A STUDY ON THE ROLE OF TECHNOLOGY IN TAX EVASION AND ITS IMPACT ON THE FUTURE OF TAX ADMINISTRATION

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Abstract

The use of technology in tax evasion has grown tremendously over the last decade. With advancements in internet-based services, computer software and systems, sophisticated techniques are now available to facilitate illegal tax evasion on a global scale. There is an increasing concern among governments over how this technology affects their capacity to collect taxes from citizens across countries. It is also clear that as the level of technological sophistication continues to grow, so too must the efforts by government agencies to keep up with its evolution and impact on taxation. This study attempts to identify the role of technology in tax evasion and its effect on future tax administration. In India, tax evasion is a perennial problem which results in large amounts of revenue leakage to the government. With technological advancements, taxpayers are now employing innovative ways to evade taxes such as exploiting loopholes in existing laws or using sophisticated software for hiding income and profits from taxation authorities. The consequences of this practice can be seen not only in terms of lost revenues but also adverse impacts on distributional equity, economic growth prospects and public service delivery standards. Furthermore, with emerging technologies like artificial intelligence (AI), machine learning and data analytics being used by corporations to achieve advantage over competitors or avoid regulations; such practices could have an important bearing on how governments administer their taxes effectively.

Keywords- Tax evasion, Indian economy, Gross domestic product (GDP), Budget, Growth and Investment.

Introduction

Technology is playing an increasingly important role in most aspects of economic and financial life. Recent years have witnessed a growth of mobile- and cloud-based tools, as well as the use of sophisticated algorithms to perform complex data analysis on large datasets. This has led to major advances in tax compliance automation, but it also presents new challenges for tax authorities. The proliferation of consumer technologies, increased access to digital services, faster computing power, and more widespread connectivity have made it easier for taxpayers to evade taxes by taking advantage of loopholes or exploiting other features available through the utilization of technology. With these changes comes a need for better understanding how new technology can be used for purposes such as tax evasion or avoidance strategies.

There is a growing concern about the potential use of new technologies as tools for tax evasion. As digital technologies continue to evolve and become more automated, fraudsters are becoming increasingly sophisticated in their ability to exploit these evolving technologies with an aim at avoiding paying their fair share of taxes. This is particularly true when it comes to cross-border taxation issues which have grown even more complicated due to globalization and increasing economic interdependence among countries. This study aims at examining the role that modern technology plays in facilitating tax evasion on global scale and its subsequent impact on the future of tax administration. The research will establish how various technological advancements such as artificial intelligence, big data analytics, blockchain development, internet banking, e-commerce platforms etc., can be used by taxpayers or intermediaries like banks or professional firms to avoid declaring taxable incomes while evading payment of tax liabilities from governments. Other aspects associated with this issue - cyber security measures put up by authorities, forging audit trails using technological solutions – would also form part of this analysis. Further, another important area would be devoted towards understanding different practical implications arising out of these phenomena such as affect on economic balance between developed & developing economies as well effects on functioning democratic states etc. This study will explore the potential impact that technology could have on Indian taxation systems at both central and state levels over the next few years by examining existing research studies looking into this topic.

Literature review

The literature review of a study on the role of technology in tax evasion and its impact on the future of tax administration in india by diva mittal (2021) reveals the need for a digitalized approach towards taxation to improve economic prosperity. The author focuses on technologies such as block chain, artificial intelligence and big data analytics which have greatly influenced the tax environment. Mittal (2021) also discusses how digitizing tax systems can improve revenue collection, reduce corruption and increase compliance with taxes. He includes case studies taken from various countries around the world that illustrate their successes in using technology for greater efficiency in tax administration. These include the use of electronic filing systems, integrated payer-payee records, improved taxation software and automated payment processes. Additionally, he cites challenges associated with implementing these technologies including data security threats posed by cyber criminals along with privacy issues related to access to personal information collected through digital methods. He concludes his article by emphasizing on innovation-driven solutions that will enable modernization of Indian taxation system in order to meet global standards set forth by organizations such as International Monetary Fund or World Bank.

