CHAPTER 2

MEANING AND NATURE OF TAX EVASION
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2.1 Introduction

"EVASION" NECESSARILY MEANS TO ILLEGALLY AVOID PAYING TAX."

Tax evasion denotes defrauding the revenue by illegal acts such as concealment of income or furnishing inaccurate particulars of income or making false claims to allowances in order to defeat the provisions of law.¹

Tax Evasion, thus essentially encompasses practices such as suppression of receipts, concealment of income, making of false statements, under-statement of assets and such other evasive and illegal tactics which are adopted by knavish tax payers who have lack of the consistency in the commitment for the growth and economic development of their country, by whom deficiency of the grains of moral fiber which repeal against such dishonest and malicious practices.

Tax evasion by its very nature falls outside the four corners of any taxation statute and does not merit the judicial, legislative or moral benediction. It is prima facie unacceptable and cannot be sanctioned by the authorities on any pretext or argument whatsoever, as it functions as the parasite which feeds on the fiscal health of the economy and drains it of valuable tax revenue which flows into the stream of black money flowing through the veins of a parallel economy.

¹ Wheatcroft G.S.A., "Attitude of the Legislature and Court to Tax Avoidance" (1955) 18 Mod. L.R. 209.
"In the law of taxation, the term 'Evasion' at times is used to indicate or to signify two different types of activities". "In the first place the term 'Evasion' designates those types of activities of the tax-payers which though, technically are against the very intent and the policy of the law, in the second place it covers all those fraudulent activities of a tax-payer, which are entered into, with a view to escaping payment of taxes to the revenue by adopting illegal means".2

2.1.1 Illegal Income and Tax Evasion

Persons subject to the Internal Revenue Code who earn income by illegal means (gambling, theft, drug trafficking etc.) are required to report unlawful gains as income when filing annual tax returns, but they often do not do so, because doing so could serve as an admission of guilt. Suspected law breakers have, therefore, been charged with tax evasion when there is insufficient evidence to try them for their non-tax related crimes. Other times, tax evasion can be used as "one more nail in the coffin" by prosecutors by stating that if a person earns illegal income, he/she may also be guilty of tax evasion. Those who attempt to report illegal income as coming for a legitimate source could be charged with money laundering.3

2.1.2 Evasion of Customs Duty

Customs duties are an important source of revenue in the developing countries. The importers purport to evade customs duty by (a) under-invoicing and (b) misdeclaration of quantity and product-description.

2 Simms v. Registrar of Probates (1900) A.C. 323 (P.C.).
When there is advalorem import duty, the tax based is reduced through under-invoicing. Misdeclaration of quantity is more relevant for products with specific duty.

2.1.3 Smuggling

Smuggling is importation or exportation of foreign products through unauthorized route. Smuggling is resorted for total evasion of livable 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 port and therefore, not subjected to declaration and payment of duties and taxes.

2.1.4 Evasion of Value Added Tax

Value Added Tax has emerged as a modern form of consumption tax through the world. Producers who collect VAT from the consumers may evade tax by under-reporting the amount of sales.

2.2 Control of Evasion

Level of evasion depends on a number of factors one of them being fiscal equation. People’s tendency to evade income tax declines when the return for due payment of taxes is not obvious. Evasion also depends on the efficiency of the tax administration. Corruption by the tax officials often renders control of evasion difficult. Tax administrations resort to various means for plugging in scope of evasion and increasing the level of enforcement. These include privatization of tax enforcement, tax planning, and institution of pre-shipment, inspection agencies.
2.2.1 Corruption by Tax Official

Corrupt tax officials cooperate with the tax payers who intend to evade taxes. They detect as instance of evasion, they refrain from reporting in return for illegal gratification or bribe. Corruption by tax officials is a serious problem for the administration in a huge number of underdeveloped countries.

2.2.2 Role of Middlemen

It is often alleged that tax lawyers and chartered accountants help taxpayers including firms and companies in evading taxes. In the same vein, the Clearing and Forwarding agents help in evasion of customs duties. It has been suggested that removal of human interface is a reliable solution to this problem.

