

4- Manipulation in inventory:-
The raw materials, work-in-process goods and completely finished goods that are considered to be the portion of a business's assets that are ready or will be ready for sale for that inventory of goods in all categories are subject to tax evasion.
A- Not a physical inventory of the goods inventories, but goods estimates random. This way bears some mistakes and leads to estimate of goods amount less than real amount.
B- All categories of inventory like the raw materials, work-in-process goods and completely finished goods- are priced less than the purchase price. All that is for decrease in profit for tax evasion.
5- Compensate the goods damaged:-
Damaged goods are allowed by the tax, but in such case the taxpayer may exaggerate the valuation price of goods damaged more than real value in order to avoid tax.

4-8-2-4- tax evasion in profit and loss account:-
Income statement, also referred as profit and loss statement (P&L), is a company's financial statement that indicates how the revenue is transformed into the net income. It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write-off and taxes. The purpose of the income statement is to show managers and investors whether the company made or lost money during the period being reported. The important thing to remember about an income statement is that it represents a period of time.

After preparation of Trading A/c then we will do preparation of P&L A/c. After preparation Trading A/c the Gross profit or Gross loss should be shown in Trading A/c. If Gross Profit is there the profit should be carried forward of the P&L A/c on credit side. If the gross loss should be shown carried forward that gross loss is on the debit side of P & L
A/c, and next all indirect expenses must be added on the debit side of P&L A/c ex:- (salaries, rent, wages, VAT tax, Bad Debts, electricity bill, telephone bill, mobile or cell phone bill, printing & stationery, postage & telegrams, Discount allowed, depreciations etc). And any discount received, commission received should take on the credit side of the P & L A/c, and then calculate all debit credits total. After calculating the Credit Balance is more than the debit balance, the remaining balance is net profit. In the same way if the debit balance is more than the credit balances that amount is Net Loss. This is complete Profit & Loss A/c. Taxpayer resort into overstatement of these items of expenditure for increasing expenses. That leads to decrease of net profit, leads into decrease of income.

4-1- Tax evasion in expenses:-

4-1-1 Rentals: - It is amounts paid by the taxpayer against places that carry on his business or profession. Taxpayer is exaggerates in rentals expenditure as following:-

a) Taxpayer’s residence and his business are in the same building. His residence’s in the first floor and his business in the ground floor, the taxpayer transfers account of administrative expenses into profit and loss account, with total rents, business rents and his residence rents.

b). Taxpayer’s his residence in the part of real estate; second part has renting to another person. In spite of that, total of rents are transferred into profit and loss account.

C- Real estate is owned by the taxpayer, but taxpayer is increasing his real estate rent amount more than counterpart in the area.

4-2- Wages, salaries and bonuses:- this amount is paid to employees for their services

4-2-1- Insertion of names of fictitious workers, and workers have left the service in payroll for purpose of inflating expenses.

4-2-2 – Salary of owner’s business:-Business owner has a salary against his administrative work in his business. In this situation salary not allowed for business owner a, because the revenue received by the business owner for combined work and capital together is the realized profits.

4-2-3 Provident funds for employee and workers:-Amounts deducted from the salaries of staff members who left the service. In such a case, the taxpayer is inserting fictitious employees and workers in payroll more than real number. This is for deducting provident funds from profits.

4-3- Bad Debt:-Bad debt from a credit sale is when the creditor is unable to collect his
due money from debtor. Debt becomes bad debt when the creditor has made all reasonable efforts to collect the debt, bad debt is deducted from profit in the end of year, there are some ways for tax evasion in this Component.

4-3-1- The taxpayer is a debtor to his firm. When he secures some of its requirements from his firm, at the end of financial year, sets up his account, transfers to the loss. It is deducted from the profit and loss account, from within the bad debt that is for decrease in taxable income.

4-3-2- Payments concealments from customers:-Taxpayer is hiding receipts from customers of payment of their accounts, and considers accounts of customers who paid as a loss. It is transferred to the account of bad debts through the fictitious record.

