Impact and Incidence of tax evasion

How poor tax morale and tax evasion impacted the Government's spending ability during the pandemic

This report is an independent, non-commissioned piece of work by the Vidhi Centre for Legal Policy, an independent think-tank doing legal research to help make better laws.

About the Authors

Yeesha Shriyan is a Senior Resident Fellow at the Vidhi Centre for Legal Policy, Maharashtra

Acknowledgements

The author is thankful to Aashima Sawhney who was a Research Fellow in the Tax Law vertical at the Vidhi Centre for Legal Policy for her assistance in designing the survey and research inputs on tax amnesty schemes.

The author is thankful to Morsel Research and Development Private Limited for their assistance in conducting the surveys.

The author is thankful to Dr. Anirudh Tagat for peer reviewing this report.

The author is also thankful to Vidhi intern Maitreyi Chawla for her research assistance.

Errors, if any, are the authors' alone.

Table of Contents

Background

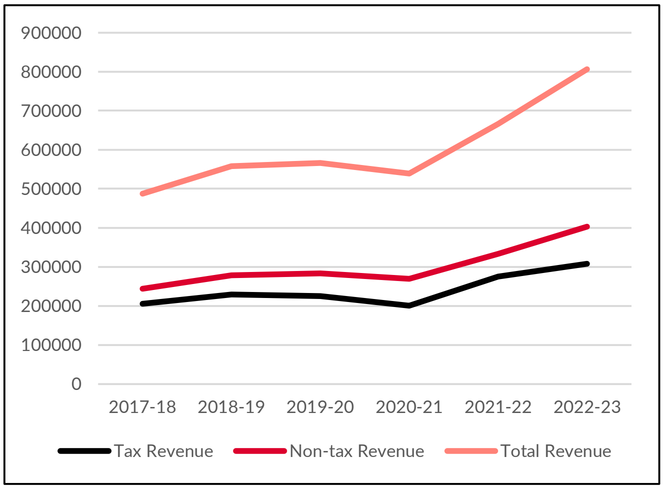
The COVID-19 pandemic and the resultant lockdown severely hit the Indian economy, with 21 major states losing an aggregate of ₹971 billion in revenue in April 2020 alone as per a report by the India Ratings & Research.[1] Even before COVID-19 hit, 11 states estimated a revenue growth rate below the estimated 14% level.[2] Due to the slowdown in the Indian economy, revenue of the Central Government also took a hit in 2020-21.

Centre's Revenue estimates through the years

(In Crores)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
*Tax Revenue**	12,42,488.30	13,17,211.12	13,56,902.28	14,26,287.08	17,65,144.65	19,34,770.66
*Non-tax Revenue**	1,92,744.35	2,35,704.38	3,27,156.77	2,07,632.46	3,13,791.31	2,69,651.07
*Total Revenue**	**14,35,232.65**	**15,52,915.50**	**16,84,059.05**	**16,33,919.54**	**20,78,935.96**	**22,04,421.73**
YOY % Increase in Total revenue (~)	-	**8.2%**	**8.4%**	**-2.9%**	**27.2%**	**6%**

**Revised Estimates for 2021-22, budgeted estimates for 2022-23, and actuals for all other years*



Trends in Maharashtra's revenue

States and union territories found themselves in a similar position. Maharashtra also experienced a dip in its revenue 2020-21 i.e., the period of the lockdown.

States resorted to unprecedented market borrowings to meet the shortfall in their finances. For instance, states such as Karnataka, Maharashtra, and Tamil Nadu more than doubled their borrowings in the FY 20-21, according to a report by Care Ratings.[3]

[1] Anuradha Basumatari, "Major States Collectively Staring at Likely Revenue Loss of Around INR971 billion in April 2020", India Ratings & Research (13 May 2020), <https://www.indiaratings.co.in/PressRelease?pressReleaseID=40992&title=Major-States-Collectively-Staring-at-Likely-Revenue-Loss-of-Around-INR971-billion-in-April-2020>.

[2] Avani Kapur and Udit Ranjan "Indian states are short of money. They need help.", Hindustan Times (17 May 2020) <https://www.hindustantimes.com/analysis/indian-states-are-short-of-money-they-need-help/story-PiS7gwc1dxpuJZCZqSdJiO.html>

[3] Sesa Sen "States' market borrowing doubles to Rs 1.67 lakh Crore in April-June period" Indian Express (1 July 2020) <https://www.careratings.com/Uploads/media/States'%20market%20borrowing%20doubles%20to%20Rs%201.67%20lakh%20Crore%20in%20April-June%20period%20-%20The%20New%20Indian%20Express.pdf>

Payment of taxes helps governments to spend on healthcare services, infrastructure, education and several other welfare measures. While COVID-19 was an unforeseen event that affected the finances of citizens and governments across the globe, there is one stumbling block that the Indian Government is constantly faced with i.e., tax evasion. India loses billions in tax evasion every year. While the Financial Year 2020-21 saw a dip in revenue for the Indian Government, tax evasion is not a new phenomenon in India.

Tax evasion is rampant in India. Amnesty Schemes introduced by the Government also corroborate this fact. Taxpayer behaviour and tax morale are important factors to consider while framing the tax policy of a nation. With higher revenue at the government's disposal, the Government would have been better placed to perform its welfare functions during the COVID-19 lockdown.

In this report, we discuss the

1. Government Spending during the COVID-19 pandemic,
2. Tax Evasion in India,
3. Government measures to tackle tax evasion in India, and
4. Nudges to improve tax compliance and hence reduce tax evasion.

State of the Indian economy

The first case of coronavirus was reported in December 2019 in the Wuhan city of China. Within weeks, the infection spread to other nations including India. In India, at first, the Health Ministry asked states to form rapid response teams at the district, block and village levels. As the number of cases rose, countries around the world took necessary steps to prevent the outbreak of coronavirus, the most drastic being imposition of lockdowns.

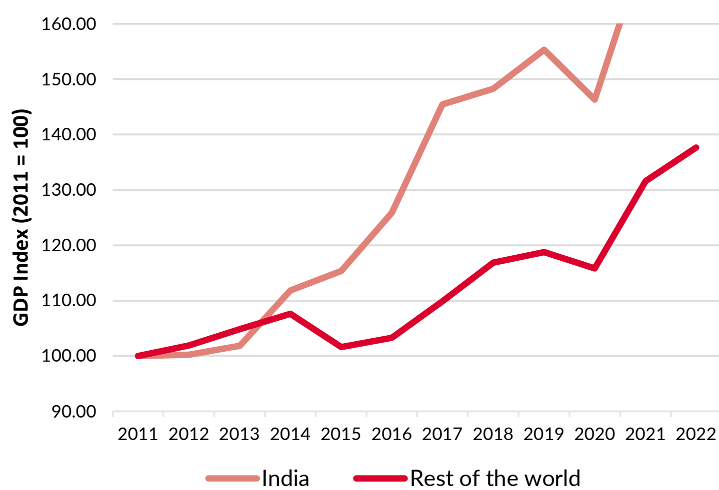
On 24th March 2021, the Indian Prime Minister announced that the entire country was being placed under lockdown. The lockdown was imposed to break the chain of COVID-19 transmission and prevent a massive outbreak that could overwhelm the healthcare system.[4] The 21-day lockdown sent people rushing late evening to convenience stores and triggered panic buying.

The lockdown placed several restrictions on movement of people and accessing public places which led to a halt in economic activity. Due to disruption in several economic sectors such as the construction industry, manufacturing units, industrial hubs and the hospitality industry, many workers, including unorganized workers, were adversely affected. The well-being of workers in the informal sector, particularly those who had migrated from rural areas to work in big cities, emerged as a big concern for the government as well as civil society organizations. The Central and state governments initiated direct bank transfers and worked with civil society organisations in providing basic services, food and nutrition to migrant workers. Many migrant workers, faced with uncertainty about their lives and livelihoods in cities, wanted to return to their places of origin. In the formal sectors of the economy, like in the rest of the world, civil aviation, hospitality, and retail sectors were severely affected.[5]

Economic slowdown

In the post-Independence period, India's national income has declined only four times before 2020 – in 1958, 1966, 1973 and 1980 – with the largest drop being in 1980 (5.2%).[6]

However, in 2020-21 the overall rate of contraction in India (in real terms, adjusted for inflation) was 7.3% making it the worst year in terms of economic contraction in the country's history and much worse than the overall contraction in the world.[7]



Fluctuations in GDP Index, current prices

[4] India under Lockdown for three weeks, Times of India (Delhi Edition), 25 March 2020, <https://epaper.timesgroup.com/olive/apa/timesofindia/SharedView.Article.aspx?href=TOIDEL%2F2020%2F03%2F25&id=Ar00101&sk=49FC0EBC&viewMode=text>.

