Tax Evasion vs Tax Avoidance: Legal and Ethical Dimensions in India

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ABSTRACT

This study looks at how people in India perceive tax evasion and avoidance, with an emphasis on the connection between ethical judgment and legal knowledge. A structured online questionnaire was used to gather primary data from a sample of 109 respondents in January 2026. Only 22.0% of respondents reported filing income tax returns, and 45.9% were aware of the legal penalties associated with tax evasion, indicating limited direct participation in the tax system, according to the findings. Respondents' ethical opinions differed: while 27.5% agreed that tax evasion is unethical, the majority (56.0%) held a neutral opinion. On the other hand, 49.5% of respondents thought that, as long as it stays within the law, tax avoidance was morally acceptable. These findings imply that ethical acceptance is strongly influenced by legal permissibility and that ambivalent attitudes regarding tax evasion may be influenced by a lack of tax-filing experience. The study suggests using behavioral nudges to increase voluntary compliance, clearer communication that distinguishes tax avoidance from tax evasion, and targeted tax education programs for young taxpayers based on empirical data and existing literature. The study emphasizes the need for more extensive, nationally representative research to confirm and expand these findings while providing preliminary empirical support to the legal-ethical debate on taxation in India.

KEYWORDS:

Tax evasion, Tax avoidance, Legal awareness, Taxpayer behaviour, Voluntary tax compliance

1. INTRODUCTION

Taxes serve as the main source of public revenue and are essential for modern governance. Effective tax systems rely not only on laws and enforcement but also on taxpayers' understanding, moral views, and voluntary compliance. In India, the line between legal tax avoidance and illegal tax evasion has become increasingly significant as policymakers strengthen anti-avoidance rules, like the General Anti-Avoidance Rule (GAAR), and use technology for enforcement. Meanwhile, ethical views and tax morale, which motivate people to comply, play a crucial role in influencing real-world behavior. Recent literature shows a complex interaction among legal rules, individual and firm incentives, and social norms. It also highlights gaps in evidence regarding how these factors work in the Indian context.

This relationship has gained importance in India in recent years. Policymakers have increased efforts to reduce non-compliance as the tax system becomes more technologically sophisticated, and enforcement methods evolve. Data analytics, digital reporting, and GAAR have all limited aggressive tax planning and enhanced oversight. Still, many individuals struggle to differentiate between tax evasion, which is illegal, and tax avoidance, which is legal. People's responses to these reforms are heavily shaped by their ethical beliefs and tax morale, which motivates them to adhere to tax laws.

Current literature highlights how a complex mix of legal regulations, perceived fairness, social norms, and personal incentives affect tax behavior. Research on Indian individual taxpayers' views about corporate tax planning and avoidance strategies remains relatively sparse. Specifically, there is a lack of empirical data about people's ethical views on tax evasion versus avoidance, their understanding of the differences, and how awareness of legal consequences impacts their attitudes and actions.

PROBLEM STATEMENT

Despite extensive theoretical discussions and several studies on corporate tax behavior, we have limited empirical evidence regarding how individual taxpayers in India view the legality and ethics of avoidance versus evasion. Additionally, there is little knowledge about how awareness of legal penalties influences these views. This poses a challenge for policymakers. Without clear, India-specific information on taxpayer beliefs and understanding, anti-avoidance measures and educational programs may be less effective.

OBJECTIVES OF THE STUDY

1.   **To assess** respondents' familiarity with basic taxation concepts in India (including the

difference between tax evasion and tax avoidance).

2.   **To examine** self-reported filing behaviour (ITR filing) and its relationship with legal awareness.
3.   **To evaluate** ethical perceptions of tax evasion and tax avoidance among individual taxpayers.
4.   **To measure** awareness of legal penalties and anti-avoidance measures (e.g., GAAR) and how that awareness correlates with ethical stances.
5.   **To provide** policy and educational recommendations aimed at improving voluntary tax compliance among individuals, especially young taxpayers.

SCOPE OF THE STUDY

Geographic scope: The study focuses on individual taxpayers in **India**. (The empirical survey sample is not nationally representative; see limitations.)

Temporal scope: Primary data were collected in **January 2026**. Secondary literature covers recent and foundational works up to the date of study.