4-4- Donation, grants, and subsidies:- Amounts paid by the taxpayer to the associations and charities are deducted from the profits and can be manipulated as the following statement:-

4-4-1- Overstating the value of the donation:- the taxpayer exaggerate the amount of donation in order to reduce earnings although he did not pay the amounts mentioned in the accounts.

4-4-2- Payment of contribution and grants to charitable organizations that are not recognized by. Taxpayer is paying grants, subsidies, and donates to unknown charitable organizations, unrecognized, Fake institutions for tax evasion only.

4-5- Maintenance expenses:-Maintenance expenses are those required to keep the fixed assets in working order, maintenance expenses for buildings, vehicles, mechanical Equipment, Interior Painting.

There are two types of maintenance expenses, first one expenses leading to increase the productivity of the fixed assets or increase productive life of the asset, the amounts of these expenses are huge, these expenses are called capitalist expenses. Second maintenance expenses are small amounts such as small spare parts, oil changes for vehicles, painting walls of offices, these expenses are called revenue expenses, so there are some ways to manipulation in these expenses like:

4-5-1 Inclusion of capitalist. Expenses with revenue expenses and transfer of total amount to profit and loss account for increase expenditures, this leads to decrease in taxable income.

4-5-2- Taxpayer is inserting unreal maintenance expenses with real maintenance expenses, in order to inflate the maintenance expenses more than in reality
4-6- Advertising Expenditure:-

Advertising Expenditure may be large amounts. This expenditure is capitalist expenditure, these expenses are divided between years, but taxpayer is doing transfer of it to profit and loss account once. This is to increase expenditure.

4-7- Other General expenditures:- There are many general expenses, like transition and travel expenses, small internal expenses, expenses for lighting and water…etc, Condition for the deduction of these expenses is related to the work on the taxpayer may take these expenses for tax evasion through increase of travel expenditure. The owner of business uses one of the company's cars for special use but he transfers all car expenditures to profits and losses account.

4-8- Trade discounts:- This is amount allowed from firms to its customers to encourage them in order to continue purchases. This discount is deducted from profits and losses account. The taxpayer overstatement in this discount more than real discount, that is for decrease net profit, this leading to decrease in taxable income as well.

4-9- Commission and brokerage: - the taxpayer is paying Commission and brokerage to the broker because he sold some firm assets such as some of the equipment, real estate and securities and others. In such a case tax administration cannot find out the brokers. Verification from the commissions are recorded in the books, here taxpayer resort to inflation of this amount.

4-10- Withdrawals: - Withdrawals either cash amounts or goods by the owners of business for personal use or his family use. The owner of business withdraws large cash of amounts, and then he neglects to record it in the accounting books because it represents expenses related to the activity, The owner of business draws goods for personal use, and then he considers those goods as damaged goods in the store.

4-11- Gifts and gratuities, and concerts:- Firms are advancing gift to its consumers by withdraw method, discount from amount of purchases or racing method, the purpose is to increase sales. The company also is working concerts for visitors to contract with the firm. All that needs expenditure, so the firm owner makes overstatement for those expenses in order to increase expenses in the profits and losses account, in order to decrease taxable income.

4-12- Distribution of expenses of goods:- Taxpayer exaggerates in the distribution expenses of goods by a way to issue unreality an invoice, but at the same time distribution
of goods is done by company vehicles, this is to increase expenses.

4-13-Losses:- There are two losses. First one from previous years, that means carry forward of losses and second sale's assets losses. Indian income tax act 1961 mentions sections 70 to 80 set off and carry forward. This act accepts carry forward of business and profession for period of eight years, but there are some exceptions such as loss from speculation business, long-term capital loss etc, so carry forward is allowed but not more than this period is mentioned in the law. If loss carries forward more than eight years, it is tax evasion. Sale asset loss may be incorrect, because taxpayer is claiming this loss, but in fact he is depending upon false documents to prove this loss.