[5] COVID-19 Impacts and Responses: The Indian Experience, January – May 2020, National Disaster Management Authority, < <https://ndma.gov.in/sites/default/files/PDF/COVID/COVID-19-Indian-Experience.pdf>.

[6] How has COVID-19 affected India's economy? <https://www.economicsobservatory.com/how-has-COVID-19-affected-indias-economy>.

[7] Press Note On Provisional Estimates Of Annual National Income 2020-21 And Quarterly Estimates Of Gross Domestic Product For The Fourth Quarter (Q4) Of 2020-21, National Statistical Office <http://www.mospi.nic.in/sites/default/files/press_release/Press%20Note_31-05-2021.pdf>.

Falling output

While economies worldwide were hit hard during the 2020-21 financial year, the decline in India's GDP had been significantly more than its reference group i.e., the closest peer group statistic under which India falls.

GDP at constant prices (% change)	India	Reference Group	World
2019	3.74%	5.21%	2.8%
2020	-6.59%	-0.618%	-2.95%
2021	8.68%	7.18%	6.02%
2022	6.88%	4.38%	3.192
2023	6.06%	4.87%	2.655

Source: World Economic Outlook Database October 2022, International Monetary Fund. Note: The reference group refers to the Emerging Market and Developing Economies (EMDEs) classification by the IMF.

Loss of livelihoods

During India's first stringent national lockdown between April and May 2020, individual income dropped by approximately 40%. On comparing national unemployment rates in 2020, India's rate of 7.1% indicates that it has performed relatively poorly – both in terms of the world average and compared with a set of reference group economies with similar per capita income.[8]

Unemployment rate (% of total labour force)	India	Reference Group	World
2019	6.5%	5.5%	5.5%
2020	10.2%	7.4%	6.9%
2021	7.7%	6.4	6.2%
2022	7.3	6.2	5.8
2023 (estimated)	7.3	6.2	5.8

Source: Unemployment rates (for 15+ individuals) are ILO-modelled estimates as of November 2022 and are obtained from ILOSTAT, International Labour Organization and World Bank. Note: The reference group refers to the low and middle-income countries classification by the World Bank.

[8] How has COVID-19 affected India's economy? <https://www.economicsobservatory.com/how-has-COVID-19-affected-indias-economy>.

Increased Government Outlay during the pandemic

Relief Packages

Due to the severe contraction in GDP, rise in unemployment and loss of livelihoods, the Indian Government introduced a slew of measures to ease the hardships on citizens and businesses.

The first relief package called the 'Pradhan Mantri Garib Kalyan Yojana' was announced on 26 March 2020, one day after India went into the first leg of its lockdown.[9] The package was meant to provide food and financial security to poor households.

Highlights of Pradhan Mantri Garib Kalyan Yojna ("PMGKY") [₹1.7 Lakh Crore]

- ₹50 Lacs insurance cover per health worker fighting COVID-19
- 5 kg wheat or rice and 1 kg of preferred pulses for free every month till June 2020 for 80 Crore poor
- ₹500 per month till June 2020 to 20 Crore women Jan Dhan account holders
- Ex-gratia of ₹1000 to 3 Crore poor senior citizens, poor widows and poor disabled
- Front loading of ₹2000 paid to farmers under PM Kisan Yojana to benefit 8.7 Crore farmers.

Subsequently, on 12 May 2020, the government announced a stimulus package worth ₹20 lakh Crore following the Prime Minister's 'AtmaNirbhar Bharat' clarion call.[10]

Highlights of Stimulus Package [₹20 lakh Crore]

- Credit line to small businesses and support to shadow banks and electricity distribution companies
- Free foodgrain to stranded migrant workers for two months and credit to farmers
- Agricultural infrastructure and other measures for agriculture and allied sectors
- Viability gap funding and MNREGS allocation
- Earlier measures under PMGKY
- Liquidity measures announced by the Reserve Bank since March

[9] Ministry of Finance, Finance Minister announces Rs 1.70 Lakh Crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus, PIB, 26 March 2020, <https://pib.gov.in/PressReleseDetail.aspx?PRID=1608345>.

[10] Prime Minister's Office, PM gives a clarion call for Atmanirbhar Bharat, PIB, 12 May 2020, <https://pib.gov.in/PressReleasePage.aspx?PRID=1623391>

Six months later, on 12 November 2020, the Finance Minister announced a slew of measures called ‘AatmaNirbhar Bharat 3.0’ in view of the pandemic. The measures amounted to ₹2.65 lakh Crore, with emphasis on employment generation.[11] The package accounted for 15% of national GDP directed towards reviving the sagging economy.[12]

Highlights of AatmaNirbhar Bharat 3.0 [₹2.65 lakh Crore]

- Production Linked Incentive worth ₹1.46 Lakh Crore offered to 10 champion sectors
- 18,000 Crore Additional outlay for PM Awaas Yojana – Urban
- ₹6,000 Crore equity investment in debt platform of National Investment and Infrastructure Fund (NIIF)
- ₹65,000 Crore for subsidized fertilizers provided to support agriculture, etc.
- Additional outlay of ₹10,000 Crore has been provided for PM Garib Kalyan Rozgar Yojana

Highlights of Relief Package [₹6,28,993 Crore)

- ₹1.1 lakh crore loan guarantee scheme for COVID-19 affected sectors
- Financial support to more than 11,000 Registered Tourists/ Guides/ Travel and Tourism Stakeholders
- Extension of Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) – Free food grains from May to November 2021
- ₹23,220 Crore for public health with emphasis on children and paediatric care/paediatric beds

In June 2021, the Central Government announced new economic relief measures worth ₹6.3 lakh Crore to provide a boost to industry post the second wave. The three broad areas of focus under this scheme were:

1. Economic relief from the pandemic
2. Strengthening Public Health
3. Impetus for growth and employment[13]

[11] Ministry of Finance, Finance Minister announces measures on AatmaNirbhar Bharat 3.0, PIB, <https://pib.gov.in/PressReleasePage.aspx?PRID=1672321>.

[12] Centre to inject Rs 2.65 lakh Crore stimulus to revive economic growth, ET Government, 13 November 2020, available at <https://government.economictimes.indiatimes.com/news/economy/centre-to-inject-rs-2-65-cr-stimulus-to-revive-economic-growth/79193200>.

[13] Ministry of Finance, Finance Minister Smt. Nirmala Sitharaman announces relief package of Rs 6,28,993 Crore to support Indian economy in fight against COVID-19 pandemic, 28 June 2021, PIB, <https://pib.gov.in/PressReleasePage.aspx?PRID=1730963>

Amped up spending on health care, equipment, packages etc.

The Budget for FY 2020-21 had understandably not made any separate allocation for vaccination or any special provision for a health emergency. The Expenditure budget for the Ministry of Health and Family Welfare is depicted in the table below.

(In Crores)

	2019-20	2020-21	2021-22	2022-23	2023-24
Expenditure budgeted for the Ministry of Health and Family Welfare (A+B)	**64,559**	**67,112**	**73,932**	**86,201**	**89,155**
% Increase from previous Financial Year's allocation	-	104%	110%	117%	103%
Department of Health and Family Welfare (A)	**62,659**	**65,012**	**71,269**	**83,000**	**86,175**
Revenue	60,908	63,946	68,760	77,367	80,875
Capital	1,751	1,066	2,509	5,633	5,300
Department of Health Research (B)	**1,900**	**2,100**	**2,663**	**3,201**	**2,980**
Revenue	1,900	2,100	2,663	3,201	2,979
Capital	-	-	-	-	1

As can be seen, FY 21-22 and FY 22-23 significantly increased the expenditure allocation for the Ministry.