2.2.3 Privatization of Tax Enforcement

Privatization of tax enforcement is used for overcoming limitations of Government Tax Administration in controlling tax evasion. Some Governments have resorted to privatization of tax enforcement in order to enhance efficiency of the tax system. The assumption is that leakage of revenue will lower under a privatized regime.

2.2.4 Tax Farming

Tax farming is an old means of collection of revenue when it is difficult to determine the leviable amount of taxes with certainty. Government leases out the collection system to a private entity for a fixed amount, then collects the revenue and shoulders the risk of attempts at evasion by the tax payers. It has been suggested that tax farming may be a solution to the problem of tax evasion seen in developing countries.
2.3 How People Evade Taxes?

Some common forms of tax evasion devices are:

1. Omitting to report taxable income of the assessee to the assessing officer.
2. Fraudulently changing, manipulating and altering books of account or making alteration therein.
3. Maintaining multiple sets of account books.
4. Opening account under assumed names, or opening accounts in the names of those who have not to sign their checks or to do anything with it.
5. Securing contracts in the name of dummy heads.
6. Keeping transactions out of account books.\(^4\)
7. Failure to file return in time to escape from taxes altogether or make assessment inadequate.
8. Filing of incomplete, fraudulent or inaccurate return.
10. Claiming erroneous deductions.
11. Filing inappropriate appeals against assessments supported by false accounts.\(^5\)
12. Inflating expenses either by spending unnecessarily or falsely showing expenses as incurred.
13. Maintaining substandard accounts and thereby concealing income.
14. Suppressing documents of sale and other transactions.
15. In property deals giving 25-30% in white and rest in black.
16. Purchasing restaurant bills for cash at 90-95% of discount.

\(^5\) Jacob Eapenn, 'Incidence of Tax and Tax Evasion', All India Conference of Tax Executives, 2\(^{nd}\) Report (1967) FICCI P. No. 7.
2.4 Distinction between Evasion and Avoidance of Tax

"The dividing line between tax evasion and tax avoidance is very thin". The Direct Tax Enquiry Committee (wanchoo committee) has considered this topic in its report\(^6\) and tried to draw distinction between the two items in the following words;

"The distinction between evasion and avoidance, therefore, is largely dependent on the difference in method of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions of tax privileges offered by the Government. Others are maneuvers involving on element of deceit, misrepresentation of facts, falsification of accounts, including down right fraud. The first represents what is truly tax planning, the later tax evasion. However, between these two extremes, there lies a vast domain for collecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute 'tax avoidance'.

Some other fundamental points of difference between tax evasion and avoidance are:-

- Tax evasion consists in failure of the taxpayer to confirm to the provisions of the law. Tax avoidance can be practised in compliance and in consistency with the statutory provisions;
- Tax evasion is illegal but tax avoidance is legal;
- Tax evasion as contrasted with tax avoidance, is immoral;

\(^6\) Wanchoo Committee Report Chapter 3 para 3.3.
Whereas tax evasion is a crude method of tax dodging practiced in all economic strata, tax avoidance is essentially a sophisticated high bracket game;

- Tax evasion involves violation of law and is punishable under the statute. In the case of tax avoidance no question of punishment arises as there is no breach of law and it is permitted by law;
- Tax evasion is based on suppression or omission of material facts. Tax avoidance is based on imaginary and misrepresentation or twisting of facts;
- In case of tax evasion, black money is generated and this is mostly used for unproductive purposes. In case of tax avoidance, black money is not generated; hence, it is not very harmful to the society; Despite the difference in the concept between the two as enumerated above, the object of both evasion and avoidance is the same—both ultimately result in loss of revenue to Government and increase portent to the burden of tax on other taxpayers who do not practice them. The two flourish when the rates are high.

2.5 Causes of Tax Evasion

The nature of the tax, the growing taxation, the high rate of tax, economic planning in the country, the administrative machinery responsible for the enforcement and collection of the tax, the innocence of the taxpayer, the deliberateness of the taxpayer and the deliberateness of the tax, personnel, no prosecution of tax evaders, frequent charge in law, the mutual distrust between the taxpayer and the taxing authority and the psychological factors etc. are all jointly and severally responsible for evasion of the tax.
These are classified as under:

2.5.1 The Tax Itself

- **Dis-incentiveness**: Whereas the Tax itself is prolific for the Exchequer, it is on the other side harsh to investors. As direct tax, it is normally unified by taxpayers in general, more so when the rates and the slabs aim at squeezability. In that, far from providing an incentive to investors consequently leading to capital formation, the tax causes dis-incentiveness.