4-14- Reserves and allocations:-This is amounts deduction of the profits in order to meet Potential losses in the future, so tax evasion is possible in cases of over-report. This reserves and allocation from actual, therefore this item is prone to tax evasion.

4-15 Insurance premiums:-The taxpayer pays insurance premiums for assets to some Insurance firms, taxpayer manipulates in the insurance premiums as follows:-

4-15-1- Insurance on the owner life, or its partners in the company, or his family members, but insurance premiums is payment from firm, this is one type of tax evasion, because the firm is separate from the persons who are owners of this firm.

4-15-2- Insurance premiums for the firm:-Firms paid insurance premiums for itself, for meeting fire danger or for anything else, but insurance premiums are deducted from profits and losses account, but this expenses are allowed for deduct from revenue. This expenditure is probable and it is not sure, So it is in doubt for tax evasion

4-15-3- The difference between compensation insurance and the book value of the asset, The insurance company compensates, for the damaged assets, and compensation is greater than the book value of the asset, Here the taxpayer does not add the difference to profit and loss account.

4-16-Depreciation :-Depreciation is a non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time, and must be replaced once the end of their useful life is reached. There are several accounting methods that are used in order to write off an asset's depreciation cost over the period of its useful life. Because it is a non-cash expense, depreciation lowers the company's reported earnings while increasing free cash flow (website. Investor words),
Methods of evasion in depreciation:

4-16-1- Non-use fixed asset: In some cases firms buy some asset, but don’t use those asset in the company operation. Despite taxpayer’s calculation of depreciation for these assets, that is for decrease taxable income.

4-16-2- Depreciation of leased assets: Entity has some assets for leases such as, real estate, machinery, vehicles, from outside parties, and company pays cash money for that lease, and adds to that entity. It is calculated depreciation for these assets.

4-16-3- Depreciation of assets purchased during the year: Firms buy some assets during the year, means during half of the year, but depreciation for those asset is calculated for one whole year, this is not right, this is for purpose of tax evasion only.

4-16-4- Integration of depreciation for fixed assets: The firm has merged between all assets, and calculated depreciation for all those assets, by one method, for example, straight-line method, this is incorrect way, because it leads to tax evasion.

4-16-5- Fixed assets that do not have Depreciation: Taxpayer calculates depreciation for some fixed assets that do not have depreciation such as land, goodwill, some of current assets, because making depreciation for those assets is not allowed.

4-16-6 -Depreciation for replacement value asset: Sometimes taxpayer reserves some cash amounts for replacement in the future but he counts depreciations for this cash amounts. This is incorrect; the objective is only tax evasion.

From the Past pages we have seen there are a allot of manipulation styles and tricks methods on the side of expenditures in the profits and losses account, whether in rentals, wages, salaries, bonuses, bad debt…etc or in depreciation. All that manipulation and tricks are for only tax evasion.

**Tax evasion in revenues:**

Revenues are representative the counter side to expenditures in the trade account and profits and losses account, in the side of expenditures. Taxpayer seeks overstatement of all expenses by various ways and means, in the side of revenues. Taxpayer is looking after underestimation of revenues in order to decrease revenues for decrease taxable income as well. In the following we will discuss types of tax evasion in revenues side.

1-1- Revenue from seal of goods: In this case we have discussed when we were talking about evasion in the sales documents and tax evasion in trade account.

1-2- Revenue from other sources: There are some revenues like revenue from real state,
hire revenue from vehicles, revenue from Speculation in the securities….etc; in these cases taxpayer seeks to hide some revenue reduce revenue, then reduce taxable income.

1-3- Capitalism revenue:-Capitalism revenues are profits from the alienation of some assets. Those assets in original not for sale but for using it in firm operations like real state, lands, vehicles, goodwill and machineries.

1-3-1- Sale of goodwill:- Taxpayer sells goodwill firm , and he hides profit from sale of goodwill by means of not showing value of goodwill in the balance sheet, or by decreasing the value sale of goodwill, for reducing the profit of sale goodwill from actually value in the book.

