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Address for

correspondence: Prof.
Sagar Ravaso Chougule,
Assistant Professor,
Bhogawati
Mahavidyalaya, Kurukali
&
Research Student,
Commerce Department,
SRTMU, Nanded
Email:
sagarchouguletrp@gmail.com

The Cost of Avoidance: Exploring the Impacts of Income Tax Evasion

Prof. Sagar Ravaso Chougule¹, Dr. S. B. Adkine²

¹Assistant Professor, Bhogawati Mahavidyalaya, Kurukali

&

Research Student, Commerce Department, SRTMU, Nanded

²Principal, Research Guide

Mahatma Jyotiba Phule Mahavidyalaya, Mukhed

Abstract

Tax authorities of different countries significantly provide efforts to counter Income Tax evasion and fraud. The activities of these evasions have significant impacts on a country's government, economy, and social structure. The motive of this study is to identify the evasion-related loopholes and techniques, the impact of these activities, and recommend solutions for countering these evasions. The methodologies adopted for these studies are primary and secondary methods of data collection. Objective of this study is to identify the significance of the impacts caused by income tax evasion-related activities and provide solutions. The study will provide significant insights about the implemented measures of different countries of the world to counter the unethical activities related to tax evasion. It will provide information about various measures taken and implemented by different countries and their effectiveness. In accordance to the economic aspect, social aspect and government of any country the study discussed the impact of these tax evasions. The implication of these impacts on different countries and the counter measures developed by those countries also have been mentioned based on different case studies. As per the counter measures developed by these countries it also provided recommendations for the improvement and global applicability of these measures. These recommendations are developed as per the global perspective and impacts of these tax evasions. The study also shows the analyzation of primary data collected from participants who can provide significant insights of these regulatory authorities and their implemented counter measures.

Keywords: Tax Evasion, Income Tax, Tax Authority, IMF, OCED, FATCA, IRS, Loss of revenue.

Introduction

The governments of various countries have taken significant steps to eliminate tax evasion-related activities by decreasing the gaps in the regulatory structure and opportunities for conducting these activities. These evasion-related activities are generally being executed by wealthy people from non-declared anonymous accounts. The adverse effects of these evasions can potentially affect the revenue generation process of the government authorities, progressive aspects of the tax system, and financial equality in the country (Alstadsæter *et al.* 2022). The study will evaluate the cost and effects caused by the avoidance of tax regulations and Income Tax Evasion

Objectives

- To determine the regulatory gaps causing these evasions.
- To evaluate the adverse effects of these evasions on the government authority.
- To define the way these evasions are being executed.
- To identify the measures taken by the government authorities of different countries to eliminate these evasion activities.
- To determine the most positive and efficient aspects of these measures with a comparative approach.
- To provide future opportunities based on the positive and negative aspects of the measures taken by the government authorities.

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Methodology

This study will utilize both primary and secondary methods of data collection to evaluate the effect of income tax evasion at a global standard. The primary aspect of this methodology will favor the study to assess the ground-level situation and the effects of these tax evasions on the general population. Primary data collection has been conducted through questionnaire surveys prepared in Google Forms. All the questions are designed as per the objectives of this article. The secondary data collection process involved the collection of various journals and articles from reliable sources and reviewed by recognized authors available on the internet. It also involved the reports released by the international authorities related to tax operations such as IMF and OECD for reliable information (Bauer, 2020).

Interpretation

Techniques for Income Tax Evasion

There are various methods and techniques for evading tax regulations such as understating the amount of income, increasing the deduction amounts, or avoiding the whole process of tax filing. Submission of false account books or documents. The cash-based businesses reconcile their cash transactions by not reporting the amount. Another method is to use external accounts to hide income and wealth (Guyton *et al.* 2021). The businesses show expenses that do not exist or are never paid by the organization to avoid tax payments. The subsidies provided for new emerging industries by the tax authorities are being exploited for tax saving. New advanced technologies reinforced these methods and techniques to be more efficient to execute and various organizations provide services for these operations to be executed.

Economic Impact

Tax evasion-related activities significantly impact a country's economic structure and its stability. These evasions are generally done by high-income individuals or rich people which means that a large portion of total tax collection is being lost for the government. The income tax evasions create a significant amount of revenue losses for the government. The result of these losses appears in the limitation of investments for infrastructure development projects and the funds related to public services. Connecting the previous factors, governments have to take large amounts of borrowing which increases the debt ratio for the country (Mazurenko *et al.* 2021). It also creates shortfalls in the revenue of the government which increases the fiscal deficit of a country. These avoidance activities of tax payments indirectly divert the burden of tax payment to the regular taxpayers, specifically low-income individuals which creates inequality in the economic structure of the country.

