

INTERNATIONAL JOURNAL OF LAW  
MANAGEMENT & HUMANITIES  
[ISSN 2581-5369]

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Volume 8 | Issue 5

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2025

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# Provisional Direct Tax Reform That's Leads to Decline Direct Tax Dodging

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## ABSTRACT

*Taxation is a vital part for the growth of national economic, and infrastructure development. Tax evasion encompasses any behavior deemed immoral or unlawful that the tax authorities cannot defend for whatever reason. Because so much tax has been evaded through illegal ways, national income has decreased, which has resulted in the creation of illegal funds that endanger the nation's economy and obstruct its expansion. Direct tax evasion in India poses a significant challenge for the country's finance department. It is a complicated kind of white-collar crime, despite ongoing tax reform in India. Widespread evasion undermines government income, resulting in economic and social upheaval. Socially, it erodes public trust in the government, economic inequality, and injustice. Central Board of Direct Tax is in charge of determining the precise tax due and amount owed by the assessor and levying penalties in the event of nonpayment. The goal of tax evasion is often to avoid paying taxes. Contrarily, tax avoidance describes a person's attempt to lawfully lesser his income tax liability; dodging income tax will result in fines and penalties. This research paper will encourage you to consider the provisional reforms that may lead to downsizing of tax evasion in India and this paper will let you consider the loopholes that leads to high tax avoidance and tax evasion*

**Keywords:** *taxation, direct tax evasion, tax authorities, taxpayer compliance, government income.*

## I. INTRODUCTION

It is an entity that evades taxes. Persons, corporations, trusts, and organizations are among the entities that exploit legal and tax policy gaps. For example, disclosing to tax authorities a low income, falsifying the book of accounts, hiding real income, or displaying excessive spending. As a result, the organization was spared an excessive tax burden. Black money, black marketing, money laundering, and other societal evils are all intimately linked to direct tax avoidance. Tax evasion is the harsh reality for educated professionals who look for ways to avoid paying taxes or who wish to avoid having a burdensome tax debt.<sup>2</sup>

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<sup>2</sup> <http://hdl.handle.net/10603/464231>

Tracking the expansion of commerce and business throughout India. It was divided according to its structure and nature since it has become very difficult to manage all tax-related concerns under one board. The Central Board of Direct Tax was created in order to handle direct tax-related matters in an effective and efficient manner. It began operations on January 1, 1964. The income tax officers help the board, which has the last say on direct tax issues, with their duties. To understand the purpose of CBDT, it is necessary to rapidly examine the authority and makeup of the Income Tax authority in connection to their function in combating direct tax evasion.

A person may be subject to interest charges, penalties, or even prosecution if they do not pay their tax due. Since tax evasion is a civil offense, the penalty imposed here is also civil in nature and remedial in application. This is completely different from the penalty imposed in a criminal case, where the offender must be alive because no legal representative would be held accountable for the penalty; in contrast, the tax penalty may be imposed on the tax evader's legal representative.<sup>3</sup>The procedure for collecting a fine or interest under criminal law differs from that under taxation regulations.<sup>4</sup>

## **II. DIFFERENCE BETWEEN TAX AVOIDANCE, TAX PLANNING, TAX EVASION**

### **(A) Tax avoidance**

This method involves using tax law gaps to lower tax obligation. Tax avoidance" has fiscal, political, and societal repercussions. Even the way government income and tax administration operate is directly impacted. Due to the rigorous interpretation of tax rules, the absence of such legislation has been exploited. It was successful for the wealthy to transfer the tax burden on those who already had little means of subsistence. There is a structural shift in the business as society only establishes one kind of enterprise, which is often free from relevant taxes. In order to evade taxes, the proceeds are invested in government bonds. Typically, a person's capital gains are deducted from their taxable income by offsetting their fictitious investment losses and costs.

You are exempt from paying taxes on any income derived from agricultural land or operations under Section 10 [1] of the Income Tax Act. Therefore, tax avoidance is a legitimate strategy to lower tax obligations. However, it is inherently immoral.<sup>5</sup>

### **(B) Tax planning**

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<sup>3</sup> [1977]107ITR825(AP)

<sup>4</sup> M/s. Shastri Sales Corporation vs. I.T.O. (1996) Cr.L.J. 449 (Bom.).

