

Tax Planning vs. Tax Evasion

**Tax Planning** and **Tax Evasion** are two approaches to handling taxes, but they are very different in terms of legality and ethics.

Tax Evasion

When a person reduces his total income by making false claims or by withholding the information regarding his real income, so that his tax liability is reduced, is known as tax evasion. Tax evasion is not only illegal but it is also immoral, anti-social and anti-national practice. Therefore, under the direct tax laws provisions have been made for imposition of heavy penalty and institution of prosecution proceedings against tax evaders.

The tax evader reduces his taxable income by one or more of the following steps:

1. Unrecorded sales.
2. Claiming bogus expenses, bad debts and losses.
3. Charging personal expenses as business expenses, e.g., car expenses, telephone expenses, travelling expenses, medical expenses incurred for self or family may be shown in the account books as business expenses.
4. Submission of bogus receipts for charitable donations for deduction u/s 80G.

Tax Avoidance

Tax avoidance is an art of dodging tax without actually breaking the law. It is a method of reducing tax incidence by availing of certain loopholes in the law. The Royal Commission on Taxation for Canada has explained the concept of 'avoidance of tax' as under:

The expression 'Tax Avoidance' will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provision or lack of provision in the law. It excludes fraud, concealment or other illegal measures.

Tax Planning

Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions of an Act, full advantage is taken of all exemptions, deductions, rebates and reliefs permitted



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under the Act, so that the burden of the taxation on an assessee, as far as possible, is the least.

### Difference between 'Tax Planning' and 'Tax Evasion'

1. Tax planning is a legal right and a social responsibility. By tax planning certain social and economic objectives are achieved. Tax evasion is a legal offence coupled with penalty and prosecution.
2. Tax planning requires through knowledge of the relevant Acts, social, economic and political situation of the country while tax evasion requires boldness to infringe the law.

### Objectives of Tax Planning

Tax liability is reduced by the tax planning. In the direct taxes exemptions, deductions, rebates and reliefs have been provided by the legislature to achieve certain social and economic goals. To achieve these objectives people are encouraged to resort to tax planning:

1. **Claim deductions** from gross total income under sections 80C to 80U.
2. **Reduction in tax liability:** The basic need of tax planning is to reduce the tax liability so that enough surplus out of profits remains with the earner of it for his personal and social needs and also for future investments in his business.
3. **Minimisation of litigation:** There is always a tug-of-war between the tax-payers and the tax administrators. The tax-payers try their best to pay the least tax and the tax administrators attempt to extract the maximum. This sometimes results in prolonged litigation. Actually the main reason of litigation lies in tax avoidance and not in tax planning.
4. **Productive investment-** A proper tax planning brings fiscal discipline in the functioning of a tax-payer and reduces the transfer of money, from the person who has earned it by hard labour, to the Government for waste and ostentation.

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