- **Uncertainty**: The uncertain character of the tax is another cause for evasion. In our country the amount of income tax a person will have to pay is determined by the Annual Finance Act of the following year on the income of the ‘previous year’. The causes for uncertainty are, to the rates of tax, exemption limits or even levy of some new kind of tax on income etc. This happens when a person is not sure for what amount of tax he pays in respect of income; he becomes inclined to evade the tax.

- **In-expediency in marginal cases**: When income tax is levied on marginal groups without any regard to expediency, it prompts such taxpayers to find ways and means to evade the tax.

- **Complexity**: Further the tax law has become so complex in recent years that an average tax payer prefers to plead ignorance about it and thus evade the tax.
2.5.2 Economic Factors

- **Growing taxation:** Among the economic factors, the foremost importance is the growth of taxation in recent years in our country. Both direct and indirect taxes have increased in their rates as well as coverage. As a result, a taxpayer is obliged to evade the tax as much as he can.

- **High rate of tax:** Coupled with this multiplicity of taxes is the problem of high rates. The cumulative effect of multiplicity of taxes and high rates is that the incidence of taxes on the taxpayer is too high, particularly on the high bracket incomes and in order to lessen the same, the taxpayers resort to evasion of taxes including that of income tax. The Direct Tax Administration Enquiry Committee has also observed that "the evidence before us shows that tax evasion has never been the prerogative of the higher income groups, but as the stakes involved are larger in their cases, the tendency to evade tax is also greater.

- **Soaring price level:** The cost of living index has soared too high during the last decade. Consequently the people can barely meets their day to day requirements and are not in a position to contribute to the State Exchequer as desired. The levy of income tax is not an exception to it. In this case it is remarkable to note that despite an increase in the general price level, the exemption limit of income tax of an individual remains low, a negligible increase in comparison to price rise.
- **Economic planning in the country** year after year in successive Plans in a search of resources. The country has embarked upon a Five Yearly Planning scheme for the economic development of the country. The intensive capital character of our plans makes it obvious to increase the tax load.

- **Tax Structure**: The planning edifice is not based on sound structural rules. Instead of the plans coming up from the bottom, they have been trusted from above which do not evoke response from the taxpayers.

### 2.5.3 Administration Factors

By nature, a man tries to respond favorably to benevolent and rational considerations. Even if his financial condition is not very sound but the administrative machinery is responsible for sympathetic and the flexible procedure, he tries to contribute the maximum to his own Government otherwise the situation becomes different. The administrative factors are as under:-

- **Harassment**: When tax is levied on the taxpayer, he should get the relief in appeal or increasing the tax liability by a little more and consequently the taxpayer is harassed and incurs un-necessary expenses, then also there is a tendency to evade taxes either by escaping the attention of the Tax Administration or by attempting to hush up the matter by illegal means in collusion with the Tax Administration.
• Slack government machinery in enforcement and in collection: - The taxpayers who evade tax treat it as reward; if the dishonest evaders are not caught; the burden of tax falls on true taxpayers. This leads them also the attempt to evade the tax. Thus if we have laxity in the enforcement, the result is the whole atmosphere, of willingness to pay taxes, is polluted. Even if the Tax Administration is capable of locating and assessing the tax evaders but either because of slackness or lengthy legal procedure involved in collection, is ultimately unable to collect the tax, the result is evasion of income tax.

• No prosecution against evaders:- Although the law empowers the Tax Administration to levy penalties as well launch prosecution against tax evaders, yet in actual practice, the tax evaders are not prosecuted. The annual statistics published by the Department shows that for last so many years, there has not been a single conviction of tax offenders.

2.5.4 Other Factors

Besides the above there are other factors- psychological, lack of citizenship, mutual distrust, frequent change in law, tax un-consciousness etc. which are also responsible, not to a less extent, for evasion of the tax. The same are discussed hereunder:

• Psychological Factors:- In respect of direct taxes, it is human psychology that every person tries to pay as little as possible. This is true of income tax also. To quote the then Hon’ble Finance Minister Mr M.Desai:-
“No taxpayer is ever happy unless he feels that he has paid a little less than what he has to pay”.
This mentality too is responsible for the evasion of tax.

