# TAX AVOIDANCE BY THE RICH, A WAY FOR THEM TO GET RICHER

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**ABSTRACT**

In this article, we shall look into what the concept of tax avoidance actually stands for, its intended results and what the actual results turned out to be. There shall be comparative case analysis. Tax avoidance was initially brought in as tool to reward certain people, but in the end it became a loophole which would be later exploited by those who wish to avoid taxes

## Introduction

The term tax avoidance refers to the use of legal procedure to reduce tax usually by claiming deductions and other benefits that arise within the legal framework. Many often relate this concept to Tax evasion which is entirely a different concept that is a criminal offense as per section 32 of The Income Tax Act 1961. Tax evasion involves falsifying income to avoid legally due taxes. Many mistake both to be similar and interrelated, but in reality they are different concepts with totally different meanings and motives. However this became a subject of controversy after it was found out that many amongst the ultra rich or the super rich use these legal loopholes to pay less taxes and increase profits. Many surveys across pointed out that the top 1% of the population in India owns almost 40% of the overall nation's wealth. So we have to look into the fact as why wealth accumulation by the wealthy helios them pay less taxes.

## Legal Provisions on tax avoidance

The chapter VIA of the Income Tax Act 1961 provides that after calculating total income of an individual or a corporation, certain deductions can be made on a certain basis.

Section 10(a) states that an employee can be given a leave travel allowance for meeting his travel expenses up to the limit of Rs 25,000.

**Section 44AD & 44AE**

These sections are called presumptive tax exemptions that are given to businesses, freelancers etc, when the annual turnover does not exceed 2 crore. For professionals the income limit is 50 lakhs and taxes may be paid for only 50% of the receipts. This benefits freelance professionals and service providers who can avail tax deductions under this provision.

**Section 80C**

Under this provision of the Income Tax Act 1961, various deductions are allowed on the basis of certain incomes and expenditures. Many incomes and expenditures are brought under this provision. Examples are Life Insurance premiums. Employees Contribution to social securities fund, Employers contribution to social securities fund, any donations or contributions included in this provision.

These 3 legal provisions ensure that there are enough spaces for business entities and individuals to skip taxes. A layman may be confused with the concepts of tax avoidance and tax evasion. Both although result in skipping are not the same. Tax avoidance is done through deductions while tax evasion is done by falsifying income on government papers

In India alone, the total tax avoided between July 2017 and July 2023 amounts to Rs 3.08 trillion, recoveries exceeding 1.3 trillion.

Tax avoidance is a direct result as to why there is mass wealth inequality in the developing world. Rich use these legal provisions to avoid the taxes while the middle class have no way to reduce their tax levels thus end up paying a large proportion of their income as taxes.

The very concept of taxation is theft, evolved because of unequal proportion of taxes paid by different groups belonging to different economic conditions.

**Financial Literacy**

An individual has the means and instruments necessary to achieve financial security in later life when they acquire financial literacy at an early age. A lack of financial literacy can result in a variety of hazards, including the accumulation of unmanageable debt loads as a result of making unwise spending choices or failing to make long-term plans. This can therefore result in bad credit, bankruptcy, home foreclosure, or other unfavorable outcomes. Learning and applying a range of skills pertaining to managing and paying off debts, understanding credit and investment products, and creating a budget are all necessary to become financially literate. Creating a budget, monitoring your spending, paying bills on time, saving money wisely, checking your credit report on a regular basis, and investing are basic actions to enhance your personal finances.

The rich mostly look out for ways in which they end up paying lower proportions of their income as taxes and business tycoons usually collaborate with the government in many of their schemes and usually invest in government programs to secure tax breaks and to keep a large proportion of the wealth with themselves. The idea of privatizing parts of the government that we pay taxes to is the most frequently advanced argument in favor of eliminating taxes or drastically reducing them. Although this can result in lower costs for customers, it's not always effective. When it comes to space flight, privatization has allowed SpaceX to build a rocket for a tenth of the price that NASA could. On the other hand, NASA, which is supported by taxes, launches rockets into space in order to carry out a number of experiments. Concurrently, privately financed SpaceX launches rockets into space with the goal of profiting from less expensive rockets.