Population and sample: The target population comprises individual taxpayers (students, salaried persons, self-employed). The study uses a **convenience sample** of **109** respondents obtained through an online questionnaire; therefore, findings mainly reflect the views of the surveyed group (predominantly 18–25, students) and should not be overgeneralized.

Topical scope (variables covered):

•   Familiarity with taxation concepts

•   ITR filing behavior (self-reported)

•   Ethical attitudes toward tax evasion and tax avoidance

•   Awareness of legal penalties and anti-avoidance measures (e.g., GAAR)

•   Basic demographic information (age group, occupation)

Excluded from scope: Corporate-level tax strategies, detailed forensic audits, firm-level financial analysis, and longitudinal trends over multiple years are **not** covered in this paper. (These are suggested as areas for future large-scale research.)

Methodological scope: The study adopts a **descriptive–analytical** approach using primary survey data (questionnaire) and secondary literature review. Quantitative summary statistics, frequency distributions, and basic

cross-tabulations are used for analysis; advanced causal modelling or econometric analysis is outside the present scope due to sample size and design.

Limitations within scope: Because the sample is convenience-based and student-heavy, the study is exploratory and intended to inform larger, stratified studies rather than providing definitive national estimates. See the Limitations section for full details.

2.　　REVIEW OF LITERATURE

1. **E Sumantri, 2024 Tax avoidance and evasion: A landscape through insights from a systematic literature review and bibliometric analysis -**

There have been a number of studies on tax evasion and tax avoidance. Sumantri et al. (2024) carried out a systematic literature review and bibliometric study to look into the nature of tax avoidance and evasion practices of individuals and businesses. It points out that businesses resort to legal tax avoidance practices such as profit shifting, transfer pricing, and tax havens, and illegal practices such as hiding income and money laundering. The authors conclude that tax behaviour is influenced by ethics, laws, and economic factors, and stress the importance of transparency, good institutions, and taxpayer education.

2. **Van Brederode, 2020- Countermeasures to Tax Fraud, Evasion and Avoidance: A Critical Review**
Van Brederode (2020) conducted a critical analysis of government countermeasures against tax fraud, tax evasion, and tax avoidance, with a focus on their ethical implications. The paper assessed the use of third-party liability, blacklisting tax havens, public shaming, and cross-border reporting as government countermeasures. Although enforcement is required, the author points out that most of these measures have ethical implications and could be counterproductive if enforced strictly. Balanced and proportionate enforcement is recommended to improve voluntary compliance.

3. **N Sritharan, 2022- Corporate Tax Avoidance: A Systematic Literature Review and Research Agenda**

The literature review by Sritharan (2022) surveyed 96 studies on corporate tax avoidance that were published between 2000 and 2022. From the literature review, it is evident that previous studies were dominated by firm characteristics, ownership structure, CSR, and audit quality. Gaps in previous studies include restrictive measurement, limited geographical coverage, and small samples.

4. **Md Shamim Hossain- Tax avoidance and tax evasion: current insights and future research directions from an emerging economy**

Hossain (2023) examined 423 studies and grouped tax avoidance and evasion into three interrelated roles: individuals, corporations, and tax administration. Individual evasion is linked to low tax knowledge, fear of penalties, and weak filing systems. Corporate avoidance is driven by high profitability and weak governance, while tax administration failures such as policy complexity and poor enforcement enable non-compliance.

5. **Imen Khelil; Hichem Khlif**

Khelil and Khlif examined tax avoidance in family firms and found mixed evidence. In some countries, family firms avoid taxes less due to reputation concerns, while in others, including India, they engage more in avoidance for survival. The study highlights higher fiscal risks under GAAR and suggests further research on family firm characteristics.

6. **Francesco Scarpa; Silvana Signori- Understanding corporate tax responsibility**

Scarpa and Signori (2023) explored corporate tax responsibility, describing a "moral free space" between legal avoidance and illegal evasion. The paper connects ethical tax behavior with CSR, governance, and legitimacy, proving that legality does not necessarily guarantee ethical compliance.

7. **Kimberly S. krieg, John Li**

Krieg and Li (2021) reviewed literature on CSR and reputational costs of tax avoidance, showing that aggressive avoidance can damage firm reputation even when legal, reinforcing ethical concerns.