Social Impact

The evasions related to the evasion of tax have a significant amount of social impact. This kind of activity increases the gap between rich and poor

people by favoring rich individuals and organizations to evade taxation-related regulations and policies and not pay the original amount of their taxes. With the loss of revenue, the government authorities develop limitations for investment in essential social requirements such as infrastructure, healthcare, and education-related developments. This results in decreased quality of the services and weakens the capabilities of governments. Activities related to tax evasion can decrease the trust of the Government in the general population of a country in aspects such as equality and fairness. The operations related to evasion of tax have the potential to favor activities that are hidden from countries' economies or not allowed as per the regulations (Abdul-Jabbar *et al.* 2020). This can disrupt the economic structure of a country and harm its growth and productivity. The avoidance of tax payments indirectly diverts their tax burden or increases the tax burden of honest and regular taxpayers. It creates inequality in the societal structure of a country in the matter of tax payments. These tax evasion-related activities indirectly weaken the overall structure of laws and regulations of a democratic government. The loss of revenue develops limitations in funds related to social and infrastructural development. As a chain reaction of these advancements, the overall standard of living decreases in a country.

Governance impacts

Income tax evasions significantly impact countries in various aspects such as corruption, challenges in implementation, and international misconduct. These evasion-related activities create various opportunities related to bribery and scheming between the income tax evaders and the authorities. This develops various gaps in the regulatory structure for the government to acknowledge and fill. A large amount of fraud and tax evasion burdens the administration of tax authorities in conducting the investigation process.

Implications of Different Countries

Tax regulations of Sweden are important to create simplicity and transparency in their taxation system. They disclosed all the tax filings to the public and improved their official digital platforms to reduce the rate of tax evasion (Torregrosa-Hetland, 2020). These initiatives favored the government of Sweden in developing trust between the authorities and the taxpayers.

In the United States, the IRS incorporated new-age technologies of analytics for determining the abnormalities in tax filings. The initiatives taken by the authorities such as the Foreign Account Tax Compliance Act (FATCA) favored them in the improvement of tracking external accounts (De Simone *et al.* 2020).

The policies related to demonetization in India were implemented to target these hidden or not reported income which significantly favored the government to recover lost revenues. Regulatory policies such as Goods and Service Tax were also introduced to ensure a sustainable future for the

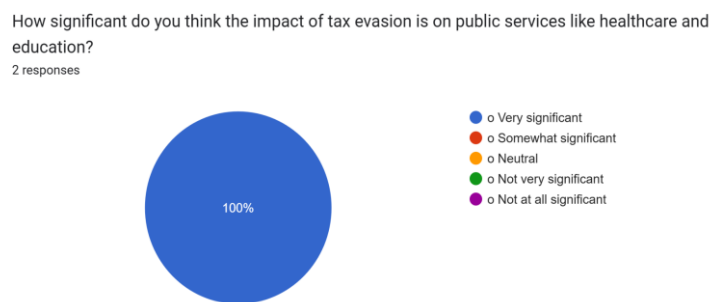
taxation policies. The incorporation of the tools and technologies related to artificial intelligence favored these organizations in reducing income tax evasion in significant sectors (Rajaraman, 2021).

Recommendations

In the process of acknowledging the evasion activities in the payment of income tax, the government authorities have to adopt significant steps such as increasing the efficiency of the implementation strategies. It will favor the authorities to introduce new policies and regulations suitably. Simplification of tax regulations is also a significant aspect that the government authorities have to provide

Primary Data Analysis

Figure 1: Significance of Tax Evasions on Public Services (Google Forms)



The data of the pie chart shows that 100% of the participants believed that the impact of tax evasion-related activities holds too much significance on government-funded public services such as healthcare and education.

Conclusion

The study shows that the impact of tax evasion largely impacts the regulatory structure of the government. It also has its significance on the economic and social structure of a country. There have to be solution strategies developed for decreasing the rate of tax evasion activities. The implementation of strategies related to global collaboration between the tax authorities and introducing beneficial policies for the regular taxpayers can improve the situation. The authorities also have to implement strategies to increase awareness about the tax regulations and their importance on the overall economic structure of a country. Therefore the significance of countering tax evasion is large enough for governments and countries to counter

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importance. The authorities have to decrease the number of loopholes in regulatory and digital structures to develop a user-friendly filing process. Tax authorities of different countries should share data to identify external accounts-related evasions. Initiatives for awareness related to the tax regulations have to be developed. There have to be benefits introduced for the regular taxpayers to acknowledge their efforts. The authorities have to implement technological tools such as AI and Big Data analytics to streamline the identification process of abnormalities and Tax evasion.

Conflicts of interest

There are no conflicts of interest.

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