Tax Planning: – Tax planning is a legal process and art to reduce one’s tax liability by making use of various provisions of the law. Tax planning assists the taxpayers to reduce their income or lessen the tax liability through a variety of means. For e.g., by applying Deductions, credits, Rebate, Exemptions provided under the tax laws. Tax planning generally is to be done after considering the below factors:-

* Nature of the entity
* Nature of product to be produced
* Size of the entity
* Owner residency status
* Expenses nature
* Capital structure

Tax planning is 100% legal and all taxpayers should use this technique to reduce their tax burden.

Tax Avoidance:- Tax avoidance is a process in which taxpayers reduce their tax liability by following loopholes of the Tax Act. This is the act of minimizing the tax liability within the limits of the law or without breaking the law. This is very much similar to Tax planning except a difference that in this the taxpayers use the method to reduce their tax liability which is unacceptable to the Government. This can be performed by any of the following or likewise:-

* Use of tax deduction for reducing business expenses
* Delaying in tax payment until the last due date with some deferral plan

Tax Evasion: – Tax evasion is a process to reduce tax liability by following illegal ways like inflating expenses or understating the income. Tax evasion is performed by the taxpayers to evade profits and avoid tax burden. The taxpayers evade their taxes by using below mentioned illegal practices:-

* Making false statements
* Hiding relevant documents
* Not maintenance of proper records and statements
* Charging personal expenses as a business expense
* Charging bogus expenses In India

people usually evade their tax liability by dealing in Cash without having any presentation of those transactions in the books of accounts. Tax evasion is an illegal way to save the tax and taxpayers can penalize heavily for this action.

**Consequences of tax Avoidance**

* This leads to a reduction in public revenue collection and thereby impacting the growth of a country.
* There is a significant impact on the black money which is piled up due to tax avoidance, and can lead to unnecessary inflation.
* Honest taxpayers start having a sense of inequality as compared to those who are avoiding tax and not facing any consequences.
* Delay in government projects due to restrictions in the amount of spending.

**Causes of tax evasion**

* The current tax structure of a country plays the most important role in the cause of tax evasion. More the provisions with certain loopholes more is the possibility of people evading tax through those loopholes.
* If the tax rates are higher in a particular country, it will lead to levying higher tax on the taxpayer which will encourage them to reduce their burden by avoiding tax.
* Lack of simplicity and accuracy of the tax laws in a country. The more complex the law, the more are the chances of people using it to their advantage.
* Lack of citizen’s tax integrity and commitment.
* Claiming excess deductions in the return filed by the taxpayer as against the actual expenditure.
* Underreporting of income from various sources. This will lead to a lower total income and a lower tax burden.

Tax Management

Tax management is an exercise that involves the management of personal finances, especially the taxes to be paid. It is a routine procedure that is basically followed by people to ensure timely payment of taxes. The payment of taxes should be made in place of the tax laws and regulations of the economies.

The procedure includes the presentation of declarations and the audit of accounts. The process is holistic, involving transactions in the past, managing current taxes, and planning for the future. Unlike tax planning, it is not a voluntary exercise and is essential for everyone. Failure to administer taxes or failure to file returns can lead to penalties.

The elements of fiscal management are;

Reduce adjusted gross income: Adjusted gross income is the amount on which one is obligated to pay income tax. A legally reduced amount would automatically reduce the taxes payable.

Increase the number of tax deductions: Deductions are claims for expenses that can help reduce your tax liability. It is important to know the type of deductions that apply to your annual plan.

Tax Credit: The tax credit helps reduce the amount of tax to be paid by introducing certain activities that involve such credits.

Retirement Plans: The easiest way to store income is to plan for people’s retirement in advance. Experienced investors suggest investing at least 5-6 years before your expected retirement date.

The tax filing system becomes particularly complex due to the various tables, fees, and conditions. Each slab has different types of exemptions and associated conditions. Tax planning, if done, becomes part of task management. However, not everyone is involved in tax planning. Tax management allows you to reduce the net amount paid as taxes by filing timely returns, paying taxes in advance, and avoiding penalties by informing the concerned authorities.

**Main differences between tax planning and tax management**

* Tax planning refers to the practice of planning finances to achieve optimal tax savings, while tax management is the practice of avoiding penalties by timely payment of taxes. Tax planning uses existing provisions to avoid unnecessary taxes.
* Tax planning is about planning and filing tax returns, while tax management is about keeping financial records and taxes.
* The main purpose of tax planning is to reduce the taxes payable to evade the burden on the taxpayer, while tax management is about following income tax rules and making timely payments.
* Tax planning is about reducing tax liability, while tax management is about reducing taxes by filing returns and avoiding penalty payments.
* Tax planning is an optional activity while tax management is mandatory for everyone.

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| objective | Tax planning is done to minimize liability | Tax management is carried out to function in accordance with the Income Tax Law and related regulations. |
| Relationship | Tax planning includes tax management. | Includes auditing of accounts, filing of tax returns, etc. |
| Hour | it is made for the future | It can be done for the past, the present and the future |
| Use | It allows to minimize the tax obligation both in the short and long term | If done right, penalties and interest can be avoided. |
| Relevance | It is an optional exercise | Is essential |