The Employee's State Insurance Corporation ("**ESIC**") declared all ESIC/ ESIS Hospital as COVID-19 dedicated hospital where all insured persons and his family members infected with COVID-19 could avail free of cost medical care. Where an insured person or their family member who was infected with COVID-19 avails medical treatment in a private institution, such persons were allowed to claim reimbursement for expenditures incurred at such private institutions. Several other cash benefits were also announced by the ESIC.[14]

[14] Ministry of Labour and Employment, 'ESIC reaches out to its Beneficiaries to provide medical care and relief during COVID-19 pandemic', PIB, 29 April 2021, <https://www.pib.gov.in/PressReleseDetail.aspx?PRID=1714857>

Expenditure met from the PM-CARES Fund

Nevertheless, while ₹480 Crore towards the first phase of the vaccination drive was met by the Health Ministry[15], a significant portion of the initial spending on health care came from the Prime Minister Citizen Assistance and Relief in Emergency Situations ("**PM-CARES**") Fund. A table showing the sizeable expenditures met from the PM CARES Fund until 31st March 2022 is produced below:

Sr. No.	Disbursal from the PM-CARES Fund	FY 2020-21[16]	FY 2021-22[17]
1	Ventilators to Government Hospitals run by Centre/ States/ Union Territories	13,11,33,84,112	8,35,28,46,028
2	Funds allocated to States and Union Territories for welfare of migrants	1,00,00,000,000	-
3	Establishment of makeshift hospitals and RT-PCR testing labs	50,00,00,000	96,04,00,000
4	Installation and operationalisation of Medical Oxygenation Generation Plants	13,92,82,50,000	17,03,14,80,000
5	Funding for Autonomous Institute Labs for testing and releasing the COVID-19 vaccine	20,41,60,000	-
6	ICU beds	-	67,95,00,000
7	Procurement of Oxygen Concentrators	-	5,00,00,00,000
8	Procurement of Oxygen control systems, etc.	-	3,22,50,00,000
9	Procurement of Liquid Oxygen equipment	-	1,89,40,00,000
Total		**37,74,57,94,112**	**37,14,32,26,028**

The second wave of COVID-19 pandemic in India proved to be more devastating than the first. As of April 2021, India had the second-highest number of confirmed COVID-19 positive cases in the world (after the United States) with more than 17 million reported cases of COVID-19 infection and 192,311 deaths as of April 25, 2021.

India's total healthcare spending has typically been 2-3% of its GDP less than that of China (5%) and United States of America (16%), according to World Bank estimates.[18] The fault lines in our health system became more visible than ever in 2020-21. As part of Budget 2021-22, the Finance Minister introduced a new scheme called the PM Atmanirbhar Swasth Bharat Yojana. Under this Scheme, ₹64,180 Crore was allocated which was to be spent over 6 years to

1. develop capacities of primary, secondary, and tertiary care Health Systems;
2. strengthen existing national institutions; and
3. create new institutions, to cater to detection and cure of new and emerging diseases.

The Scheme was heavily criticised. For instance, one report[19] stated that while this scheme's focus on strengthening healthcare infrastructure at all levels, with an emphasis on public health, seems to be in the right direction, its allocation is perhaps too late. The report remarked that ₹64,180 Crore over 6 years translates only

---

[15] PM CARES fund contributed Rs 2,200 cr for phase 1 of vaccine drive — Expenditure Secretary, The Print, 19 October 2021, available at < https://theprint.in/india/pm-cares-fund-contributed-rs-2200-cr-for-phase-1-of-vaccine-drive-expenditure-secretary/597616/>

[16] Audited Receipts and Payments Account for the PM-CARES Fund for the period ended 31.3.2021 <https://www.pmcares.gov.in/assets/donation/pdf/Audited_Statement_2020_21.pdf>.

[17] Audited Receipts and Payments Account for the PM-CARES Fund for the period ended 31.3.2022 <https://www.pmcares.gov.in/assets/donation/pdf/Audited_Statement_2021_22.pdf>

[18] Current healthcare expenditure (As a percentage of GDP), <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS>.

[19] Explained: Despite Govt Claims, India's Health Budget Only Around 0.34% of GDP, The Wire.in, 1 February 2021, available at <https://science.thewire.in/health/union-health-budget-nirmala-sitharaman-COVID-19-pmasby-allocation-gdp-expert-analysis/>.

to about ₹10,700 Crore per year. Secondly, the fact that there was no budget line in the demand statement of the Department of Health and Family welfare on this new scheme was criticised as it was not clear what the allocation for 2021-22 was.

As discussed above, apart from a higher allocation to Health, the Central Government allocated approximately ₹7,48,919.63 Lakh Crores to mitigate the effects of the COVID-19 pandemic. Apart from this State Governments across the country also went all out to ensure that persons and families affected by the pandemic had some assistance and support. Even though governments introduced a host of measures to assuage the effects of the pandemic, people faced severe hardships across India especially migrant labourers and health workers.

The fact that a large portion of expenditure on COVID-19 vaccination programmes, testing facilities and health infrastructure was met out of the PM-CARES Fund is evidence of the Indian Government struggling to service its citizenry with inadequate revenue. While the COVID-19 outbreak and its impact was unprecedented and even the most developed countries with good tax practices also faced some challenges during the pandemic, sizeable tax collections i.e., more funds for the government may have translated into effective, sufficient and timely welfare measures for Indians.

Tax Evasion in India

Tax, by nature, does not involve a direct quid pro quo. Non-payment of tax, on the other hand may attract fines and penalties. Every taxpayer would like to keep their tax payments to a bare minimum.

Tax evasion is generally understood to mean non-payment of taxes. While that is true, tax evasion can be better explained in contrast to tax avoidance. Tax avoidance means optimising one's tax liability by using loopholes in the tax law like an ambiguous provision or complicated corporate structures. Tax evasion means deliberately misinterpreting facts to reduce one's tax liability. Tax evasion can include non-disclosure of income, overstating expenses, etc. Tax evasion, as discussed earlier, leads to loss to the government exchequer and thereby incapacitates the government from allocating funds for its development objectives. Like most countries, India struggles to counter tax evasion particularly direct tax evasion. Therefore, the focus of several commissions and committees set up to tackle tax evasion in India has been direct taxes.[20]

History of tax evasion in India

At the very inception of income-taxes in India, the rates of tax were extremely high. Naturally, the incentive to evade taxes was much higher then. Wealthy and clever citizens resorted to creatively understating their incomes. The wars proved to be a great canvas for tax evaders and avoiders alike.

Even after India became independent, several aspects of the British administration remained specifically the licensing regime which controlled distribution and prices of goods. A system of permits, controls, licenses, quotas and red tapism created a short supply of such commodities and was also a fertile ground for corruption. Permits were traded, there were malpractices in distribution and processes, all of which created additional avenues for tax evasion.

Throughout, this period, there was a constant tussle between the government and the tax evaders as the tax rates kept climbing up and so did the incentive to evade taxes. Two things made matters worse:

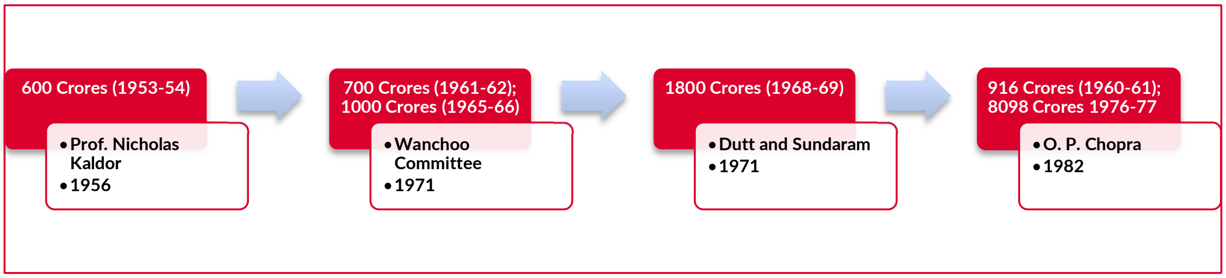
(i) Several anti-evasion provisions were introduced in the already complicated Income-tax Act making administration cumbersome; and
(ii) Administration of income-tax law lacked a scientific approach.[21]

Black money and black economy have a much wider import and pose a bigger set of challenges for the country compared to tax evasion. It is argued that estimating black money is the first step to tackling black money. As per the National Institute of Public Finance and Policy ("**NIPFP**"), black money is aggregate of income, which is taxable, but is not reported to tax authorities. Several attempts have been made to quantify black money in India;

[20] A, K. Jain, 'Tax Avoidance and Tax Evasion: The Indian Case (1987) Modern Asian Studies Volume 21 Issue 02, <https://www.cambridge.org/core/journals/modern-asian-studies/article/abs/tax-avoidance-and-tax-evasion-the-indian-case/7096E23AB2487B9393AA7B99A2BD2824>.
[21] *Ibid*.

