

A STUDY OF IMPORTANT MEASURES TO PREVENT TAX EVASION IN VAT

Dr.Vaibhav Modak ,Asst. Professor, Department of Management Studies, Medi-Caps University

Dr. Suresh T. Silawat Principal, Government Sanskrit College, Indore

ABSTRACT

In this paper we studied about the effective initiative that has been taken by the Finance Department of Madhya Pradesh, State Government to prevent the tax evasion of the traders liable to pay tax under value added tax policy which is implemented from 1st April 2006 in Madhya Pradesh. To avoid and make a proper control on the tax evasion VAT Audit is being introduced. Tax evasion means illegal wrongful commercial activities, in which tax payers used to misrepresent their sales or dishonestly hide the facts of business activities or declare the less sales to reduce the tax liability. We have discussed about the proactive arrangements and systems made under the Value Added Tax policy to reduce the cases of tax evasion.

Key Words: VAT, Tax Evasion, Tax Fraud, VAT Audit, Self Return, Enforcement.

Introduction

For the effectiveness of any tax administration it is very necessary to take a strong proactive action of audit or enforcement. If the tax audit is poor then tax administrative will be a failure. Other methods like identification of the persons who are not presenting the proper return and not depositing the tax at right time, all performed efficiently but if the audit work is not strong then the habit of not depositing tax at proper time converted into tax evasion. There are various ways by which a trader can involve in tax evasion.

Tax fraud is a common thing that rises due to manipulation in documentation. This type of activity comes under fraud or crime. Another type of tax evasion is related with under reporting in which a trader used to show his sales low for reducing the tax liability. Tax avoidance means those traders who use loopholes in tax laws & not pay the amount of tax or linger it. Audit is a depth checking & scrutiny of purchase- sales as well as input tax rebate and other statements which are declare by the trader in submitted return. Audit assures the validity of statements & facts, prescribed rate for determining tax amount and matching it with the records and accounts books. If any trader or businessman involves in tax evasion then checking of such trader will be applicable under the enforcement procedure.

Objectives

The main objectives of the study is to find out

- 1) The various sufficient preventive measures used by the state government to stop the tax evasion.
- 2) The impacts in the number of tax evasion cases after implementation of enforcement under VAT.
- 3) For giving the guidelines to the traders that tax evasion will not be healthy for the interest of business.
- 4) If any trader involved in tax evasion then government having all the required information's regarding him and strict action will be used against that person.

Research Methodology

The study is based on secondary data. All the secondary data and information was collected from Commercial Tax Department, Head Office Indore. Interview method is also being used to retrieve the data. All the statistics are authentic and purely based on official records.

Enforcement Mechanism

To prevent the tax evasion following arrangements are made under enforcement:

- (i) Under inspection, seizure of the accounts books & records. If the inspection is not possible at the place of business then such records will be sealed in a container or box & in the presence of trader & other two persons as witnesses, it will be inspected.
- (ii) A stock which is not recorded in the books seized and 3.5 percent penalty will be imposed on the tax payable for the sales price of such stock.
- (iii) Seized records will be return to the dealer in 120 days after the scrutiny. If the scrutiny is not completed in this period then period will be extended up to final decision.
- (iv) Under check post non availability of the proper document or forged documents tax liability will be decided on the transporter treated as a dealer and the prescribed penalty will be imposed.

- (v) In department trained auditors investigate the fraud cases again, by the cross verification of accounts books & records with bills, bank statements etc.
- (vi) To receive the information about the physical records like quantity of production, list of goods, use of goods etc.
- (vii) Sorting of some bills as sample basis to check the details given in the return.
- (viii) To receive information regarding the dealer from customers, distributors etc.
- (ix) More focus is given on the medium & small traders because there is a minimum chance of large traders getting involved in tax evasion. So for audit purpose only specific traders is sorted.
- (x) Government established 22 check posts to prevent tax evasion.