- **Lack of Citizenship**: Unfortunately all citizens do not realise that it is their duty towards the state that they owe to pay their correct amount of tax and that too in time. As a result of non-realisation of the aforesaid duty or dereliction of duty as we may call it, they evade the tax.

- **Mutual Distrust**: Because the distrust attitude adopted by Tax Administration against the taxpayers, there is the game of hide and seek going on between the taxpayer and the tax-collector in the matter of the evasion of the tax. The officers of the Income Tax Department should be watchdogs and not tax hounds. Since the taxpayer does not want to become a prey to them, he tries to evade the tax.

- **Frequent Change in Law**: Frequent changes in the tax law do not enable either the taxpayer or the tax gather to keep pace with the changes in law. The result is that in a mass of ill digested legislation thus created, there is neither any effective taxpayer compliance nor enforcement and the chance of tax evasion increases.

- **Tax un-consciousness**: It is generally seen that the majority of the taxpayers in the exemption limit margin are not tax conscious either because they are not aware of their tax liability or they evade the tax un-intentionally. This tax un-consciousness also results in evasion of the tax.
2.6 Black Money

Black money is that part of national income, which is not disclosed in the income tax returns and is held secretly either in the form of currency notes or other assets such as “Benami” properties. To quantify black money in India, several attempts have been made and the estimates have varied quite widely. Addressing the session on ‘Towards Corruption Free Society’, Mr. N. Vittal, “Chief Vigilance Commissioner of India” stated during “The India Economic Summit 2000”, that black money accounted for 40% of India’s GDP. The autonomous bodies estimate the amount to be around Rs. 5 lakh crore. Mr. Kamal N. Kabra, who published an authoritative book on India’s black economy 25 years ago, believes black economy constitutes of approximately 50% of national income. Mr. O.P. Chopra of the Faculty of Management Studies estimates that the generation of black money in each year would be Rs. 1 lakh crore. Another manner in which generation of black money can be estimated is through the tax-GDP ratio.

During the Second World War the term black money and black market came into widespread. According to economists view the black money is the money that escapes taxation i.e. an unrecorded gain while the arm of the law finds it difficult to reach them.

“Black Money is an elusive term, as described by Direct Taxes Enquiry committee. It is as its name suggests, ‘tainted’ money- money which is not clean or which has a stigma attached to it. However, black is a colour which is generally associated with evil. So the term ‘black money’

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7 India Economic Summit 2000 by Mr. N. Vittal (Chief vigilance commissioner).
8 Authoritative book on India’s Black Money, by Kamal N. Kabra.
consequently has both these implications. It not only stands for money earned by violating legal provisions—even social conscience—but also signifies that such money is kept secret and not accounted for”.9

The Committee has explained its meaning as under:

Due to imposition of various controls on distribution and prices, a clandestine market had sprung up in which things were still available, but at prices higher than the control ones. The term ‘black money’ became current to describe the money received or paid in such ‘black market’ deals. With the lifting of several controls, though black market in the commonly understood sense of the term became rare, transaction still continued to be carried on by the unscrupulous outside their books of account, as this practice helped the parties concerned to evade or substantially reduce the payment of taxes thereon.10

From this report it seems that the money which is earned in clandestine market due to imposition of various controls on distribution and prices is turned as black money. But it is also earned through sources, including concealment or understatement of the true income in record.

Today, the term is generally used to denote unaccounted money or concealed income and/or undisclosed wealth, as well as money involved in transaction wholly or partly suppressed.

Since the world war second perceptible decline in the ethical and moral values has occurred all over our planet. These ills caused troubles to the entire Globe; they are more dangerous in the third World Countries. In

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9 Direct Tax Enquiry Committee, 1971 Report—para 2.1
10 Ibid—para 2.2
in the underdeveloped world the degradation of human values is beyond description. This degradation gave birth to black money. No money can be said black or white. It is either earned honestly or dishonestly. Tax is imposed by any authority with two views in mind (a) To generate resource to run the administration or country and (b) To maintain economic equality among the citizens or eradicate poverty. The whole lot of corrupt money is generated from undocumented transactions in the so-called shadow economy or parallel economy. Many transactions go unrecorded in the normal course but only those portions which are intentionally unreported. To avoid taxes or hide the sources of income forms the shadow economy.