**The idea of taxation being theft by the government**

Many political theories hold the view that taxes are theft and are therefore evil. Many have viewed it as radical since its popularization represents a dramatic break from classical liberalism and conservatism. The idea is that these political groups in order to gain support amongst both, the middle class and the rich come up with these ideas in order to secure votes and financial backing of the rich. These political parties after coming to power bring out various tax break schemes for the rich entities and the middle class. But this may reduce income sources for the government and in order to compensate for that, the governments roll out various other means of taxations like sales taxes and or increase the proportion of such taxes to compensate for the tax breaks given on income.

**Should the middle class be financially aware**

The first thing that the middle class should realize is the concept of tax consciousness. Although this concept may sound contrary to the very title of the article, the solution is to ensure that people pay more taxes, rather than avoid taxes. Paying a proportion of your income to the state in exchange for the state bringing up schemes for development is crucial for a developing nation like India. But on the other hand the rich should pay an equal proportion of their own share of taxes as wealth inequality is a massive roadblock for developing nations. Many nations which were supposed to become economic powerhouses ended up in a financial crisis because of massive wealth inequality. In democracies the middle class can involve themselves with respect to investing in various sectors of the economy, especially in the public sector in order to secure the very same tax breaks that are given to the rich. Cause the solution is more participation rather than less or unequal participation resulting in wealth inequality.

**Ways to improve financial literacy**

Read as much as possible: The secret to any endeavor is knowledge. When it comes to financial literacy, reading is the most effective method. Start by looking through the daily newspaper's financial section. You can progress to economic periodicals and newspapers like The Economist, The Wall Street Journal, The Minta, The Economic Times, etc. after you are satisfied with the fundamentals. The internet is another great source of information. Excellent content is available on Investopedia for all kinds of investors. Numerous blogs focused on finance are available to keep you informed about everything related to money.

Increase familiarity with your own finances; Reading, watching lectures, or using applications won't assist if you don't apply what you've learned. Checking your personal money and attempting to put the advice you've read into practice is the greatest approach to make sure of that. It is crucial to create your own budgets, manage your debt, and establish long-term plans since mentality and habits matter just as much as theory when it comes to financial literacy. An ounce of practice is worth a tonne of talk, as the saying goes.Being financially literate facilitates rational decision-making. Knowing the fundamentals of finance can help you build money and steer clear of unwise investments and excessive debt.

Set and follow by a budget: Creating and adhering to a budget is a great strategy to maintain financial stability. A straightforward spreadsheet will work just fine, or you may utilize specific fintech apps like Yolt, Money Dashboard, and Snoop, which provide automated budget tracking and cost classification tools.Discipline is crucial in this situation.You can improve your monthly income using a budget. Limit your spending and liabilities, make a diversified financial strategy, and look out for any outstanding debts and pay it off as soon as you can.

Your income (paystubs, investments, and other sources of income), fixed expenses (loan payments, bills, etc.), miscellaneous spending, and savings must all be factored into your budget.

Get familiar with tax laws; As the title of the article itself says, the rich stay financially literate all the time, including with respect to their daily activities while the middle class doesn't. Read tax laws thoroughly, look for investment opportunities that offer tax concessions and focus on long term rather than short term goals

**Analysis**

Unequal proportion of taxes paid by people belonging to different social and economic backgrounds is because of financial literacy. The rich tend to be more financially literate compared to the middle class or the poor, hence find legal ways to avoid taxes and keep a large portion of the income with themselves. The middle class, have a different mentality as they focus more on short term gains, hance don't look much into these ways for tax breaks, and probably according to Robert Kiyosaki in his bestseller "Rich dad Poor dad" states that financial and tax literacy are the reasons for which the taxes paid to the government are uneven.

**Conclusion**

In its most basic form, a tax is simply a charge that you must make to the government. Income tax is the most prevalent type of tax that is imposed. You'll have varied amounts deducted depending on factors including the size of the cheque and your filing status, among others. Furthermore, these taxes cover a wide range of expenses that are essential to a developing nation's ability to function. As per political scientists, the ability to tax is an act that displays the power of the entity that controls the state apparatus. Taxation is not exactly theft as many claim, in fact the ability to avoid taxes is based on a person's financial literacy and skills. Although this is claimed by many belonging to the left of the political spectrum as a form of robbery, by allowing a certain set of people to get away without paying a fair share, in capitalism, wealth is created only when there is sufficient capital flow and along with it the money cycle. The one way for the middle class to pay less proportion of their own taxes is more financial and tax literacy.