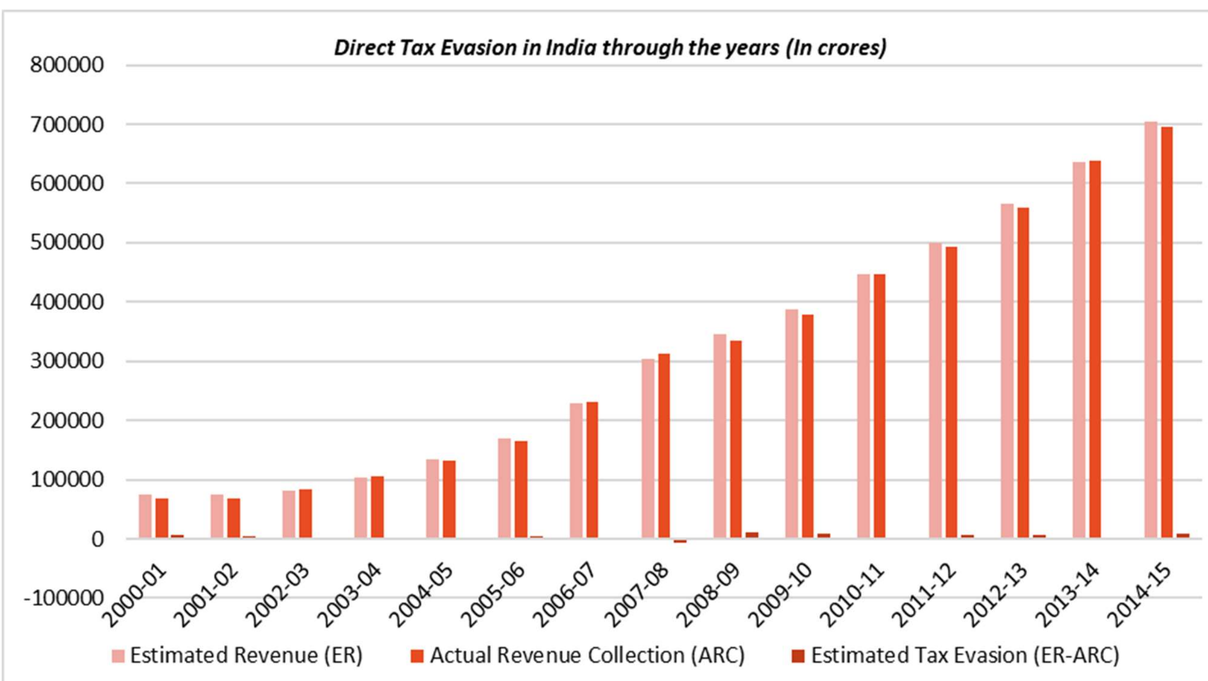
all taken up with the understanding that it is not possible to assess the effectiveness of enforcement policies without first determining the extent of tax evasion.

Estimates of black money in India



NIPFP has also estimated black money from 1975 through 1983. It estimated black money in the range of ₹9,958 -11,870 Crores for 1975-76, ₹20,362-23,678 crore for 1980-81, ₹31,584 to 36,786 Crores for 1983-84. From the above trends, it appears that the size of the black economy keeps growing. Some estimates also show a declining trend in the size of the black economy.[22] In 2011, the Government of India assigned studies to estimate the black economy to 3 institutes namely NIPFP, National Institute of Financial Management and National Counsel of Applied Economic Research. Each of these institutes came back with varying estimates of the black economy and the Government concluded that a reliably estimating the size of the black money is a difficult task.[23]

There are also a few estimates of the extent of tax evasion in India. For instance, Dr. Arun Kumar estimated that India loses ₹14 trillion to tax evasion annually. As per the government's own estimates, evasion of Direct Taxes (Personal Tax, Corporation Tax and Wealth Tax) even though fluctuating in numbers has been considerable over the years.



Source: Annual Report Department of Economic Affairs, Ministry of Finance, Government of India, 2016-2017 (p. 181)

[22] Schneider et al. (2003); Schneider et al. (2010).
[23] Standing Committee on Finance (2018-19), 'Status of Unaccounted Income/Wealth Both Inside and Outside the Country - A Critical Analysis (2019)', <https://eparlib.nic.in/bitstream/123456789/785330/1/16_Finance_73.pdf>.

The Central Government's revenue rapidly declined during the pandemic owing to the economic slowdown and the unprecedented expenditure on health care. This issue is further aggravated by the fact that the revenue that should have ordinarily been accrued to the exchequer was lost to tax evasion thereby further depleting the resources of Government. If the government annually received the tax due to it, the Government would have had more funds at their disposal to manage the pandemic in a relatively efficient manner by allocating sufficient funds to health care, sanitation and other welfare objectives of the State during the pandemic. Hence, it becomes necessary to examine the potential ways to curb tax evasion. While estimates of black money may or may not be reliable, strong indicators of the extent of tax evasion in India. For instance, under the Voluntary Disclosure Scheme of 1975, upwards of ₹15,000 million of concealed income and wealth was disclosed.

Government's role in addressing tax evasion

Tax legislations are generally robust for they move in tandem with developments in society. The Central Government frequently introduces mechanisms to keep tax evasion in check. This is done either by way of legal reform or by way of using its existing powers. This section covers key actions undertaken by the Central Government to tackle tax evasion in the recent past.

Income-tax Act

Search and Seizure

The most common practice adopted for tax evasion across the country is perhaps understating sales and accepting part of the sale proceeds in cash and recording bogus expenses. The Income Tax Department frequently carries out seizures and surveys to unearth such tax frauds. The Income-tax Department regularly conducts searches and seizures to detect tax frauds. Over the years, the department has busted huge evasion rackets which have led to detection of undisclosed income, undisclosed assets, prosecutions and convictions.

Financial Year	No. of groups searched	Undisclosed income admitted in searches (In Cr.)	Undisclosed assets detected in search (In Cr.)	No. of surveys conducted	Undisclosed income admitted in Surveys (In Cr.)
FY 15-16	445	11,066	712	4,422	9,655
FY 16-17*	366	9,923	689	4,387	8,017
FY 17-18	580	15,900	990	13,540	9,630
FY 18-19	980	18,590	1,580	15,400	16,120
FY 19-20**	750	4,390	810	3,920	10,630

Financial Year	No. of prosecutions launched	No of persons convicted	No. of cases compounded
FY 15-16	552	28	1,019
FY 16-17*	1,250	16	404
FY 17-18	4,520	75	1,620
FY 18-19	3,500	105	2,230
FY 19-20**	720	28	760

*Provisional Figures, up to November 2016
**Provisional Figures, up to October 2019

Exchange of Information

India enters into treaties such as Double Tax Avoidance Agreement ("**DTAA**"), Tax Information Exchange Agreement ("**TIEA**"), Multilateral Convention and SAARC Multilateral Agreement, with foreign governments which provides both parties access to information of unaccounted money stashed abroad. These agreements serve two purposes:

1. They facilitate sharing of tax revenues; and
2. Elimination of double taxation and tax evasion.

From March 2009 to Financial Year 2012-13, tax evasion of approximately ₹600 crore was detected and ₹200 Crores in taxes were realized. Such detections also lead to prosecution in 17 cases.[24] In FY 2015-16, information of Indians having accounts in HSBC Bank, Switzerland was received under a DTAA. The outcome of this information was that until 2019-20, ₹8465 core[25] worth of undisclosed income has been brought to tax and demands totaling ₹4562 Crores[26] were raised. The information also led to imposition of ₹1291[27] Crores in concealment penalty, 204[28] prosecution complaints in criminal courts in 89 cases[29].

In FY 13-14, a report by International Consortium of Investigative Journalists ("**ICIJ**") named a number of Indians stashing monies abroad. In FY 2014-15, the Central Economic Intelligence Bureau forwarded a list containing 600 names and addresses of entities of Indian Origin where it was suspected that their funds were stashed abroad in tax havens. 183 of these entities admitted to having a connection with such offshore entities/ undertaking offshore transactions. Until FY 19-20, ₹11,010 crore worth of undisclosed income was admitted, and 99 prosecution complaints were launched.[30]

Investigation into the cases revealed in the Panama Papers led to 64 search cases and 12 surveys and the undisclosed foreign investment detected in such cases were worth ₹1565 Crores.[31]

Separately, a Multi-Agency Group was constituted in the same Financial Year to coordinate investigation Indian names mentioned in the Panama and another Bahama Paper leaks. This led to initiation of search and seizure. ₹901 Crores of undisclosed income was detected until FY 17-18.[32] The website of the ICIJ also mentioned a Paradise Papers. As of 31.3.2019, undisclosed foreign investments worth ₹210 Crores have been detected in pursuance of the Paradise Papers.