2.6 Causes of the Existence of Black Money

During the British rule, industries like iron and steel and textiles had grown significantly but the vast network of small-scale rural industries were totally unattended, though these small-scale rural sectors provide strength and stability to the economy. At the same time, the Indian society was deeply shaken by the extreme disparities of wealth and opportunity.

Just after the independence, therefore, the Indian government turned to the socialist agenda to remove the disparities. Progressive tax structure was put in the place and to ensure basic necessities to rural masses, a system of price control and rationing was introduced. There are several causes operating together in the creation of black money in the country, the major contributors may be stated as under:
A. **Price and Quality Controls:** The term black first arose in the context of unsanctioned activity in controlled markets. If the customers are desperate enough they will forgo their legal rights and go for the backdoor deal creating unrecorded money/corrupt money.

B. **Public Expenditure:** The government expenditure is also a major contributor to the rapid growth of black money. A considerable amount of public expenditure on various anti-poverty programmes or other development projects never reached the designated beneficiaries and siphoned off by concerned officials.

C. **Taxes:** High progressive rate of taxation is also responsible for the growth of parallel economy. Except salaried persons where incomes are taxed at source, almost all income generating activities have some scope for tax evasion. Professionals like lawyers, medical practitioners can easily conceal their incomes by insisting on cash payments for their services. In case of small traders also the situation is not so much different. The trader keeps their accounts under single-entry system of Book-Keeping. The tax enforcing authorities are trained in the double entry system and as such they fail to detect the concealed incomes.

D. **Corruption and Deterioration of moral Values:** The tendency to place personal gains above honesty and civic responsibility is perhaps a universal weakness. Indian policy
makers are responsible for creating a climate in which this tendency flourished and grew. The official power is no more a sacred trust but rather a marketable commodity. At lowest and middle levels of bureaucracy, corruption often becomes an economic necessity. Government officials are salaried workers. Their purchasing power erodes through taxes and rising prices. They know that they possess an ‘asset’ that is their official power and as and when they get a chance they sell this ‘asset’.

Political corruption is yet another source of black money in the society. Our election laws and behaviors of political parties are primarily responsible for this. Contesting an election is a costly affair. Election campaigning is predominately funded through illicit money. Those who spend a lot of money to win election, try to earn more during their tenure. The result is creation of more corrupt money.

2.7 Remedies

There are many remedial measures which have been attempted by the Government. These attempts are mainly of two fold. The first method consists of measures aimed at detecting the black money transactions; the second is series of schemes to lure back the black money that has already been created. Sometime government conducted series of raids to check evasion and smugglings, some times introducing demonetization schemes, voluntary disclosure schemes, bearer bond schemes and many more. But it has been observed that all the Government efforts to root out the black money syndrome have been mostly abortive.
2.8 Inextricable Connection Between Tax Evasion And Black Money

Tax evasion and black money are closely and inextricably interlinked.\textsuperscript{11} While tax evasion leads to the creation of black money, the black money utilized secretively in business for earning more income inevitably leads to tax evasion. While all tax evaded income represents black money in a broad sense, all black money does not necessarily originate in tax evasion. Black money is also made through surreptitious use of white money. In this sense the proliferation of black money serves an additional impetus from the inter-mixing of "black income" and white income. In the economic system, both "parallel" economy and "official" economy operate simultaneously and competitively. The parallel economy derives its nourishment, strength and support from a secretive, defiant, and an unscrupulous element in our society.\textsuperscript{12} It operates through a discreet understanding, undisclosed deals and transaction pushed through secretly with unaccounted sources of funds, generating, in the process, income and wealth which escape enumeration or cannot be easily ascertained.