8. **Anil Kumar Jain**

Anil Kumar Jain highlighted that high tax rates, complex tax laws, and weak enforcement encourage both tax avoidance and tax evasion in India, contributing to the growth of the black economy and loss of government revenue.

9. **Muskan Kapoor — Legal Aspect of Tax Evasion and Avoidance in India**

Kapoor looked into the legal difference between tax avoidance and tax evasion in India and highlighted the role of GAAR and judicial interpretation in identifying abusive tax practices.

10. **A Bactalia**

Bactalia identified tax complexity, high tax rates, and weak enforcement as major determinants of tax avoidance and evasion, stressing the need for stronger legal frameworks and technology-based tax administration.

3.   RESEARCH METHODOLOGY

Research Design

This research works under a descriptive and analytical research design. The descriptive section will deal with the perception of the respondents about taxation, whether they file income tax returns as well as their perceptions regarding tax evasion and tax avoidance in an ethical context. The analytical section examines the relationship between the ethical opinion of people and their legal awareness, including their awareness of penalties and the General Anti-Avoidance Rule (GAAR).

Data Sources

The research primarily uses primary data, but they were gathered using a structured online questionnaire that was designed using Google Forms. The poll was carried out in January 2026. The questionnaire contained questions about simple demographic information, ITR filing behaviour, knowledge of the taxation concepts, moral perception in tax evasion and tax avoidance, and the knowledge of legal rules and punishment.

Secondly, academic journals, research articles, textbooks, and policy documents concerning the subject of taxation, tax morale, and anti-avoidance were used to gather secondary data. These materials aided in creating the questionnaire and interpreting the research results in a wider perspective.

Population and Sample

The study will target individual taxpayers in India, student workers, salaried employee workers, and self-employed workers. One hundred and nine respondents took part in the survey. The answers were gathered with the help of an online connection that was distributed on the social and academic networks. Most of the respondents were between the ages of 18- 25 years and the percentage of students was high. It has been recognised as a limitation because it limits the scope of generalising the findings to all taxpayers in India.

Sampling Technique

There was a lack of time and resources, and one used a convenience sampling technique. This was done voluntarily and the respondents volunteered to participate. The size of the sample is adequate in gaining an exploratory

knowledge, but it is not reflective of the whole population of taxpayers in India.

Research Instrument

The questionnaire was made up of Lickert-scale statements and closed-ended questions. The respondents were requested to respond to their degree of agreement with the statements deal with the ethics of tax avoidance and tax evasion. Their awareness of the difference between the two and the legal consequences knowledge was also tested by questions. The questionnaire was informally checked by the classmates before it went to large scale circulation as it had to be easy to understand.

Data Analysis and Collection

The questionnaire was open until January 2026. The response was then collected, cleaned and structured in Microsoft Excel. The descriptive analysis was done by computing frequencies and percentages. To facilitate easier interpretation, the responses on Likert scale were divided into Agree, Neutral and Disagree. In cases where necessary, cross-tabulations were also performed to observe simple trends in various groups of respondents.

Reliability, Ethics and Limitations

The validity of the questionnaire is provided by the fact that it was developed using the existing literature. No formal reliability testing was done, because the research is exploratory. Participation was voluntary and anonymous and no personal information was gathered.

The primary weaknesses of the research are convenience sampling, self-reporting, and student dominated sample. The study is unable to describe the changes in attitudes and provide causality because it takes the responses at a single time.

RESEARCH GAP

Poor Empirical Evidence of connection between legal and ethical aspects.

Indian literature on the topic is largely descriptive or theoretical e.g. what evasion or avoidance is but does not explicitly quantify its effects on tax behaviour. Attitudes are explored in only several surveys.

No extensive or substantial empirical research, which would conceptualize the legal compliance indicators by moral/ethical reasoning in various taxpayer groups. The reason is that ethical aspects cannot be quantified with laws and rules, the impacts of the policies are mere speculations and not definite.

Poorly studied Tax Morale and Cultural Background.

Very essential is tax morale of everyone. This internal drive has a very strong influence on how individuals would pay taxes voluntarily, attempt to pay them legally, or pay taxes illegally. The research on other nations reveals that the moral values and the social norms are very important as the determinants of tax behaviour, which is not a commonly researched issue in India.

