

THE PSYCHOLOGY OF TAX EVASION: UNDERSTANDING INDIAN TAX BEHAVIOUR THROUGH EXISTING DATA

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ABSTRACT

Tax compliance remains crucial to fiscal sustainability in any economy. Despite several tax reforms and digitization initiatives, **tax evasion** is still a major issue in India, especially for individuals and small businesses. This study investigates the **psychological elements** that lead to tax evasion in India using **secondary data**. Drawing on **behavioural economics**, cultural theory, and public finance research, the study investigates how taxpayers' decisions are impacted by their perceptions of justice, trust in the government, the degree of enforcement, and socioeconomic circumstances. By examining government publications, scholarly works, and data from agencies such as the Income Tax Department, NITI Aayog, and the National Sample Survey Office (NSSO), the study identifies the structural and psychological underpinnings that facilitate evasion. The study reveals psychological and structural factors that are fundamental to evasion behaviour. The findings suggest that, in addition to enforcement, voluntary compliance is significantly influenced by civic education, the perception of fairness in taxation, and moral and social values. The necessity of integrating behavioural insights into the development of tax laws is emphasized by policy implications.

Keywords: Tax evasion, psychological elements, behavioural economics, tax compliance, secondary data

INTRODUCTION

The unlawful practice of purposefully falsifying or hiding income in order to lower tax obligations is known as tax evasion. This includes breaking tax laws by hiding money in offshore accounts, inflating deductions, or underreporting income to avoid paying the correct amount of tax.

India's fiscal and economic development is still severely hampered by tax evasion. Despite efforts to address leaks through administrative and policy reforms, revenue mobilization is hampered by a sizable informal economy and pervasive non-compliance. In a population of roughly 1.46 billion¹, only 8.09 crore people filed income tax returns as of FY 2023–24 up from over 7.40 crore in 2022-23. This discrepancy necessitates investigating psychological and behavioural aspects in addition to structural factors. Understanding the causes of tax evasion requires an interdisciplinary approach. Cultural attitudes, psychological variables, perceived fairness, and institutional trust all have a big influence on tax behaviour.

LITERATURE REVIEW

According to **Ajzen's Theory of Planned Behaviour (1991)**⁷, attitudes, subjective norms, and perceived control all have an impact on behaviour. Although there are still few extensive studies on income tax, Indian studies using this framework in the context of the Goods and Services Tax (GST) show that these factors have a significant impact on compliance. Using data from the World Values Survey, **Korgaonkar's (2022)**⁸ research shows that tax morale and institutional trust are positively correlated, with salaried people reporting lower morale than self-employed people. According to other research, including Kumar (2017), a lack of confidence in the government because of subpar service and uneven enforcement can undermine procedural and outcome fairness and promote evasion. **The Slippery Slope Framework (2008)** by Kirchler et al⁶. states that both perceived authority and trust influence compliance. Despite the paucity of empirical research, audits in India function as both deterrents and mechanisms to guarantee fairness. Policy analysis indicates that high rates and procedural complexity contribute to evasion, especially when compliance costs exceed perceived benefits, despite the paucity of direct research on the effect of tax rates.

OBJECTIVES OF THE STUDY

- Examine the psychological aspects of tax evasion in India
- Analyse the body of secondary data and literature on the behaviour of Indian taxpayers
- To assess the behavioural effects of policy interventions.
- To suggest tactics based on behavioural insights to enhance tax adherence

STATEMENT OF PROBLEM

There is little empirical research using extensive official datasets to connect psychological elements like attitude, norms, fairness, and trust to actual income tax evasion, though some

Indian studies have examined tax morale or applied TPB to indirect taxes. Furthermore, international models like the Slippery Slope Framework have not been extensively tested in the context of Indian income taxes.

RESEARCH METHODOLOGY

Using secondary data from government sources, expert commentary, scholarly journals, and policy documents, this study takes a qualitative, descriptive approach. Individual taxpayer behaviour in India is the focus of thematic analysis, which looks at structural and psychological aspects.

