

Chapter 9

Tax Evasion

ABSTRACT

Tax evasion is considered by the international laws and domestic laws of most countries as a form of fraud. In most countries, a gap exists between the expected tax revenues and the tax revenues that are actually collected. This gap is naturally due to tax evasion. Understanding why individuals and organizations evade taxes is the first step in reducing the aforementioned gap. For a taxation system to be well received and accepted by both the state and the public, it has to be just and fair, clear and precise, and take into consideration the interest of both the state and the citizen. This chapter explores tax evasion.

INTRODUCTION

“Tax Evasion is the general term for efforts by individuals, corporations, and other entities to evade taxes by illegal means. Tax evasion entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting such as declaring less income than actually earned; or overstating deductions” (Slemrod, 200). Mertens (1996) the legal definition stating that tax evasion is the “process whereby a person, through commission of Fraud, unlawfully pays less tax than the law mandates.”

The law differentiates between two major terminologies that might be a misconception to most people. There is an enormous difference between Tax evasion and Tax avoidance. Tax evasion is fraudulent act of manipulating numbers

and income statements in order not to pay taxes, Tax avoidance, on the other hand, is the lawful use of the tax regime to a person’s own interest, to decrease the amount of tax paid within the law. So Tax Evasion is illegal but tax avoidance is legal. However both tax evasion and avoidance can be viewed as forms of tax non-compliance, as they designate a range of activities that are undesirable to a country’s tax system.

Tax evasion is considered a crime in nearly every industrialized country and makes the guilty party subject to fines or prison time. In most countries, actions that would quantity as criminal tax evasion are looked at as civil issues. Deceitful reporting income in a tax return is not essentially regarded as a crime. Issues like these are dealt with in tax courts instead of normal criminal courts. Nevertheless, some fraudulent tax behavior is considered criminal, for instance, thoughtful distortion of archives. Additionally,

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civil tax indiscretions can also result in punishment. It is usually regarded that the degree of evasion is contingent to the harshness of punishment for evasion. Generally, the higher the evasion, the higher the level of punishment.

BACKGROUND

It appears that as soon as the taxation process was presented somebody tried to escape it. For a long time England shied away from straight taxation since the thought of revealing income was disliked. The first Income Tax was presented as a temporary tax to assist in providing money for the Napoleonic wars. Tax evasion by appealing too many payments became so predominant that a severe refurbishment of all kinds of deductions was affected.

DEFINITION

Tax evasion is the illegal act of evading the payment of taxes by individuals and organizations. The relevant literature is rampant with articles that examine the effects of certain financial practices on tax evasion, as well as the steps that are being taken by governments across the world in order to combat this phenomenon. In fact, taxes constitute the main source of revenue for any nation, which is why tax evasion is an extremely dangerous practice that can have catastrophic consequences on countries and societies as a whole if left unchecked. That being said, governments around the world are continually updating their tax-related laws to ensure that tax evasion is kept to a minimum, and that taxes are being collected efficiently. One example of this is Jordan's Income Tax Act No. 28 that was introduced in 2009. . Studying the impact that newly introduced tax amendments have on citizen compliance and tax evasion has identified several characteristics that make up a

good taxation system. Most notably, for a taxation system to be well-received and accepted by both the state and the public, it has to be just and fair, clear and precise, and take into consideration the interest of both the State and the citizen (Al-Naimat, 2013). Ultimately, the study concluded that the new amendments of the Income Tax Act No. 28 increased the commitment of taxpayers to paying their taxes.

One of the main matters that the Internal Revenue Service and the US federal government have to face concerning the IRS tax evasion and harmonizing the federal budget is referred to as the "tax gap". The US is known to have a tax deficit that it might never collect. Hard work has taken place to try to terminate the gap, however, just a slight percentage, has been collected by the IRS. The gap remains to grow.

The reason behind this inequality is a lack of resources for the Internal Revenue Service. The failure of the Internal Revenue Service to inspect each case lets the tax gap grow and IRS tax evasion goes without punishment.

Table 1 shows movements on an explicit study may cross fiscal years. Thus, the data shown in cases started might not at all times represent the same cases shown in other actions within the same fiscal year.

Table 1. Tax criminal investigation data in USA, with case outcomes

| | FY 2011 | FY 2010 | FY 2009 |
|-----------------------------|---------|---------|---------|
| Investigations Initiated | 153 | 166 | 174 |
| Prosecution Recommendations | 110 | 115 | 83 |
| Indictments/Information | 85 | 83 | 69 |
| Sentenced | 79 | 62 | 69 |
| Incarceration Rate* | 81.0% | 82.3% | 78.3% |
| Avg. Months to Serve | 24 | 19 | 25 |

*Incarceration includes confinement to federal prison, halfway house, home detention, or some combination thereof.

Data Source: Criminal Investigation Management Information System, 2012.

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