No explicit tax-morale theories have been formulated with specific reference to India even though social and economic groups there are considerably different. It is significant since In India, social norms, vast informal economy, and trust that people have in governmental institutions affect tax behaviour in a distinctive manner, and therefore foreign theories might not be applicable easily.

Inadequate Review of the Policy Tools Effectiveness.

The use of such tools as GAAR, GST anti-fraud systems, AI risk-profiling is much- discussed, but its actual effect on evasion vs avoidance behaviour has not been empirically assessed yet.

Research demonstrating the actual reduction in tax evasion or tax avoidance through the application of new enforcement instruments such as data analysis and AI, based on clear and quantifiable outcomes.

Poor Legal and Ethical System.

The research on India does not relate legal compliance and ethical reasoning into a unified model. Most legal studies revolve around the case (e.g., GAAR), and the ethical discourse has yet to be subjected to any legal practice.

The law and ethics are not clearly systematically related to the decision-making of taxpayers, which may undermine the policy outcomes.

Excess Corporate Cases, Fewer Individuals.

Most of the research delve into the topic of corporate tax avoidance (and in many cases studies multinational-related problems and GAAR) at the cost of behaviour and ethics of individual taxpayers. However, not many studies have been done on the perception of the salaried people on aggressive tax planning compared to simple evasion, or the perception among the corporates.

The reason is that Since most of the taxpayers in India are individuals or small businesses, these behaviours have a profound impact on the tax gap.

4.   DATA ANALYSIS & INTERPRETATION

Respondent profile (n = 109)

- **Age groups**
  o 18–25: **79**
  o 26–35: **24**
  o 36–45: **3**
  o Not reported: **3**
- **Occupation**
  o Student: **61**
  o Salaried Employee: **38**
  o Self-Employed / Business: **4**
  o Professional (CA, Lawyer, Consultant, etc.): **4**
  o Not reported: **2**

- Respondents (n): **109**
- ITR filers (Yes / occasional / regular): **24 (22.0%)**
- Aware of penalties/legal consequences for evasion: **50 (45.9%)**
- Consider tax **evasion** ethically wrong (Agree + Strongly agree): **30 (27.5%)**

- Neutral on whether evasion is wrong: **61 (56.0%)**

- Disagree that evasion is wrong (Disagree + Strongly disagree): **16 (14.7%)**

- Consider tax **avoidance** acceptable if legal (Agree + Strongly agree): **54 (49.5%)**

- Neutral on avoidance acceptability: **46 (42.2%)**

- Disagree that avoidance is acceptable: **7 (6.4%)**

- GAAR awareness — **Yes**: **12 (11.0%)**; **Heard of it, but not sure**: 36 (33.0%); **No**: 58 (53.2%)
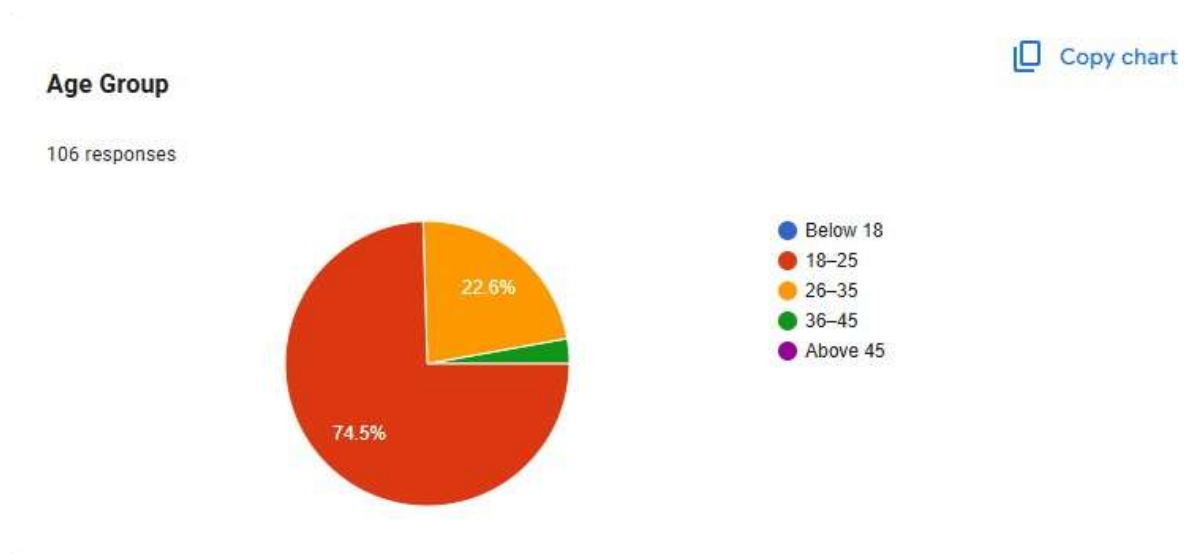
- **Figure 1. Respondent for age-group distribution.**

