

An Empirical Study on the Factors That Contribute to Tax Evasion and Its Counter Effect on Society.

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ABSTRACT: Tax is a compulsory contribution from the public and one of the major sources of government revenue. Tax evasion is a unlawful action both in letter and spirit which creates huge disparities and inequalities of income distribution, and reduces momentum of economic growth and often leads to economic instability. Tax evasion also to a greater extent contributes to parallel economy as well as black money which is one of the major banes India is facing these days. Formal economy is one the underlying requirements any developing economies and tax evasion has an adverse effect on the same. Tax evasion also have the far-reaching clutches which reduces the effectiveness of government policies both of monetary and fiscal nature. This concept is of high relevance to India where the income disparities among people are alarming. This paper intends to study the role of tax evasion and its counter effects on the overall development of the society.

Keyword: Taxation, parallel economy, informal economy, Tax evasion, non-compliance, income inequality.

I. INTRODUCTION

Tax is one of the interceptors that the government resorts to interact with the economy on the fiscal side and to keep the economy in check from falling into depression or heading towards an inflation. Tax is also one of the major sources of revenue for the government to utilise for public good and for the purpose of achieving economic and social welfare among its citizens. Tax refers to the compulsory extraction from the public by the public authorities for public purposes. Taxes can be broadly classified into two direct and indirect taxes. Direct taxes are progressive in nature whereas the indirect taxes are regressive in nature. Tax evasion is different from tax avoidance, the former is reducing the tax liability to be paid by the concealment of material information whereas latter is reducing the tax liability to be paid through approved means. Tax evasion is very much associated with informal economy that could run

parallel to the formal economy and derail the same. Tax evasion can furthermore reduce the effectiveness of various government policies and schemes. In one hand, the tax evasion reduces the actual amount due to the government and on the other hand it raises the income disparities among various segments of the society.

II. REVIEW OF LITERATURE

According to the research conducted by **Dr. Devarajappa (2017)** the impact of tax evasion on the revenue of government of India and the extend of tax evasion was thoroughly analysed. It was found out that during the period of 2008-2009 there was the highest recorded tax evasions in the country and least during periods from 2002-2003.

According to the research conducted by **Nishant Ravindra and Vivek vasantrao (2016)** made a comparative analysis of Indian and Australian taxation regimes. It was found out that Indian tax structures require updates and the suggested several measures that central government can resort to for further strengthening of Indian tax system.

According to the research conducted by **Vivendar pal (2012)** studied about the major reasons that contribute to the tax evasion and found out that sky high rates of taxes and inefficient tax authorities are major reasons behind tax evasion. Study concluded that simplification if tax laws and reducing various bottlenecks in the law can create a positive effect.

According to the research conducted by **Fuest.C (2009)** studied the concept of tax avoidance and tax evasion and its effect on the developing countries. It was analysed that tax avoidance created lesser impact on the government revenue whereas the tax evasion was creating much more. He also pointed out that the income disparities among various segments of the societies can be reduced with an efficient and effective tax collection system.

According to the research conducted by **Stuart p Green (2009)** studied what's wrong with

tax evasion from the psychological viewpoint and moral perspectives. During the course of study, it was found out that people regard the tax evasion as a breach of morale but however they have justified tax evasion was due to the high taxes and inefficient use of the tax payer’s money. Tax evasion was clearly under the study attributed to four determinants. They are Age, gender, occupation and educational status.

Research gap

This study attempts to find out the factors that contribute to the tax evasion and its negative implications on the society however but however

due to the constraints imposed by the sample population whereas which has narrowed down the reach of the population which is yet to be brought under the cover for a detailed understanding and also due to the fact of limitation imposed by reach from numerous geographical areas.

Research Objective

- To analyse the various factors that contribute to the tax evasion
- To analyse the impact of tax evasion on the society.
- To analyse the relationship between tax evasion and income inequality.