As a result of economic reforms, the taxation system has become more efficient and less corrupt than earlier times but a lot of efforts are yet to be taken. The belief that tax reforms would call for enormous strides in simplification of laws cannot be overstated. This has to be combined with strict enforcement of law. A low but strict-tax-enforcement-regime, abolition of useless controls and licensing and permit system will be of great help in tackling the problem of black money. Existence of discretionary controls creates artificial scarcity and provides an opportunity to earn and conceal

\textsuperscript{11} Supra note 1 to 4.
\textsuperscript{12} ibid
illegal and unaccounted income. An unshackled nation free from these controls will be ready to take great strides in economic field and will take its rightful place among the galaxy of nations.

2.9 Effect of Tax Evasion

In modern states, taxation is not always swayed by revenue considerations. It is also employed as an instrument of economic policy of the state- as a measure for re-distribution of wealth and to serve social and economic wider objectives. In fact, it would be a madness to impose taxes for revenue only and in blind disregard for their social and economic consequences.

Like taxes, their evasion and avoidance have their socio-economic effects. How the evasion of income tax affect the society, the economic structure; the state and its administrative machinery. The effects are:

2.9.1 Economic Effects

a. Evasion of income tax affects incentives to work. The lesser the tax burden on account of lesser evasion of income tax, the more will be the incentive of the people to work. This is because if there is no evasion of income tax the tax burden will be less as the Government will be able to meet its Budget expenditure of the amount it needs and the moment the requirements of the State are met, there arises no question of any further taxation. But if evasion is there, the higher it is, the heavier will be the tax burden necessitating progressive taxation, which will, in turn serve as a disincentive to investments and improvements and retotal capital formation.
b. Evasion of Income tax leads to hoarding of cash as well as gold, which is ultimately either spent in luxuries by their earners or flow undercurrent in business and remains un-accounted for. This un-accounted money does not come up in open market and fails to serve the much needed industrial growth in the country.

Sri T. T. Krishnamachari, the Hon'able Finance Minister, stated\(^{13}\) in LokSabha on 16.12.63 in this connection. "It is curious paradox of our situation that while money for worthwhile investments and public purposes is in short supply, there is a great deal of un-accounted money circulating in the economy in search of further undercover gains. Perhaps the most important problem that faces us in regard to fiscal reform is that of devising astute and stringent measures to meet this evil of tax evasion."

c. Moreover, this kind of black money results in :-

i. Shortage of goods and services leading to hoarding and black-marketing;

ii. Imposition of a number of controls on production and distribution of goods and economic activity in general, which open vast scope for corruption;

iii. Spate of ill-drafted and complex tax laws which confuse a common citizen, more so when they are administered with much lack of understanding; and

iv. Higher taxation leading to increase in the price level which proves disastrous to the society in general and to the fixed income groups in particular – conditions which exist at present in our country;

\(^{13}\) Leader-daily-dated 16-12-1963
d. Evasion of income tax encourages the taxpayers to enter into Benami transactions, blank transfer in shares etc. unless the statute provides measures to curb them;

e. Evasion helps in bringing about un-certainties in the tax laws as it demands of the state to change the law very often either to check evasion or to increase rates to make up the gap caused by it;

f. The greatest advantage income tax offers to the State Exchequer is its productivity but when large scale evasion is rampant, the object is nullified;

g. Justice in taxation or equity is based on equality of sacrifice. Direct taxes like income tax fall are this principle. But if evasion of income tax is high, it fails to fulfil its object. The entire tax structure became in-equitable and the desired socialist pattern of society remains a wishful thinking;

h. If evasion is not detected and tax evaders are not caught and no action is taken against them, evasion stimulates tax laxity and also undermines the entire tax system;

i. Defense and Development, which are the two requirements of the nation at present, hinge greatly on taxation. Large scale evasion of these taxes force the state to go in for increased borrowings at home and more financial assistance in the shape of loans and grants from abroad. This increases the burden of loans and grants from abroad and in a way mortgages the future economy of the country. If the loans are un-productively utilized; this burden is all the more felt;
The failure of the state to levy more taxes an account of limited taxable capacity, or of borrowing on account of future burden of re-payment on the one hand and to check large scale evasion on the other, induce the state to proceed with the weapon of socialization of business and industry in the country. This policy further creates its own economic problems;