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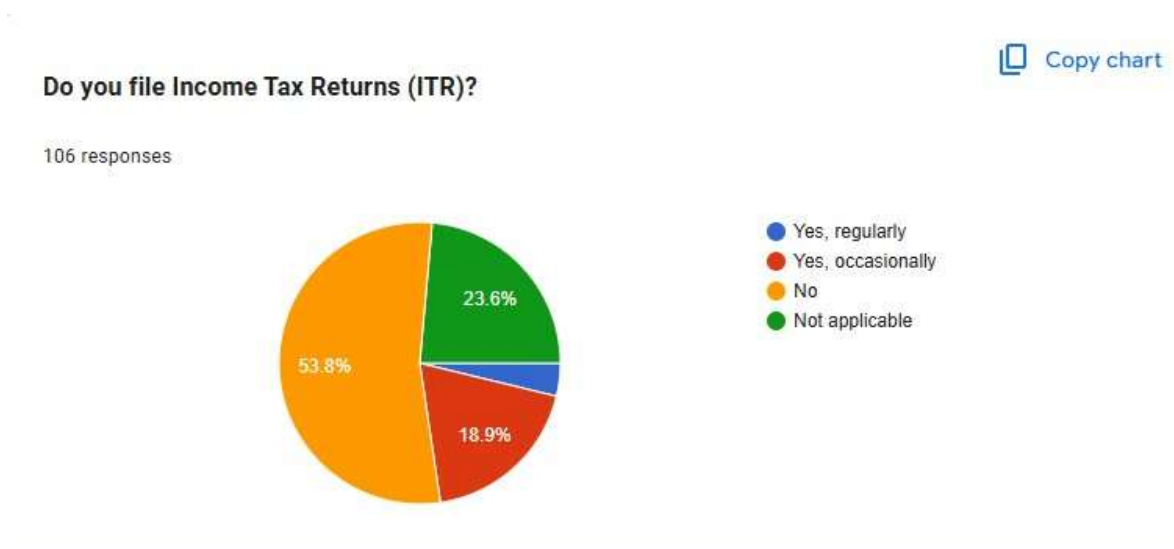

- **Figure 2. ITR filing status of respondents.**

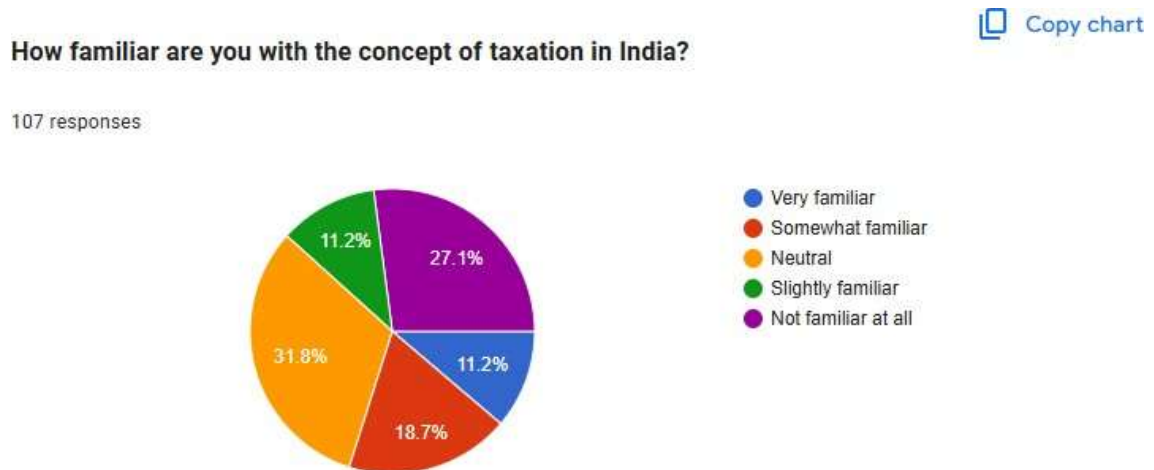**Figure 3. Familiarity with taxation concept.**