III. RESEARCH METHODOLOGY

Research Design carried	Descriptive, qualitative, investigative and expressive research design
Sampling Technique used	Convenience sampling method
Sampling Unit of study	Public sector banks, government schemes on taxation, and tax payers
Sample Size of the study	100
Research Instrument	Structured questionnaire on printed format with scored using a five-point Likert scale
Data Collection method	Made Physical visit to the respondent’s organization and interviews
Statistical Techniques	Explanatory statistics, regression analysis techniques

IV. DATA ANALYSIS.

Gender		
Particular	Frequency	Percent
Male respondent	53	53
Female respondent	47	47
Total respondent	100	100.0
Age		
Particular	Frequency	Percent
18-25	20	20
26-35	22	22
36-45	29	29
46-54	15	15
above 55	14	14
Total	100	100
Income		
Particulars (Annual income)	Frequency	Percent
250000 - 500000	35	35
500000 - 1000000	38	38

Above 1000000	27	27
Total	100	100.0
Source: primary data		

Interpretation:

The total respondents of 100 on which 53% denoted male and 47% are female samples, the age factors of respondents 20% belong to age group under 18-25, while 22% are under age group of 26-35 while 29% falls over age factor 36-45 and age 46-54 falls 15% of sample remaining groups under people who are above 55 years. The annual income of respondents is classified into three groups-

- 250000 – 500000
- 500000 - 1000000
- 1000000 and above.

REGRESSION TEST

H^0 = There is no significant relationship between annual income of the individual and inclination towards tax evasion.

H^1 = There is significant relationship between annual income of the individual and inclination towards tax evasion.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.206 ^a	.042	.033	4.43742

a. Predictors: (Constant), Annual_Income
 regression test of predicted variable Grounds on tax evasion.the R square .042 which indicates that 42% of the variation in grounds on tax evasion which is significant at 0.05 levels.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.353	1	85.353	4.335	.040 ^b
	Residual	1929.687	98	19.691		
	Total	2015.040	99			

a. Dependent Variable: Inclination towards tax evasion

b. Predictors: (Constant), Annual_Income

The above table shows that the independent variable Annual Income statistically predicts the dependent variable which is inclination towards tax evasion $f=4.335$, $P < .05$ and . Since, the significance of the value is .040 which is less than .05 it implies the data of regression structure is a good fit for study.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.949	.926		11.830	.000
	Annual_Income	.556	.267	.206	2.082	.040

a. Dependent Variable:

The coefficient table provides necessary information which predicts that Annual Income have the effect on inclination towards tax evasion with standardized coefficient (beta .206).since significant value 0.04 is lesser than 0.05 the null hypothesis is rejected. The component of inclination towards tax evasion components consist of 5 variable f1 (high tax charges) f2 (complicated payment process) f3 (limited efficiency of tax

mechanism) f4 (informal economy) f5(lack of tax integrity) .

V. FINDINGS FROM THE STUDY

The study has concluded that there has been more male respondents who falls under the age group of 36-45,with an annual income of 500000-1000000. Findings from regression analysis throws light on numerous factors that act as a limiting factor for tax collection and promote tax evasion.The component of inclination towards tax evasion components consist of 5 variable f1 (high tax charges) f2 (complicated payment process) f3 (limited efficiency of tax mechanism) f4 (informal economy) f5(lack of tax integrity).There is a strong relationship between annual income and reason for tax evasions of an indivijual.

VI. CONCLUSION

This research paper tends to conclude that tax evasion has been performed in relation with five major characteristics as in (high tax charges),(complicated payment process),(limited efficiency of tax mechanism),(informal economy),(lack of tax integrity).These are the few hurdles that has been contributing positively to tax evasion.So if the tax collection mechanism has been provided with a new outlook with easy,convinient and efficient then it might be a major break through and is expected to reduce tax evasions and boost tax integrity among citizens.

SCOPE OF FUTURE STUDY

The above research paper has only studied the underlying factors of tax evasion and their effects on society.The future research may include studies about tax evasion at a massive scale and whether they result in lack of income equality among various citizens of the country.

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