As of 2018-19[33], India could obtain information which is "foreseeably relevant" for administration and enforcement of domestic laws concerning taxes from 153 countries/jurisdiction under DTAAs/ TIEAs/Multilateral Convention/SAARC Multilateral Agreement. India also regularly discusses Exchange of Information ("**EOI**") policy issues with other countries that facilitate in making focused requests for information

[24] Ministry of Finance (Budget Division), 'Annual Report 2012-13, p 153 <https://dea.gov.in/sites/default/files/AnnualReport2012-13.pdf>.
[25] Ministry of Finance (Budget Division), 'Annual Report 2018-19', p 198, <https://dea.gov.in/sites/default/files/Annual Report 2018-19_0.pdf>.
[26] Ministry of Finance (Budget Division), 'Annual Report 2015-16, p 154, <https://dea.gov.in/sites/default/files/AnnualReport2015-16.pdf >.
[27] Ministry of Finance (Budget Division), 'Annual Report 2018-19', p 198, <https://dea.gov.in/sites/default/files/Annual Report 2018-19_0.pdf>.
[28] Ministry of Finance (Budget Division), 'Annual Report 2019-20', p 161, <https://dea.gov.in/sites/default/files/Annual Report 2019-2020 %28English%29.pdf>.
[29] Ministry of Finance (Budget Division), 'Annual Report 2019-20', p 161, <https://dea.gov.in/sites/default/files/Annual Report 2019-2020 %28English%29.pdf>.
[30] Ministry of Finance (Budget Division), 'Annual Report 2019-20', p 161, <https://dea.gov.in/sites/default/files/Annual%20Report%202019-2020%20%28English%29.pdf>.
[31] Ministry of Finance (Budget Division), 'Annual Report 2019-20', p 161, <https://dea.gov.in/sites/default/files/Annual%20Report%202019-2020%20%28English%29.pdf>.
[32] Ministry of Finance (Budget Division), 'Annual Report 2017-18, p 148, <https://dea.gov.in/sites/default/files/Final Annual Report English_0.pdf>
[33] Last available data.

and the identification of hurdles in acquiring such information. It also receives systematic and periodic transmission of bulk taxpayer information under the Automatic Exchange of Information ("**AEOI**") but as per the Ministry of Finance, it is not in a standard format and thus is not very effective in prevention of offshore tax evasion.

PAN Quoting

To collect information of certain types of transaction, quoting of PAN was made mandatory for all transactions, irrespective of mode of payment if the amount exceeded ₹2 Lakhs under Rule 114B of the Income-tax Rules w.e.f. 1 January 2016.

Linking of PAN and Aadhar were also made mandatory from July 2017 to tackle the larger issue of sham or fictitious companies.

Reward Scheme for Informants

The Income Tax Department introduced the Income Tax Informants Reward Scheme, 2018 which superseded a similar scheme of 2007. Under the 2018 scheme, a person providing information of substantial tax evasion could be rewarded up to ₹50 Lacs. The same scheme also incentivized people, including foreigners for informing the Income Tax Department about undisclosed foreign income and assets under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

In 2018, the Income Tax Department introduced the Benami Transactions Informants Reward Scheme to incentivize people to provide information about benami transactions and properties. Such information could win the informant an award of up to ₹1 crore. Foreigners were also eligible under this reward scheme.

Identity of such informants under both such schemes are treated as confidential.

Other measures

Section 269ST was introduced in the Income-tax Act w.e.f. 1.4.2017 which imposed a restriction on cash transactions of ₹2 lacs or more.

Section 13A of the Income-tax Act was amended to disallow exemption from tax available to political parties if any donation exceeding 2000 rupees is received by a political party otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through electoral bond.[34]

Section 50CA was inserted in the Income-tax Act w.e.f. 1.4.2018 as per which the fair market value of a capital asset other than a quoted share would be deemed to be the sale consideration of such asset on transfer if the returned sale consideration is lower than the fair market value.

[34] Income-tax Act, 1961, Section 13A, first proviso, clause (d).

*Goods and Services Tax (“**GST**”) Law*

Investigations

The Directorate General of Goods and Services Tax Intelligence (“**DGGI**”) identified the following modus operandi by which tax was being evaded

(i) short payment of tax by undervaluing taxable goods and services,
(ii) wrong availment of exemption notifications,
(iii) wrong availment / non-reversal of input tax credit,
(iv) non-payment of tax on supply of taxable goods and services,
(v) tax collected but not paid to Govt. exchequer,
(vi) non-payment of tax under reverse charge mechanism,
(vii) fraudulent availement of input tax credit on the basis of invoices from fake firms,
(viii) fraudulent availment of refund of IGST on export of goods, etc.

During the Financial Year 2021-22, the DGGI detected tax frauds exceeding ₹54,000 Crore and recovered more than ₹21,000 Crore of such evaded tax.

E-invoicing

From 1.4.2020, E-invoicing was made mandatory for all taxpayers with annual turnover above ₹100 Crores to tackle tax evasion.

Amnesty Schemes

In the context of tax legislations, an Amnesty schemes are schemes introduced typically by tax departments to persuade errant taxpayers to disclose their otherwise undisclosed income, pay slightly higher rates of taxes on such income. Besides, an opportunity to account for undisclosed income, the lure in amnesty schemes is exemption from penalty and prosecution that one would otherwise suffer if the tax department detected the concealment.

Amnesty Schemes offer a limited time window and cover certain categories of taxpayers. Tax amnesty schemes are typically available only for a limited period of time and tend to cover multiple categories of taxpayers such as individuals, corporates etc. The first documented tax amnesty, dating from over two millennia ago, can be found on the Rosetta Stone (200 B.C.) in Egypt.[35] More recently, in 2001, Italy introduced a Voluntary Dsiclosure Scheme known as *Scudo Fiscale* (i.e.Tax Shield) which targeted undeclared offshore capital and resulted in the repatriation of billions of euros. World over, amnesty schemes are popular among policymakers as they lead to significant tax mop-ups. Tax amnesty schemes are also believed to increase compliance as non-filers come into the fold of the taxpayers in the future.

[35] Charles Adams, For Good and Evil: The Impact of Taxes on the Course of Civilization (Madison Books, 1993)

Amnesty Schemes in India

India has a long history of tax amnesty schemes. The Income Declaration Scheme, 2016 recorded the highest tax collection among all other tax amnesty schemes followed by the Voluntary Disclosure of Income Scheme, 1997.

However, experts suggest that if the success of a tax amnesty scheme is measured by the ratio of income disclosed to the size of black economy in the country, the 1997 Scheme fared better.

Experts suggest that the earlier tax amnesty programs (up to 1980) were arguably unanticipated and they all produced negative revenue gains. They also suggest that the Schemes post 1980 resulted in a negative overall revenue effect. More importantly, they highlight that the revenue impact of tax amnesty programs declines over time.[36]

1951

- Voluntary Disclosure of Income Scheme, 1951
- Popularly known as Tyagi Scheme
- Concession scheme for payment of arrears of taxes
- Income disclosed: 70.20 Crores; Tax Collected: 20 Crore

1965

- Block Voluntary Disclosure Scheme
- Backdrop was the shortage of money faced by the Indian Government due to Chinese invasion
- Income disclosed: 145 Crore; Tax Collected:19.45 Crore

1965

- Voluntary Disclore of Income Scheme, 1965
- Income disclosed: 52.18 Crore;Tax Collected: 30.08 Crore

1975

- Voluntary Disclosure of Income Scheme
- Marginal rate of tax cut down to 77% from a whopping 97.75%; Slab rates of tax basis income disclosed; 2.5% of sum declared to be invested in Governemnent notified assers
- Income Disclosed: 744 Crore; Tax Collected: 241 Crore

1981

- Special Bearer Bonds
- Criticised for being counter-productive as it facilitate conversion of white money into black
- Income Disclosed: 963 Crores

1985

- Amnesty Circulars
- Managed at tax circle level by stealth
- Income disclosed: 10,778 Crores; Tax Collected: 500 Crore

1991

- Foreign Remmittance Scheme
- Did away with the requirement of disclosing source of foreign remmittance income
- Income disclosed: 2200 Crores

1997

- Voluntary Disclosure of Income Scheme
- Inocme disclosed: 33,000 Crores; Tax Collected: 10,000 Crores

2016

- Income Declaration Scheme
- No. of Declarants: 64,275
- Income Disclosed: 65,250 Crore; Tax Collected: 29,632 Crores
- Average evasion per declarant was 1 crore

Timeline of Indian Tax Amnesty Schemes

Economic Analysis

Experts argue that tax amnesty schemes are popular among policymakers and are considered successful because they evaluate them on the basis of the gross revenue gain to Government. However, net revenue gain is seldom considered in the context of tax schemes. The total tax collected from amnesty schemes must be reduced by the direct cost of collection of such taxes and the loss of revenue i,e., concealment penalties that would be payable had the tax administration detected amnesty disclosures in the first place.[37]

It is also widely argued that tax amnesty schemes do not actually increase future compliance.[38]

---

[36] Das-Gupta, A., and D. Mookherjee, 1996, "Tax Amnesties as Asset-Laundering Devices," Journal of Law, Economics, & Organization, Vol. 12, No. 2, pp. 408–31.