Statistics

We are representing the data of tax evasion by table-1.1 & seizures by table-1.2, inspected by the Commercial Tax Department Madhya Pradesh, which show a clear vision of enforcement team ensuring the inspection and controlling over the tax evasion:

Table- 1.1 Recovery of Amount of Tax Evasion

(Rs. In Crores)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Amount of Tax Evasion found	40.27	1.02	14.82	10.59	3.40
Amount of Tax Evasion detected in which Seizures were not made	0.11	0.07	0.02	0.12	0.18
Total Tax Evasion Detected- (Rs. in Crores)	40.38	1.09	14.84	10.71	3.58

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Numbers of Inspection (No.)	108	32	136	190	139
Cases in which Seizures were made (No.)	98	19	116	156	123
Cases in which details Scrutiny was completed (No.)	48	05	78	93	29

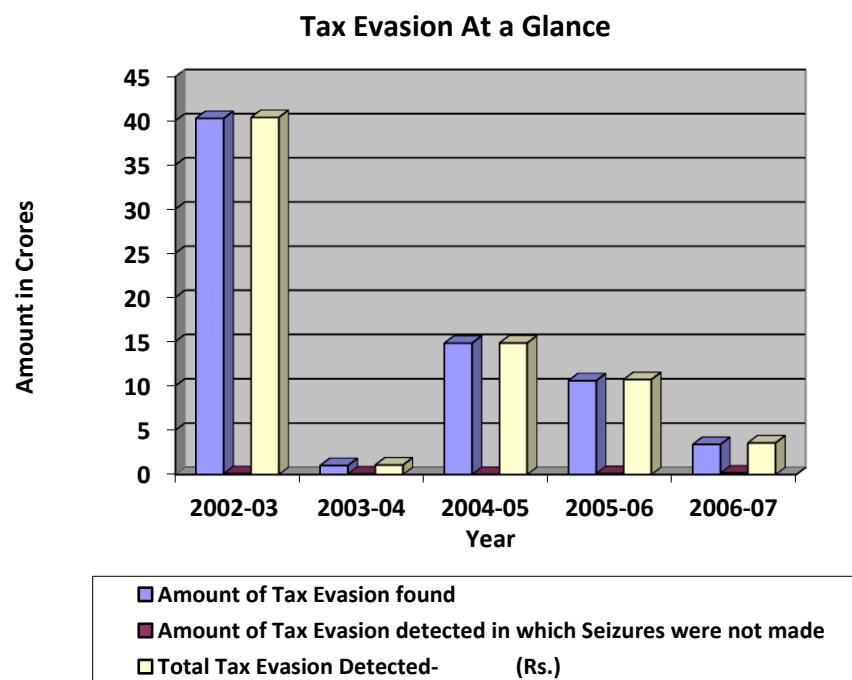
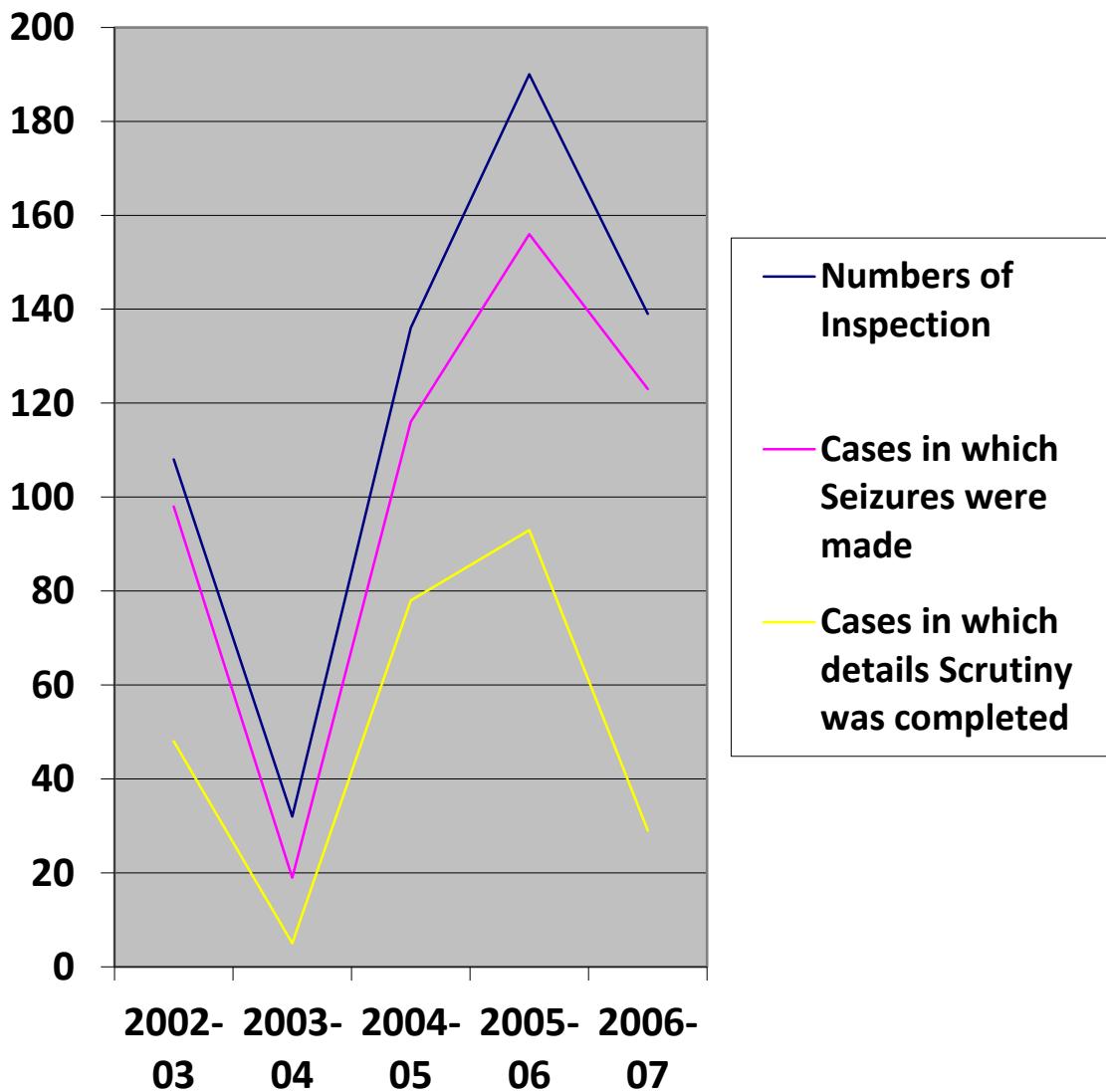