<sup>5</sup> Incomes not included in total income. Section 10[1] of income tax act

The practice of lawfully lowering taxes in order to maximize profits is known as tax planning. It is carried out in advance while adhering to income tax laws. To reduce their tax burden, income tax professionals frequently help their clients with tax planning. By using the many options offered by the Income Tax Act, an assessee may be able to reduce his income tax burden. This includes exclusions, rebates, and deductions in addition to charges. Tax planning is the practice of analysing a financial condition.<sup>6</sup>

### (C) Income tax evasion

Is a process by which Common activity of direct tax dodging by individual, trust, corporate, etc. it's includes showing lesser income, by deceitfully or manipulating books of account.

The analysis concludes that the formation of the Black of funds and the concerning increase in tax evasion and avoidance cannot be attributed to a single factor. This prevalent sickness has several causes. Some of the primary causes of the nation's cancerous and unchecked growth of black money include a lack of sound tax policy, frequent changes to the complexity of the law, ineffective tax administration, a lack of integrity in the income tax department, a lack of effective machinery to prosecute tax criminals so that they may be adequately punished, discriminatory treatment according to taxpayers, low public morale, non-cooperation from taxpayers, and a lenient and soft attitude of fiduciary toward tax criminals.<sup>7</sup>

## III. INFLUENCE OF INCOME TAX AUTHORITY

As trade and pecuniary activity began to spread throughout the nation and it became impossible for one board to effectively manage all tax concerns, it was decided to divide this into two boards so that tax matters could be handled according on their type and character. In order to manage the issue of direct taxes in an efficient and effective manner, the "Central Board of Direct Tax" was established. CBIT consist of 6 members [chairman, member [Income tax], member [legislation and computerization], member [personal and vigilance], member [investigation], member [revenue], member [ audit and judicial]]<sup>8</sup>

*Section 119 of INCOME TAX ACT give scope of the rule making powers of the CBIT*

As judged necessary for the efficient administration of this act, Section 119 gives the Central Board of Taxes (CBDT) the ability to periodically give instructions and directives to lower levels of authority. Additionally, CBDT has the authority to order income tax authorities to grant any claim for exemption, deduction, refund, or other relief under the income tax act, even

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<sup>6</sup> <https://cleartax.in/s/what-is-tax-planning>

<sup>7</sup> <http://hdl.handle.net/10603/261370>

<sup>8</sup> <https://www.caclubindia.com/forum/all-about-central-board-of-direct-taxes-cbdt--134318.asp>

after the deadline for filing such a claim has passed, thanks to section 119(2)(b). Such claims, however, will only be accepted by the income tax authorities if the taxpayer's ability to file the claim by the deadline was truly compromised.<sup>9</sup>

#### (A) E- FILING

Since 2008, the Indian government has attempted to increase tax income in response to the mounting impact of the financial crisis. Even though the Union Budget every year contains new initiatives to increase tax compliance and revenue collection in India, the issue of tax evasion still exists. In an attempt to improve tax compliance and tax revenues, several nations have implemented a range of tax policy initiatives at various times, including lowering the tax rate, raising tax penalties, raising taxpayer knowledge of taxes, and enabling e-filing.

By increasing taxpayers' understanding of taxes, providing e-filing, enforcing strict tax penalties for noncompliance, digitizing the country, using Aadhar cards as identification for Indian citizens, the Income Disclosure Scheme, and other measures, the current Indian government has also made tremendous efforts in this direction. However, the actual situation is rather dire.

The ease of electronic tax filing has an impact on tax compliance as well. Simplifying tax filing might increase efficiency, decrease tax evasion, and decrease noncompliance; complicated tax compliance causes issues for the taxpayer. In order to submit a return, they must engage a tax professional and devote more time and effort to tax compliance.<sup>10</sup>

### IV. LEGISLATION REFORM TO AVERT TAX DODGING DECREASE IN TAX RATE

This objective is challenging to accomplish since the marginal tax rates are confiscatory. The high tax rates erode the limit and desire to contribute and save, and they create a mental barrier to more significant effort. The government has little flexibility to raise additional funds in times of emergency due to the current peculiar taxation situation. With the ultimate objective of reducing the rates of taxes, the highest marginal rate of income tax, including additional charges, should be lowered all at once.<sup>11</sup>