[37]

[38] This has been derived in static models by Alm and Beck (1991), Andreoni (1991), Malik and Schwab (1991), and Graetz and Wilde (1993), and more recently in a dynamic setup by Macho-Stadler, Pau, and Perez-Castrillo (1999).

Constitutionality of Tax Amnesty Schemes

Given that tax amnesty schemes are essentially an opportunity for certain groups of people to declare their past income without suffering any financial or legal consequences that would have ordinarily been applicable, such schemes are criticised on the grounds of being discriminatory towards honest taxpayers, who have paid the requisite tax all throughout. Based on this rationale, several cases have been filed before the Indian Courts to analyse whether tax amnesty schemes are violative of Article 14 of the Constitution of India. The All India Federation of Tax Practitioners filed a petition before the Bombay High Court for a declaration that the Voluntary Disclosure of Income Scheme, 1997 ("**the Scheme**") was void, unconstitutional and *ultra vires* in its entirety, with a prayer that the government be directed not to implement the same.

In the alternative, it was prayed that the respondents be directed to treat all the normal and honest taxpayers on par with the declarants under the Scheme in respect of the tax charged or chargeable to them and the amount of interest pertaining thereto an. The relief sought was that the Court evolve a mechanism whereby the respondents are compelled to refund the excess amount collected from the normal taxpayers during earlier years.

During the course of the arguments, the petitioners relied on the fact that various expert committees commissioned by the respondents have suggested alternative measures for unearthing unaccounted money such as imposing deterrent punishment, establishing special courts for dealing with tax-evaders as opposed to Voluntary Disclosure Schemes. Further, the petitioners also argued that considering the fact that a number of similar Voluntary Disclosure Schemes have failed in the past. The Parliament, by enacting a similar scheme, has added a premium on dishonesty which is bound to affect the honest taxpayer.

On the other hand, the respondents submitted that given that there is a total reduction in the tax rates, there is sufficient inducement to the dishonest taxpayers to declare their true income and it is hoped that the Scheme would give good results.

The division bench of the Court ruled in the favour of the Government. The court based its decision on the rationale that with regard to taxation matters and economic affairs, it is for the Executive and the Parliament to decide a suitable method and take policy decisions. Further, with respect to constitutionality of the Scheme, the Court held that the classification between persons who are having unaccounted money and honest taxpayers was not any way unreasonable and it had nexus with the object sought to be achieved, i.e., unearthing unaccounted money by giving some inducement and immunities to such persons. It was not violative of article 14. The Court noted that it has been repeatedly contended that, if periodically such types of schemes are to be enacted, even an honest taxpayer would feel that it is better not to pay income-tax when due, but to wait for immunity, which will enable him to pay tax on income at a lower rate and after some period. This submission is based on the assumption that the honest taxpayer pays tax because of some inducement and it is forgotten that an honest taxpayer pays tax not because of inducement, but because he/she believes that it is their duty to the State to pay tax for better living in a civilised society.[39]

Subsequently, All India Federation of Tax Practitioners filed an appeal before the Supreme Court of India. The Apex Court affirmed the decision of the Bombay High Court.[40]

[39] *All India Federation of Tax Practitioners v. Union of India*, 1997 228 (ITR) 68 (Bombay).
[40] *All India Federation of Tax Practitioners v. Union of India*, 1998 231 (ITR) 24.

Why people evade taxes

Experts argue that tax evasion is common in all classes.[41] But they also say that tax evasion magnifies income inequality if tax evasion is more rampant in the higher income brackets.[42] Some link is also drawn between tax evasion and the nature of income earned and the level of such income.

We wanted to understand what factors contributed to tax evasion and especially people's perspective of tax systems and taxpayer morale. Tax morale is the intrinsic motivation to pay taxes We sought to gain a better understanding the following aspects of taxpayers' morale:

1. Quid pro quo for tax payment
2. Appropriateness of tax rates
3. The complexity of tax laws
4. Adequacy of enforcement measures

Research Methodology

The authors prepared a questionnaire (**Annexed**) containing questions covering 4 broad themes i.e., taxpayer's familiarity with e-filing websites of tax departments, if and why they think payment of taxes is important, how the pandemic affected their income and tax payments and adequacy of government support during the pandemic.

We chose to conduct the survey in Mumbai and Thane, these being two prominent urban areas in Maharashtra which has the has been the highest contributor to Direct Tax Collections from Assessment Year 2014-15 to 2018-19[43]. Maharashtra also consistently tops other states when it comes to Goods and Services Tax Collection. Morsel translated the questionnaire to Marathi and Hindi, digitised them, provided in-house training to their enumerators and thereafter conducted the survey to record the data. The survey was undertaken physically by Morsel Research and Development Private Limited. Data was collected data from 517 persons in Mumbai and Thane in July 2022.

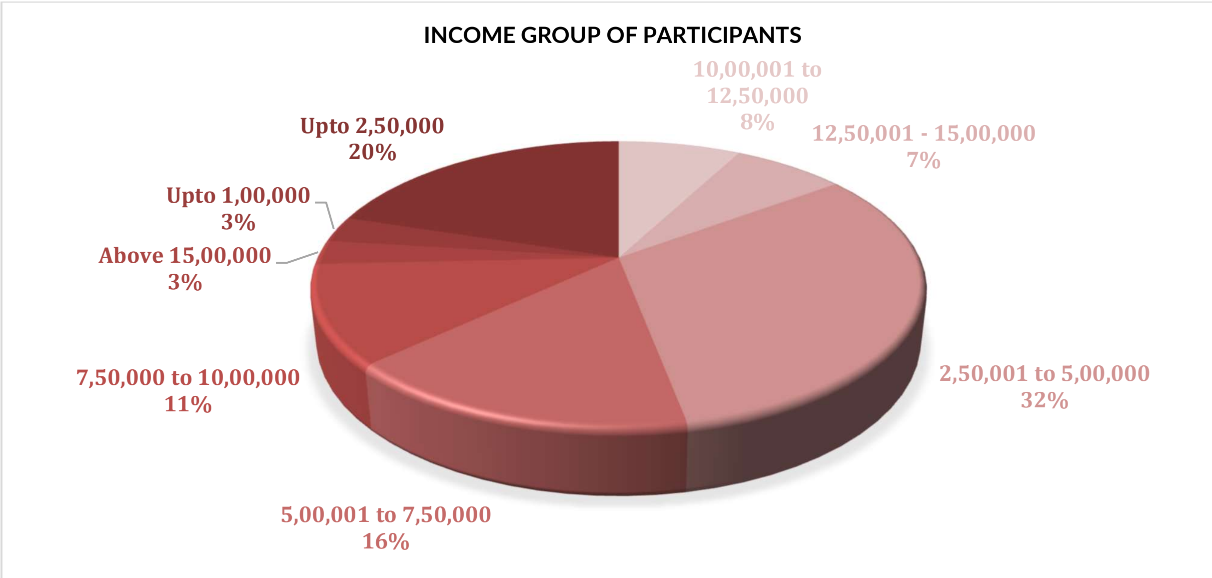
---

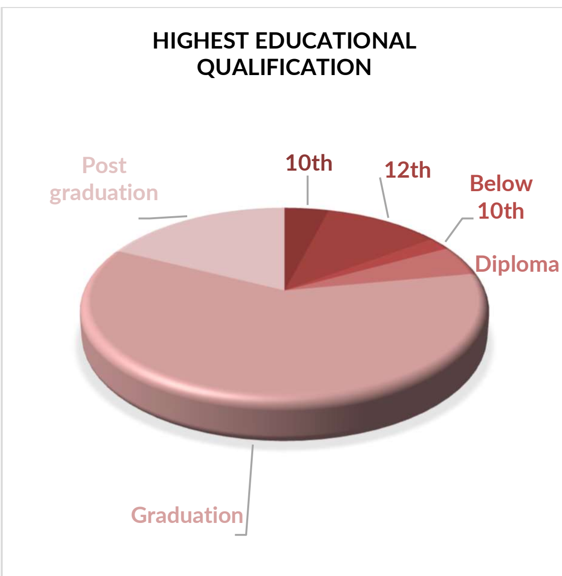
[41] *Ibid*, note 20.