Table 1.2 Inspection & Seizures Cases



Analysis & Interpretations

For making search and seizure in the business premises of the dealers to stop and detect the tax evasion under the provisions of the VAT Act. These provisions have been deterrent effect on the tax evaders and protect the interests of the honest dealers.

The enforcement activities of have given very good results. In the financial year 2006-07, search and seizures were under taken against total 139 business firms and the *prima-facie* tax evasion of Rs. 6.81 Crore was detected and penalty amount of Rs. 8.86 Crore was recovered from the tax

evading dealers. Likewise the actions against 1,769 transporters were undertaken as they were facilitating the tax evasion and as a result the penalty of Rs. 4.17 Crore was recovered from these transporters. On various check post the action against 656 transporters were undertaken and as a result penalty of 2.12 Crore was recovered from these transporters in the financial year 2006-07.

Conclusion

After the study of above data it is concluded that for making a strong hold over tax evasion, tax department involved sincerely & tried best measures for preventing it. Under the VAT the check post installed for checking of the transacted goods. Checking of commercial goods on points of loading and unloading and system of inspection well implemented. All the dealers irrespective of their turnover and tax liability will be subjected to self assessment declared in the return by them. VAT policy considered the fact that “The first objective of the tax administration is to collect the tax not to create a complicated environment for the tax payers”.

References

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