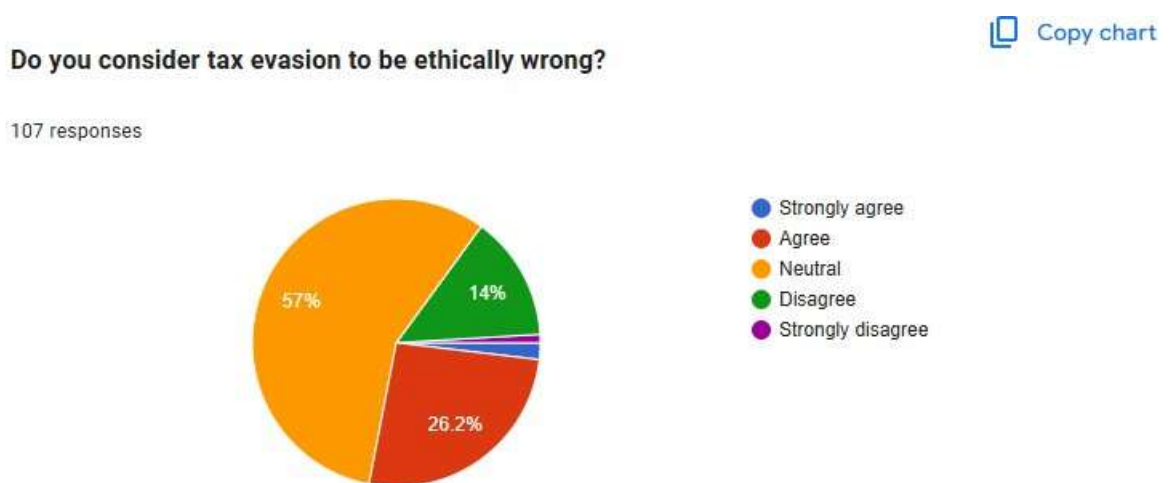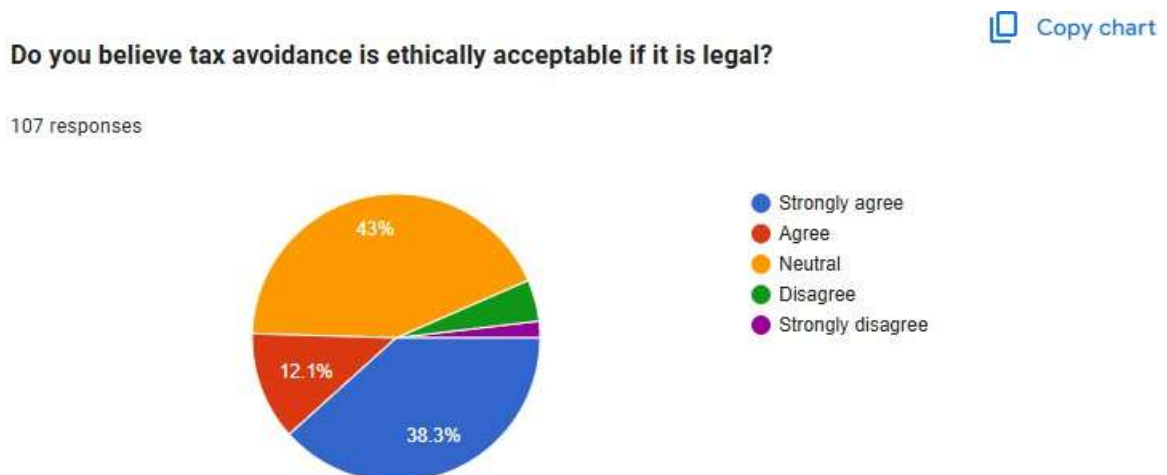**Figure 4. Responses: "Do you consider tax evasion to be ethically wrong?"**

Figure 5. Responses: "Do you believe tax avoidance is ethically acceptable if it is legal?"