2.9.2 Social Effects

It is always the honest taxpayers that make a tax system to work. The existence of income tax evasion affects the minds of honest taxpayers who feel that they are made to contribute more than their proper share to make up for those who pay less than their shares i.e. the tax evaders. Tax evasion, if on a large scale places a heavy burden on honest taxpayers. It is for this reason that they resent the attempted shift of the tax burden from the evader to themselves. These effects may be briefly stated as:

a) When increased complaints from the public regarding tax evasion are not properly attended to, the tax comes to be regarded by the general public as a necessary social evil and culminates into a curse to the society.

b) When tax evasion is practised on a large scale it undermines the civic sense and makes the public less contentious about frauds and unlawful matters.
c) When the tax Law of a country gives relatively favorable treatment to those sections of the society who are taxpayers with relatively large incomes and substantial capital gains, the result is, the section of the society with relatively smaller income is obliged to evade the tax.

d) Large scale evasion compels the state to the tax majority of the people, affecting their social living standard as it is the marginal income group people who are brought to bear tax by not only depending on the rate structure but widening the base as well.

e) Evasion leads to concentration of wealth in fewer hands. This is more so in times of high profits. This effect is well illustrated by the following remarks\textsuperscript{14} of the Finance Minister, Government of India, in his budget speech for the year 1947–48 which he made on the eve of the setting up of a Special Investigation Commission to detect evasion.

India is a land of “Collaring contrasts and disparities. On one hand we have the multi-millionaires rolling in wealth and holding the economy of the country on the other vast majority of persons have miserable existence near the starvation line.--------“War made the rich become richer and the poor more poor, it amounted to concentration of wealth in few hands”.

f) It stimulates dodging of laws including the tax laws not only by the few tax evaders but by others also.

\textsuperscript{14} Vide 15 Income Tax Report p.7 (j).
g) Evasion, further, stimulates anti-social activities of the tax evader. He indulges in activities like bribery, black marketing, dealing in under current money etc. These activities demoralize a stable society.

Tax evasion, therefore, if too extensive, disturbs the moral and psychology of the tax payers generally and undermines the character of the nation as a whole.

2.9.3 Effects on Government and Tax Administration

a. Tax evasion leads to increased expenditure as well as activities for the Government is obliged to:

i. **Detect evasion**: - Through informers Intelligence Division, if necessary to employ the services of qualified Chartered Accountants, Auditors or of experienced lawyers to advice on the legal aspects of a tax evasion case and an efficient system of reporting of income, etc.;

ii. Equip the Tax Administration with legal powers in regard to reporting of income, survey work, search and seizure of account books and documents, levy of severe penalties and prosecutions etc;

iii. Have strict tax enforcement;

iv. Know how the evaded money is ultimately spent and in what forms;

v. Set up Commissions and Committees for the above written and after reviewing their report take necessary steps.
vi. Secure co-ordination with other Government departments to unearth evasion.

vii. Arm the Tax Administration with power to publish the names of tax evaders so as to lower the morals of tax evaders; and

viii. Insure extra expenses of public money for minimizing evasion.

b. Tax evasion, when done a large scale, adversely affects the tax policies of the Government when the such policies aim at:

i. Checking inflation in the country;

ii. Maintaining high levels of Production and Employment;

iii. Achievement of equity in taxation and distribution of income;

iv. Allocating efficiently the resources of available;

v. Serving as a guiding instrument of economic policy.

c. In an effort by the Government to plug loopholes of evasion every now and then, frequent changes are made in the tax law making it complex.

d. Un-checked evasion leads to increased complaints from the public demanding the government to take suitable action. Failure on this score exposes it to severe public criticism.

e. An important effect of evasion is that it leads to corruption in the Tax Administration which becomes a problem for the Government to tackle.

f. Tax evasion increases mutual distrust between the taxpayer and the Tax Administration as each one of them tries to pull the rope to his own advantage is disregard of the other and an un-healthy
atmosphere prevails. The Tax Administration in such events begins to think about a taxpayer in terms of his being a dishonest person and examines every case with suspicion, while, the tax payer, on the other hand takes the Tax Administrator to be not only a tax hound but one who will disbelieve him and his accounts on a very slight pretext.

g. Of course, one good effect of evasion of the tax is, that it secures effective taxpayer compliance because of strict tax enforcement.