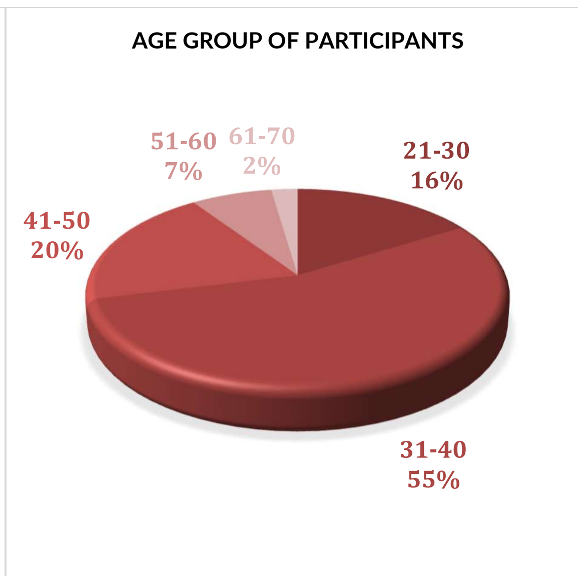
[42] Shekhar Mehta, 'Tax Evasion and Income Distribution' (1989) National Institute of Public Finance and Policy Working Paper 4/1989, <https://nipfp.org.in/publications/working-papers/1549/>.

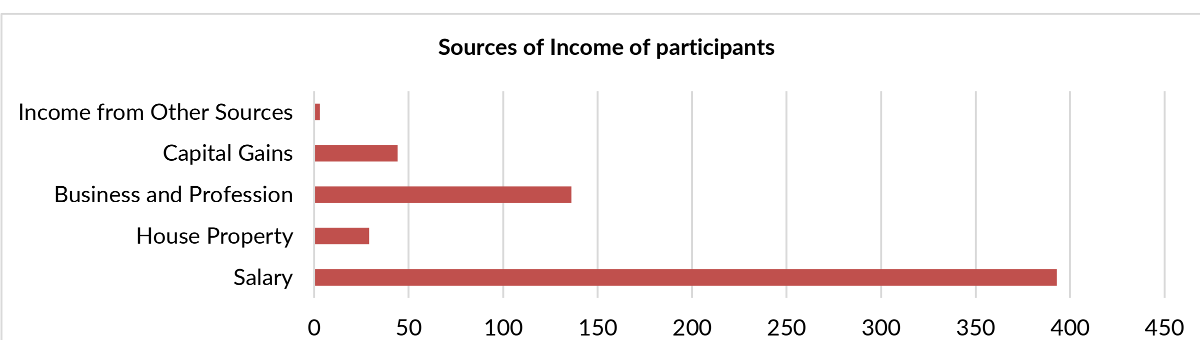
[43] Income Tax Department, 'Time Series Data Financial Year 2000-01 to 2018-19' <https://incometaxindia.gov.in/Documents/Direct%20Tax%20Data/IT-Department-Time-Series-Data-FY-2000-01-to-2018-19.pdf>

Demographics of participants









Findings and Observations

➢ Quid pro quo for tax payment

There is no direct quid pro quo involved in the payment of taxes. Governments are not obliged to spend tax money in a particular way. However, citizens do expect Governments to spend and invest on betterment of society. In the context of the COVID-19 pandemic, citizens expectations for quality healthcare, relief from loss of livelihood and securing essential goods and services was pinned on the Government.

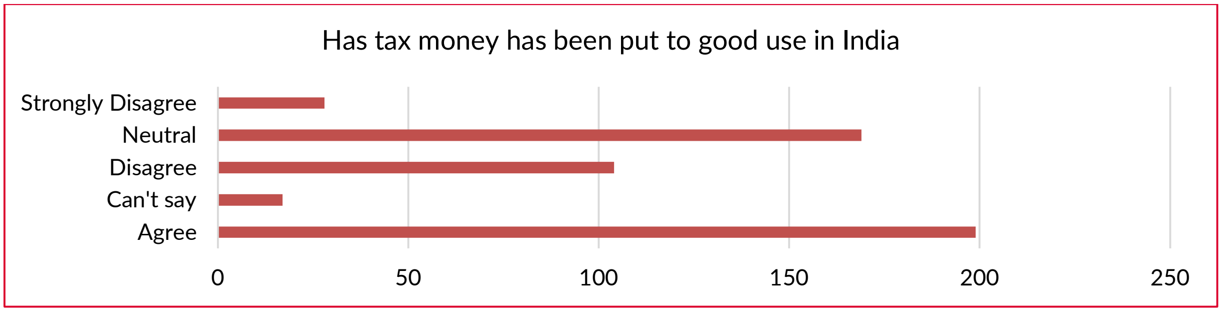
As the virus spread, people who could afford private hospitals rushed to private hospitals and the ones that couldn't, rushed to government hospitals. Nearly 90% of the participants mentioned that their income was negatively affected during the pandemic. 46% of the participants claimed that either they or their family members were hospitalised for COVID-19 out of which 70% said that they availed healthcare services from government funded hospitals. The table below captures people's spending on healthcare as a percentage of their annual income.

Spending on healthcare during the pandemic

Sr. No.	*Spending on healthcare as a percentage of Annual Income*	*Percentage of participants*
1	0%	35.40%
2	Up to 10%	50.87%
3	More than 10% but up to 25%	10.25%
4	More than 25% but up to 50%	1.93%
5	More than but up to 75%	0.39%
6	More than 75% but up to 100%	0.39%
7	More than 100%	0.77%

50% of the participants mentioned that they were eligible for some relief measures announced by the government. Out of these people, nearly 77% were eligible for relief measures funded by the Central Government and the rest were eligible for some relief measures announced by their State Governments. Only 30% of the participants received some aid from the Government which was either in the form of free ration, deposits into their Jan Dhan Account, or some money under COVID-19 relief schemes. This coupled with the fact that 91% of the participants did not report any concession in taxes during the lockdown is concerning.

Less than half of the participants believe that tax money has been put to good use in India. While 64% of the participants believed taxes have a functional value i.e., they are paid to serve a purpose such as better infrastructure, improving services to the populace, fostering development, etc., 36% felt that taxes were a mere obligation. It is argued that people that do not trust governments may think that tax evasion is justified.[44]

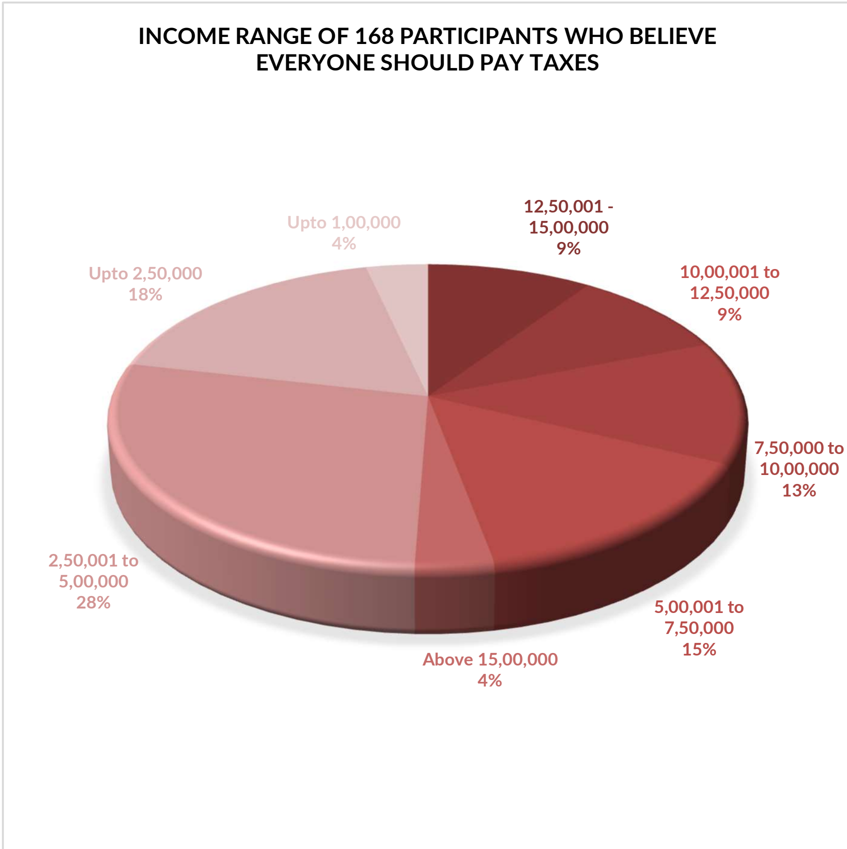


It appears that 60% of the participants spent up to 25% of their annual income on healthcare during the pandemic and 90% of the participants continued to pay the same level of taxes. However, only 30% of all participants received any aid from the government during the pandemic. Payment of taxes may be adversely affected if citizens do not perceive any benefit from payment of taxes.