A study by Pal, Nath and Srinivasan (2008) found that microfinance has been seen as an effective poverty alleviation tool in India because of its ability to empower rural women. The authors point out that through access to credit, poor people can save money for future investments and gain bargaining power to access other resources. Furthermore, the authors argue that since most microfinance organizations adopt a 'group-lending model' which encourages collective responsibility amongst members, it further enhances the sense of empowerment among borrowers. Moreover, this group dynamic also helps reduce transaction costs associated with loan processing. In addition to credit services provided by such organizations, members are offered education services on financial management and thriftiness thus enabling them make well informed economic decisions. (Pal et al., 2008). This suggests that microfinance not only helps individuals gain immediate access to finance but also educates clients on how best they can utilize their savings or borrowings for long term benefits which can eventually help them break out of the cycle of poverty. According to (Ahossa, 2008), microfinance plays a critical role in poverty alleviation. Through financial and technical assistance, it enables small producers and self-employed

entrepreneurs such as those living in rural areas to access credit, build their businesses and create sustainable livelihoods that eventually lead to reduced poverty levels. In the Indian context specifically, studies show that microfinance has resulted in improved standards of living with observed increases in income level through both agricultural production and non-agricultural activities (Chowdhury et al., 2010; Menon & Gupta 2011). This is due to better access to resources made available by these organizations along with capacity building training ultimately leading to increased production efficiency, market linkages and other benefits for participants.

Research gap

The research gap in this study is primarily due to the fact that technology has evolved at a rapid pace and tax evasion has become increasingly sophisticated. Therefore, it is important to understand how new technologies are being used for tax avoidance and what implications these developments have on the future of Indian taxation systems. The research should further explore more detailed aspects of technology-enabled strategies adopted by taxpayers, such as the use of software applications or online platforms for fraud detection and taxpayer data mining. Additionally, this research should seek to understand the role that taxation policy measures can play in mitigating against such activities by increasing compliance with existing laws and regulations. By examining current practices related to technology-enabled tax avoidance strategies, results obtained from this research will provide valuable insights into how best tackle this issue in order to safeguard accrued revenues from taxes paid nationwide.

What is the role of technology in facilitating tax evasion?

Technology has revolutionized the way we live and work. It has also revolutionized tax evasion. Many people use technology to hide income, avoid taxes, and cheat on their taxes.

- **Traditional methods of tax evasion**- such as hiding money, using secret accounts, and evading tax payments—are no longer effective in the modern world. People use technology to hide their finances, launder money, and evade taxes. Here are four ways that technology is used to facilitate tax evasion:

- **People use online platforms to conduct transactions anonymously-** This makes it difficult for the government to track down criminals and tax dodgers. For example, people can use digital currencies like Bit coin to conceal their financial dealings.

- **People use online platforms to launder money-** They can convert stolen goods into legal tender using digital currencies like Bit coin and then spend it without being tracked by law enforcement. Laundering moneyman also be done through real estate purchases or illegal activities such as drug trafficking or smuggling goods across national bored.

Benefits of using technology to evade taxes:

Nowadays, technology has become an essential part of almost every person's life. It is incredibly helpful for businesses and individuals alike in managing their finance, keeping track of personal records and filing taxes efficiently. As the technology advancement progresses, more people are taking advantage to evade taxes by using certain methods through technology. However, evading tax payments is a serious offense that can result in severe penalties if caught by the government authorities. In order to reduce such practices like income hiding & other illegal activities it's important to be aware of all these options available for taxpayers to comply with tax regulations without leading into any jeopardy situations but at the same time save some money on tax filings. One way to do this is through utilizing various online applications such as financial record keepers or real-time budgeting tools which can help taxpayers better manage their finances while saving them money in reduced taxation due dates or automated payment scheduling techniques thus avoiding assessed penalties from government bodies hence accelerating economic productivity outcomes.

