

# TAX PLANNING, TAX AVOIDANCE AND TAX EVASION

---

In the context of saving tax, there are three commonly used practices, namely (a) Tax Evasion; (b) Tax Avoidance; (c) Tax Planning.

- (a) **Tax Evasion:** It refers to a situation where a person tries to reduce his tax liability by **deliberately suppressing the income or by inflating the expenditure** showing the income lower than the actual income and resorting to various types of deliberate manipulations. An assessee guilty of tax evasion is punishable under the relevant laws. Tax evasion may involve stating an **untrue statement** knowingly, **submitting misleading documents**, suppression of facts etc. An assessee who dishonestly claims the benefit under the statute by making false statements, would be guilty of tax evasion.
- (b) **Tax Avoidance:** The line of demarcation between tax planning and tax avoidance is very thin. There could be elements of malafide motive involved in tax avoidance also. Any **planning which, though done strictly according to legal requirements defeats the basic intention of the Legislature behind the statute** could be termed as instance of tax avoidance. It is usually done by adjusting the affairs in such a manner that there is no infringement of taxation laws and by taking full advantage of the loopholes therein so as to attract the least incidence of tax. **Tax Avoidance is established where the main aim of transaction is to obtain tax benefit and the transaction is not at arm's length, it lacks commercial expediency and results, directly or indirectly in the misuse/abuse of tax provisions. GAAR has been introduced to curb tax avoidance.**
- (c) **Tax Planning:** It means **arranging the financial activities in such a way that maximum tax benefits are enjoyed by making use of all beneficial provisions in the tax laws which entitle the assessee to get certain rebates and reliefs.** This is permitted by law. Thus, tax planning would imply compliance with the taxation provisions in such a manner that full advantage is taken of all tax exemptions, deductions, concessions, rebates and reliefs permissible under the Income-tax Act so that the incidence of tax is the least. Tax planning can neither be equated to tax evasion nor to tax avoidance. Tax planning may, therefore, be regarded as a method of intelligent application of expert knowledge of planning corporate affairs with a view to securing consciously provided tax benefits on the basis of the national priorities in consonance with the interests of the State and the Public.