Interpretation:

Sample composition. The sample mainly consists of young respondents, especially those aged 18–25, with many being students. Therefore, the results mostly reflect the views of younger individuals and should not be seen as fully representative of all Indian taxpayers.

Filing behaviour and legal awareness. Only 22% of respondents reported filing income tax returns, showing limited experience with tax filing. Awareness of penalties for tax evasion is moderate. This suggests that many respondents form opinions about tax ethics without much practical experience or legal knowledge.

Ethical views. Most respondents were neutral about whether tax evasion is ethically wrong, while fewer clearly agreed that it is unethical. In contrast, many respondents felt that tax avoidance is acceptable if it is legal. This shows that legality strongly influences ethical judgement.

GAAR awareness and implications. Awareness of GAAR is low among respondents. Overall, the findings highlight the need for better tax education and clearer communication about tax laws to improve voluntary compliance.

FINDINGS

The sample consists of 109 respondents, mainly young students aged 18–25, which limits generalizability. Only 22% report filing income tax returns, indicating low practical exposure to tax compliance. Legal awareness is moderate, with less than half aware of penalties and very low awareness of GAAR. Most respondents are neutral on the ethics of tax evasion, while nearly half consider tax avoidance acceptable if it is legal. Overall, the findings suggest that limited tax experience and legal knowledge shape ethical attitudes, highlighting the need for better tax education to improve tax morale and voluntary compliance.

5. DISCUSSION

The findings of the study indicate that most respondents, particularly young students, have limited practical exposure to the tax system, as reflected by the low percentage of income tax return filers. This limited experience appears to influence both legal awareness and ethical judgement. Many respondents were either unaware of penalties for tax evasion or unfamiliar with anti-avoidance measures like GAAR, which helps explain why a large proportion remained neutral on ethical questions. This suggests that ethical opinions on taxation are often formed without sufficient legal knowledge or firsthand experience.

Another key observation is the clear difference in ethical perception between tax evasion and tax avoidance. While tax evasion was not strongly condemned by most respondents, tax avoidance was widely viewed as acceptable when it is legal. This highlights that legality plays a dominant role in shaping ethical views, with many individuals equating legal compliance with moral correctness. The prevalence of neutral responses further indicates uncertainty rather than approval, pointing to gaps in tax education and tax morale. Overall, the results emphasize the need for clearer communication and targeted tax education, especially for young taxpayers, to strengthen ethical understanding and encourage voluntary tax compliance.

6. CONCLUSION AND FUTURE RESEARCH

This paper discussed the perception of tax evasion and tax avoidance by people in India with special reference to the influence of legal awareness and morality. The research was done using primary data gathered with the help of an online questionnaire in January 2026 among 109 participants and investigated the tax filing behaviour, legal sanctions and anti-avoidance awareness, and ethical perceptions of evasion and avoidance. The results indicate that the sample, mostly consisting of the young population and dominated by students, has little first- hand experience with the tax filing process, and it is more readily accepting of tax evasion as unethical when it is legally allowed. This implies that the ethical perspectives are largely influenced by legality and that lack of knowledge and experience in tax filing supports conservative mindsets. The policy awareness that was measured was also lower, which suggests that the recent policy initiatives targeting younger taxpayers have failed to achieve their intended effect, as the study is exploratory and based on a convenience sample. To determine the impact of legal awareness, experience, and education on the development of ethical attitudes on taxation as time goes by, future studies need to adopt bigger, nationally representative samples, as well as longitudinal or qualitative research.

To enhance generalisability future research ought to have bigger and more varied samples with respect to age group, income levels and occupation. The qualitative approach like interviews or focus groups may be useful in the explanation of why many respondents are indifferent towards ethical issues of tax compliance. Longitudinal studies can also investigate whether tax education, filing experience, or an awareness programme causes the change of ethical attitudes with time. The effectiveness of behavioural nudges, tax literacy programs, and tax transparency in enhancing tax morale and voluntary compliance can be further investigated.

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