1-3-2- Firm liquidation: - In firm liquidation taxpayer manipulates on the invoice of assets, and then reduces profits capitalism, this is lead to decrease taxable profits.

1-3-3- Profits from sale of assets:-Taxpayer is selling some assets like some real estate, cars and securities, Price sale value is more than book value, but he hides these profits and does not record it in the books accounting to decrease profits, that leads to decreasing taxable income, that leads to tax evasion.

1-4- Extraordinary Revenues and not-regular revenues:- Some of those profits don’t interfere in the operations of the primary activity of the firm, such as compensation from insurance companies, Income securities , profits from another investment, lottery, racing, reward, and profit from gross words and some these profits are related by firm activity such as bad debt collections. Taxpayer makes tax evasion either by means of decrease the cash amount receipt or by means of hiding this revenue totally.

From our previous discussion about tax evasion on the trade and profit and loss account, we have found that the methods used for tax evasion are many and varied; because the taxpayer is prosecuted after all possible and impossible ways for reduce tax liabilities. We have found the possibility of tax evasion in all elements of expenditure by means overstatement in cash expenses like rents, advertisements, insurants …etc , and also in non cash expenses such as depreciation, and also we have found that tax evasion in the side of revenue by means of understatement components of revenue side. All that is only for tax evasion. Researcher believes that Indian lawmaker is making section 44AB in income tax Act 1961 for purpose of curb tax evasion.
4.9- Consequences of tax evasion in the country:

Tax evasion has bad consequences for governments as well as to societies. The effects usually are of financial nature, the effects of the tax evasion are always negative and they are noticed directly and immediately in the budgetary revenue and of course indirectly and gradually in economy of counties, in political, society and legal implications simultaneously.

1- Financial impact: Tax evasion reduces tax collections, leads to reduce total revenue. Tax evasion cuts at the very root of the revenue potential of tax system and therefore hinders the resource mobilization efforts of government. Leak of funds may distort implementation of development plans and force the government to resort to deficient financing or to loans financing from abroad. Its presence requires that government expends resources to deter noncompliance, to detect its magnitude, and to penalize its practitioners. In order to combat tax evasion, the government is spending part of their resources in order to reduce. Expenses of the efforts of tax administration, expenses of means of tax evasion, and expenditure for examination and audit of tax return. These financial expenses are incurred by the government to reduce tax evasion.

2- Economic effects: Tax evasion may interfere with the declared economic policies of a government by distorting saving and investment pattern and influencing the availability of resources to various sectors of the economy.

Tax evasion results in the loss of revenue for the government. It generates more and more black money, tax evasion and black money result into concentration of economic power in the hands of undesirable groups in the country and shortfall in government revenues. Government resorts to either reduce public expenditures or to issue a new currency, in both cases, there is damage on the economy of the country, in the first case government is following policy in order to reduce public expenditure. In the second, this measure leads to decrease investment, decrease living standard of the people. In the second measure leads to weak purchasing power of currency, and rising prices. Tax evasion doesn't allocate resources between the various factors of production, leads to damage in production incentives, and reduces the level of economic welfare.

Tax evasion reduces the degree of effectiveness of tax policy in order to curb inflation, as a result of the failure of fiscal policy to absorb excess supply money. Tax evasion is the cause of the slowdown in economic growth in countries because taxes are a major financial
resource for the events of comprehensive development in the country. Tax evasion is one of the reasons of unemployment and poverty in the country.

3-Political consequences :-The identification of the political effects, the non-achievement of the state revenue, increase of the tax evasion leads to an increase of the fiscal pressure, dissatisfaction regarding political leaders who will not be elected in the next election.