[44] Bruno S. Frey, Benno Torgler, Tax morale and conditional cooperation (2007) Journal of Comparative Economics, Volume 35, Issue 1, pp136-159 <https://doi.org/10.1016/j.jce.2006.10.006>.

➢ Appropriateness of tax rates

32% of the participants said that everyone should pay taxes. The balance 68% believed some criteria like level of income, type of job, type of revenue generating activity such as business, etc., must be used to determine who should pay taxes. Interestingly, there was no correlation between the level of income of a participant and the belief that everyone should pay taxes i.e., in every income group, the proportion of people who believed that everyone should pay taxes and otherwise was similar.

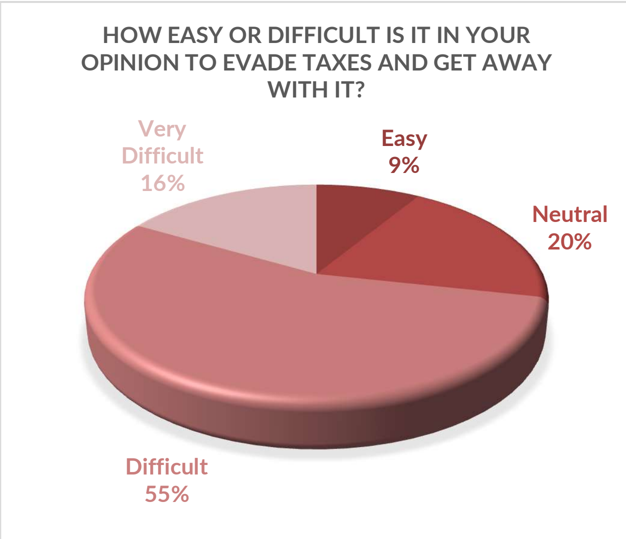


Where participants suggested a certain criterion for who should pay taxes, 60% of them claimed that they did not fall in the said category. An individual does evaluate the fairness of systems from their own lens. A taxpayer's evaluation of fairness of their tax burden impacts their tax behaviour. Taxpayers that believe that they are unfairly taxed are more susceptible to evade taxes.[45]

[45] Fortin, B., Lacroix, G., & Villeval, M.-C., Tax evasion and social interactions (2007) Journal of Public Economics, 91 (11-12), pp. 2089–2112.

➢ Complexity of tax laws and adequacy of enforcement measures

Only 57% of the participants file their Income-tax returns. Out of the participants that file returns, 47% engage the services of a Chartered Accountant for the same. 70% of the participants have never visited or used the income tax filing website. Less than 1% of the participants experienced some issue with getting refunds or incorrect demands raised on them.



Around 4% of the survey participants had acquaintances that had been penalised for some offence under the Income-tax Act, 1961 or the GST law.

Research indicates a positive correlation between detection of tax evasion and tax compliance. [46]

[46] Michael G. Allingham, Agnar Sandmo, Income tax evasion: a theoretical analysis (1972) Journal of Public Economics, Volume 1, Issues 3–4, pp. 323-338, <https://doi.org/10.1016/0047-2727(72)90010-2.>

Way forward: Interventions to curb tax evasion

Tax departments employ several measures to keep tax evasion in check. However, what influences a person to pay or not pay taxes isn't considered while designing interventions by tax departments. Behavioural science offers a host of tools to identify, understand and tackle the root cause of problems. In the context of tax evasion, some analysis and experimentation is required to identify optimum solutions in the form of behavioural interventions to discourage tax evasion. Some of these interventions may be considered to reduce tax evasion and hence, improve tax compliance.

Improve Taxpayer communications

Awareness is crucial to improve tax evasion. While reminders are sent by tax departments to file returns and to file returns on time, anti-evasion measures adopted by the departments must be popularized. For instance, the Reward Scheme for Informants is a relatively lesser-known scheme. For better implementation of tax statutes, citizens must be aware of where and how they can contribute. External media can be utilized to promote such measures.

Currently, communications from tax departments are generic and are aimed to promote general awareness. However, communications can be made effective by identifying the right audience for specific kinds of communications. For instance, reminders to file returns to non-filers can adopt a slightly different tone, have different contents as compared to reminders sent to regular filers. Such interventions are relatively inexpensive compares to other enforcement measures.

Peer compliance

Attempts have been made to ascertain whether people are conditional cooperators i.e., how society impacts an individual's decision to pay or not pay taxes. One theory of conditional cooperation is *reciprocity*. Reciprocity, in the context of tax compliance means that if many people pay taxes, an individual will also pay taxes and if many individuals do not pay taxes, the individual will also most likely evade tax. Another relevant theory of conditional cooperation is conformity which implies an individual's desire to adhere to social norms of paying taxes and more importantly, conduct themselves according to such norms.[47]

Interventions can be used to improve tax compliance and thereby reduce tax evasion. When a person files a return and pays taxes for the latest assessment year, the tax administration could indicate what number filer they are, what is the returned income for all returns thus far and the tax paid thereon. This could help people associate themselves with a larger group of tax compliant persons.

Apart from the above positive interventions, some adverse actions may also be useful. Studies show that shaming evaders increases observers' tax compliance intentions. Only 4% of the survey participants had acquaintances that had been penalised for some offence under the Income-tax Act, 1961 or the GST law. This could lead people

[47] Henrich, Joseph, Cultural group selection, coevolutionary processes and large-scale cooperation (2004) Journal of Economic Behavior and Organization 53, 3–35

to assume that tax administration in India is weak. It is therefore, imperative to continue with the practice of naming and shaming of tax evaders.

Slab rates for concealment penalties

Since tax evasion is a trade-off between the incentive to evade taxes and the cost of being detected, tax departments can reduce the gap between the incentive to evade tax and the perceived cost of being detected. One way to do this would be increase direct penalties for tax evasion. Currently. The Income-tax Act stipulates for a flat 300% concealment penalty under Section 271(1)(c) for any concealment of income.

From the survey, there seems to be no correlation between participants' level of income and their willingness or otherwise to pay taxes. Since, tax evasion magnifies income inequality if tax evasion is more rampant in the higher income brackets, we recommend imposition of slab rates of penalties for different slabs of income concealed.

Certainty of detection for even for minor instances of tax evasion

Large raids that detect lakhs of Crores of undisclosed are important and justify the cost of enforcement of searches, seizures and surveys. Instances of such raids are frequently reported in media. However, there is merit to promoting instances of everyday taxpayers penalized for tax evasion.

People do think that tax evasion is easy in India which indicates that ordinary citizens may have come across instances of evaders that haven't been penalized. If individuals know that those who do not pay taxes are being caught, then they might believe they might also be penalized of they do not pay their due taxes.

Steering clear of Amnesty Schemes

Data on net gain from amnesty schemes is not available. Apart from the economic impact of tax amnesties, they are known to damage compliance in the long run as declarants are wary of future audits, reduced scope of evasion in the future, loss of reputation.[48]

Apart from the above tax amnesties reinforce the understanding that tax administration is poor and casts a doubt over the tax department's capabilities and capacities. Frequent amnesty schemes also send a message that persons can evade taxes and a routine amnesty scheme will come to their rescue when needed. In fact, in 1997, the then government had given an undertaking in the Supreme Court that no further amnesty schemes would be initiated by them. The reason being that an amnesty scheme is unfair to the honest taxpayers, while those evading taxation get a concession for declaring their past income – dishonesty is rewarded. Therefore, amnesty schemes are bad tax policy and must be avoided.

[48] Katherine Baer and Eric Le Borgne, Tax Amnesties: Theories, Trends, and Some Alternatives, International Monetary Fund, <https://www.imf.org/en/Publications/IMF-Special-Issues/Issues/2016/12/31/Tax-Amnesties-Theory-Trends-and-Some-Alternatives-21865>.

www.vidhilegalpolicy.in

Vidhi Centre for Legal Policy
A-232, Defence Colony
New Delhi – 110024

011-43102767/43831699

vidhi@vidhilegalpolicy.in