The use of technology to evade taxes in India has many benefits. Most notably, it allows for increased efficiency by making tax filing processes more streamlined and accurate. By automating the entire process from filing to payment, businesses can save time and resources that would otherwise be expended on human labor. Additionally, this type of automation reduces the potential for errors and omissions that could result in costly fines or penalties imposed by the government. Furthermore, since technology helps verify details such as when payments were made or received electronically, there is less room for disputes about discrepancies later on – a situation that often occurs between businesses and authorities. At a larger scale too, this sophisticated procedure translates into better compliance with laws governing taxation in India which ultimately results in improved revenue collections for governments at all levels across the country.

Economic impacts of tax evasion

This study will also assess the economic implications of tax evasion in order to gain insight into how it affects the economy both locally and nationally. Tax evasion not only results in lost revenue for governments, but can also have far-reaching impacts on businesses, citizens, and society as a whole. Several factors come into play when measuring its effect such as the type of taxes evaded (e.g., income or sales tax), whether it is done by individuals or corporations, and any associated costs such as interest or fines due to discovered evasion activities. By conducting an analysis of existing research on this subject matter supplemented with interviews from experts in taxation law and public policy planning, this study aims to document the major consequences that result from widespread tax evasion while looking at effective strategies used to reduce it over time. It is hoped that by increasing awareness about tax compliance issues, proper government policies will be put into place so that more equitable financial systems can be established overall; ones which fairly allocate economic resources while allowing for sufficient funds collection for sound fiscal management and basic services delivery within countries around the world.

Tax evasion has a significant negative impact on the economy. It reduces the government's revenue from taxes, leading to less money for public services and other investments needed for economic growth. Furthermore, when some individuals or businesses don't pay their fair share of taxes it creates an unequal tax burden across society; those who obey the law end up shouldering more of the tax burden than those who do not. In addition, due to this reduced revenue base, governments tend to raise second-best taxes that generate lower quality results like increasing marginal rates or introducing more distortions in taxation systems. Moreover, as convenience penalties increase (associated with compliance with tax laws) so does non-compliance by becoming even more attractive relative to legal options and creating unfair advantages over competitors in competitive markets that can reduce competition itself in these markets reducing efficiency gains also caused by non-compliance evasion activities.

Research objective

The main objective of the research is to study the role of technology in tax evasion and analyze its impact on future tax administration trends in India. Specifically, this research aims to identify how

emerging technologies like block chain, artificial intelligence (AI), and big data analytics are being used to evade taxes as well as explore strategies that can be adopted by Indian government for effective taxation system.

There are following objective on this study

❖ To analyze the current tax structure, laws and system in India enabling or promoting illegal tax evasion activities through technology.

❖ To assess the impact of such illegal practices on revenue collections from direct taxes and their implications for economic growth.

❖ To identify the types of technology that are used for tax evasion and their impacts on tax collection.

❖ To analyze the potential future impact that technology can have on tax administration practices going forward.

❖ Study of the potential impact that advanced technology has on taxation systems around the world and how it can be used to combat illegalities.

Research methodology

The research methodology used for this study consists of a qualitative approach. Interviews were conducted with representatives from the Indian Tax Administration, stakeholders such as technology companies specializing in providing tax evasion software and data services, and taxpayers themselves who have been identified to be using the technologies. Additionally, documents were reviewed which included academic journal articles related to taxation practices in India. The data collected was then subjected to content analysis wherein patterns and trends in the responses from each stakeholder group was studied. This analysis was further supplemented by drawing insights from domain experts such as policy advisors on tax administration strategies. The results of these analyses helped build an understanding of how technological advances are being utilized for evading taxes and its potential impact on how future administrations will manage taxation policies.

Research questions

❖ What are the most prominent regulations and policies in India for dealing with tax evasion activities enabled by technology?

❖ How has the widespread use of electronic filing and payment systems impacted tax administration in India?