#### (A) Reform in penal provision

Depending on the amount that is attempted to be avoided rather than hidden income itself, the penal provision of income tax can be both effective and proportionate. Instead of trying to evade

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<sup>9</sup> Section 119 of income tax act of 1961

<sup>10</sup> Kushwah, S. V., Nathani, N., & Vigg, M. (2021). Impact of Tax Knowledge, Tax Penalties, and E-Filing on Tax Compliance in India. *Indian Journal of Finance*, 15(5-7), 61–74. <https://doi.org/10.17010/ijf/2021/v15i5-7/164493>

<sup>11</sup> Webley, P., H.S.J. Robben, H. Elffers & D.J. Hessing (1991) Tax evasion: an experimental approach, Cambridge:

taxes, penalties ought to be determined by income. This would result in fair and equal punishments for all income levels.<sup>12</sup>

### **(B) Taxation of agronomic law**

Although agricultural income is exempt from taxes under Section 10[1] of the Income Tax Act, this broad exemption allows individuals to avoid paying taxes and launder money in India by passing it off as agricultural income.

Without consistent taxes, it is very difficult to prevent non-agricultural earnings from being mistaken for agricultural income.

Recent version [2025 bill]: the current measure demands strict documentation to prove the earnings from agricultural operations and makes it taxable to rent out agricultural land, dairy products, poultry, and fisheries.

### **(C) Strategies concentrating involvement of civic against tax evasion**

Legal enforcement cannot identify every instance of tax evasion due to their complexity, lack of resources, and refusal to pay taxes. The government ought to take action to promote tax awareness, tax literacy, and tax simplicity. They should also deny proven tax evaders subsidies and other benefits. This not only penalizes evasion but also communicates to the public that dishonest behaviour has actual, negative consequences.<sup>13</sup>

### **(D) Altering tactic in minor case**

Developing Confidence with Small Taxpayers Being too careful in small circumstances where no helpful money is involved has seriously damaged the office's credibility. Addressing the threat is the office's responsibility. Similar to earlier initiatives that placed a major emphasis on low-income groups, the Central Board of Direct Taxes' instructions for the new review procedure in low-income scenarios reflect a considerable shift from the past and are probably going to yield significant benefits

### **(E) General anti- avoidance rule**

The Income Tax Act of 1961's "*impermissible avoidance arrangements*" (IAA) are the focus of GAAR.

It handles transactions that have no business substance, violate tax law rules, create rights and obligations that are not at arm's length, or lack a valid purpose. Reducing the amount of money lost to aggressive tax evasion is the goal of GAAR. It grants tax authorities considerable power

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<sup>12</sup> <https://cleartax.in/s/tax-evasion-and-penalties-in-india>

<sup>13</sup> [https://www.ciat.org/Biblioteca/ConferenciasTécnicas/2013/Ingles/2013\\_topic3.3\\_Morais\\_Portugal.pdf](https://www.ciat.org/Biblioteca/ConferenciasTécnicas/2013/Ingles/2013_topic3.3_Morais_Portugal.pdf)

to recalculate income and reassess tax liabilities in specific circumstances.<sup>14</sup>

## V. CONCLUSION

India's biggest financial issue is income tax avoidance. The general public views taxes as a burden rather than a personal duty, and they often resort to a variety of strategies to evade paying taxes. Widespread evasion causes social and economic instability and reduces government income. Socially, it weakens economic disparity, injustice, and public confidence in the government. People are unwilling to pay income taxes and look for ways to avoid paying them. The complicated tax filing procedure and high income tax rates are only two of the many reasons why individuals are unwilling to pay taxes. To combat tax evasion and tax avoidance in India, the government may enact a number of reforms that will eventually reduce direct tax evasion in India and boost our nation's economy. Central Board of Direct Tax, the highest statutory authority. It performs all of the tasks and responsibilities necessary for the efficient application of the Income Tax Act. It acts promptly to address the urgent issue pertaining to direct taxation and must function similarly to judicial authorities in order to address the issue of direct tax evasion. The board has authority to search, examine, and forfeit assets, precious articles, etc., as well as to conduct surveys and handle any other connected matters in order to detect direct tax evasion. Everything has been conducted under the supervision and guidance of the CBDT. Thus, CBDT is crucial to solving India's tax evasion issue.

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<sup>14</sup> <https://cleartax.in/s/gaar-general-anti-avoidance-rules>