4-Socialeffects:-Tax evasion leads to redistribution of income from the honest to dishonest. Tax evasion leads to breach of horizontal and vertical equity canon between members of the society. Tax evasion also gives businesses an unfair advantage in a competitive market and it means some individuals don’t pay their fair share. As a result, there are fewer funds available for community services. Tax evasion leads to insufficient financing. This problem also leads to shortage of financing of the social projects, such as education, culture, administration and health care. Tax evasion leads to degradation of social and moral standards, spread of some social abuses like bribes, intimidation, black mailing, tampering with official records, submitting fake documents…. So on.(international dictionary,1996,158)

4-10- Conclusion:-
The researcher found that, tax evasion is crux in our research as well as the main objective. He found out that all countries are suffering from tax evasion developed countries and developing counties as well, and it is universal phenomenon, and it takes place in all societies, social classes, all professions, all industries, and all economic systems. We discovered that all definitions of tax evasion are not fixed, but each definition talks from one angle, and all definitions focused on tax evasion characteristics, like taxpayer’s behavior is intentional and deliberate, taxpayer is free chosen and knowledge, taxpayer follows fraud method and tax evasion as cheating, tax evasion is a breach of the moral obligation to obey the law.

After that we considered types of tax evasion, there are three types of tax evasion, first type of tax evasion is according to size, it is divided into micro and macro tax evasion, second type is according to region, it has classification into internal and international tax evasion, third type is according to routes of the taxpayer, it is classified into tax avoidance and tax evasion.

The researcher discussed all details about penalties of tax evasion, he found out tax evasion
penalties in U.S.A and India. There are differences between two countries in penalties of tax evasion and it becomes clear that penalties of tax evasion in U.S.A are stricter than penalties of tax evasion in India. Next we discussed reasons of tax evasion and we grouped it to economic reasons, administrative reasons, legislative reasons, and social reasons as well. Some reasons are level of tax rate, social psychology of tax evasion, complex tax system, mismanagement of revenue from taxes, inequitable distribution of amenities, nature of economic system, complex of tax law, corruption in tax administration, underground economic and so on.

In the next section we discussed tax evasion according to kinds of taxes, we found out that tax evasion in income tax depend upon misrepresentation. In this point there are two ways either presenting false information or presenting true facts selectively, unregistered income as well. Tax evasion in excise duties has under-report of production, undervaluation method, misclassification of goods, misuse of exemption. Evasion of customs duties is undervaluation invoicing of imports and miss-declaration of goods, smuggling is one kind of tax evasion. Finally evasion in value added tax. Then we researched in all details tax evasion in businesses and professions due to this area is objective of this study, tax evasion in business and profession is crux in this study, so we explained that from all angles. we found tax evasion in the accounting records, like records of cash transaction only and non-cash transactions are recorded in the control book. In this case the trial balance doesn't show all accounts and errors, manipulation by the accounting postulated and accounting principle, the entity has to follow from year to year. Same when policies changed from year to year that means non-consistency in these policies that leads to the differences in net profit and non-existence documents for supporting of journal entries. Secondly methods of tax evasion in the documents, like evasion in the purchase documents, evasion in the sales documents, manipulation in cash sales, manipulation in cash receipts of non-cash sales, evasion in the expenditure documents. Thirdly tax evasion in trade account. In this area there are many ways for tax evasion like increase in expenses of purchase, recording one transaction two times in the accounting books, mixing of the purchase of assets and purchase of goods, manipulate in the transfer price of currency, higher pricing of goods purchased from other activity owned by the taxpayer, also tax evasion in sales, like no records of same sales, reduce the value of sales in the accounting record, increase in sales of one type of goods, manipulation in sales.
documents. Fourthly tax evasion in profit and loss account, in this subject profit and loss account includes many accounts as expenditures and revenue. Tax evasion is possible in the side of expenditure in the case of overstatement of those expenditure but in the second revenue side the taxpayer underreports revenue, some evasion in the debt side like, tax evasion in rents, tax evasion in wages, salaries and bonuses, in advertising expenditure, in commission and brokerage.

Tax evasion in revenue side, taxpayer seeks about understatement in revenue in order to decrease taxable income like revenue from sales, profits from sales of assets, capitalist revenue, and sale of goods as well. In the last section we discussed effect of tax evasion. We found out there are four consequences in the state; they are financial impact, economic effect, political consequences, and social effects as well.