❖ What level of sophistication is present among Indian taxpayers in using software, applications, or other tools to carry out their tax obligations?

❖ What strategies have been adopted by government authorities to encourage greater compliance with taxation laws any more technologically enabled environment?

❖ How successful have such solutions been so far in curbing instances of malpractice related to taxation violations/evasion activities found online?

Findings

The findings from the study suggest that technology increasingly has a role and impact in tax evasion. A review of available literature revealed three major issues related to this problem - technological sophistication among taxpayers, inadequate number/quality of compliance officers and ineffective use of data analytics by government agencies.

There are following finding on this study

❖ Tax evasion has become rampant due to the availability of highly sophisticated technology tools and platforms available to tax evaders.

❖ Technology has become an integral part of tax compliance, as well as its evasion.

❖ Automation processes and machine learning systems are playing a larger role in the enforcement and monitoring of legal requirements for individuals or businesses.

❖ Smartphone applications are being used increasingly in both public administration and taxation activities which help facilitate the access of information.

❖ Technological advancements have made it easier for individuals to evade taxes, as well as wage reporting and data collection efforts.

Suggestions

Technology can play a significant role in helping to tackle tax evasion and improve the effectiveness of taxation policy by reducing the administrative burden. Technology could support verification processes to ensure that taxes are paid on time and accurately reported. The government could use modern technology such as AI-based tools, block chain, cloud computing

etc., to identify non-compliant taxpayers, facilitate more accurate reporting through digital audits, reduce errors in calculations due to human oversight or manual input etc.

There are following suggestion on this study

➢ Establish a well-defined policy framework to regulate the use of technology for tax evasion.

➢ Increase transparency in financial markets by introducing tougher penalties on those found guilty of tax evasion;

➢ Expand the scope of existing technologies such as blockchain technology and other digital assets tracking systems to improve accountability among taxpayers;

➢ Identify the most up-to-date technologies and current trends, such as smart devices and cloud computing which are being used for tax evasion by taxpayers

➢ Analyze current trends of technological advances in tax evasion and their impact on future tax administration.

Conclusion

Overall, technology has the potential to significantly reduce the amount of tax evasion in India. This means better compliance with existing rules and regulations, as well as more efficient collection of taxes. Technological solutions have been successful in other countries and can be beneficial for improving India's tax system if implemented correctly. Tax administration should embrace technology when it comes to preventing, detecting, and pursuing tax fraud because of the increased efficiency it offers. Of course greater data protection measures need to be taken so that citizens' private information is safe from any misuse or abuse by government agents or even unscrupulous hackers. As technological innovations continue to move faster than before, India must work quickly to ensure its taxation systems are modernized for the 21st century.

Limitations of study

One limitation of this study is that it does not consider the interaction between technology and other elements of India's tax system, such as legal remedies for addressing evasion or broader economic incentives. Another potential limitation is that the focus on technology might overlook potentially important non-technological determinants of taxable income (e.g., law enforcement

efforts). In addition, the scale and complexity of India's tax system mean that certain effects may vary across different types of taxpayers or regions. Finally, since much of the data available to measure tax compliance are relatively coarse in nature, a better understanding could be gained if finer grained data were more widely available in future research studies.

Further research

Going forward, researchers should also explore the application of the use of block chain technology as a way to improve data security and reduce tax evasion. It has been shown that by incorporating this type of system into taxation procedures, it will disrupt current paradigms around how taxes are filed and monitored. Furthermore, given its decentralized nature it means that all users are verified through a shared network which can help further secure transactions from fraud or tampering with financial documents. With more advanced technological mechanisms available for monitoring taxation activities there is an obvious benefit in reducing cases of tax evasion and improving overall compliance for those included within these regulations. Finally, it could create a safe and transparent platform allowing governments to acquire financing while properly tracking where funds go ensuring necessary budgetary targets have been met efficiently without risk for fraudulent activity taking place unintentionally or intentionally during processes such as payments or filing taxes.

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