OBJECTIVE ANALYSIS

Psychological contributors to Tax Evasion in India

Indian taxpayers' tax evasion behaviour is influenced by a variety of psychological factors. According to Sharma, DasGupta, and Gopal (2023)⁹, people are often overwhelmed by the perceived intricacy and burden of the tax system. Due to complicated rules, expensive compliance fees, and a system that appears to prioritize gaps over clarity, taxpayers frequently feel lost. People may feel that the tax system is unfair and onerous, which encourages them to try to avoid paying taxes.

Another important factor is low tax morale. When people perceive tax evasion as normal among their peers, tax morale, basically, the intrinsic motivation to pay taxes, deteriorates. Community conformity, reciprocity, and social norms can all encourage people to break the law, particularly if they see others doing it with no consequences.

Psychological reactance can also be triggered by procedural delays, such as slow refunds and laborious manual filings. Taxpayers may feel their autonomy or sense of justice is threatened when they encounter these inefficiencies, which may make them less inclined to voluntarily comply.

INDIAN TAXPAYER BEHAVIOUR: SECONDARY DATA ANALYSIS

Tax Morale and Trust (NIPFP Study)

The observations are supported by empirical data. Based on data from the World Values Survey (1990–2014)¹⁰, NIPFP Working Paper No. 381 claims that Indians' tax morale is greatly increased by their trust in institutions, such as the government, parliament, and civil services. Intriguingly, the study discovers that salaried people typically have lower tax morale than self-employed people, perhaps because of their lack of control over tax withholding.

GST Intricacy, Knowledge, and Compliance

Additionally, a study on GST compliance that involved 658 small businesses in Haryana¹¹ shows that tax knowledge is essential for encouraging compliance. Trust in the system is still a crucial underlying component, though. With its numerous tax slabs, frequent rule changes, and technical challenges, the GST framework has caused significant confusion, especially for small and medium-sized businesses. Small taxpayers continue to be frustrated by the increasing complexity and compliance burden, as evidenced by a few case studies and journal articles.

ASSESSMENT OF POLICY CHANGES AND THEIR EFFECTS ON BEHAVIOUR

Policy Intervention	Details and Scope	Impact in Numbers	Behavioural Impact
Operation Clean Money (January, 2017)	AI-driven examination of cash deposits following demonetization	18 lakh taxpayers were reported, and ₹2.82 crore in deposits were examined (Economic Times). ³	<ul style="list-style-type: none">Because even small-scale evaders felt scrutinized, perceived audit risk rose dramatically.By August 2017, ITR filings had increased by 25% year over year, indicating fear-induced compliance.Tax enforcement has become more

			socially salient, which increases the perceived risk of noncompliance.
E-filing made simpler (SAHAJ, etc.)	Pre-filled forms and digital filing for salaried individuals and SMEs were introduced	According to CBDT data, 94.5% of ITRs were filed electronically in FY 2023.	<ul style="list-style-type: none"> • Less mental work is needed to comply, particularly for filers who pose little risk. • Encouraged honest taxpayers to submit their taxes on time by reinforcing ease-of-doing compliance. • Possibility that system bugs in previous iterations (2021) momentarily damaged trust, demonstrating the need for technically sound simplification
Fairness and trust in the procedure	Suggested by NIPFP, Vidhi Centre,	Economic Survey NIPFP WP 381: Tax morale rose by +22% due to trust in the government (WVS data) ¹⁰ .	<ul style="list-style-type: none"> • Taxpayers' moral willingness to comply increases when they believe audits are objective and revenue is spent wisely. • Procedural justice, or being treated fairly, has a significant psychological impact on voluntary compliance. • The need for system trust is highlighted by the fact that salaried people in India have lower tax morale (avg. score 0.52) than self-employed people (0.65) (NIPFP, 2022).

SUGGESTED TACTICS BASED ON BEHAVIOURAL INSIGHTS TO ENHANCE TAX ADHERENCE

Methodology	Mechanism of Psychology	Intended outcome
Social norms messaging	Influence from Peers	Boost voluntary compliance
procedural fairness, and trust-building	Motivation from Within	Long-term morale boost
Simplifying	Decrease Cognitive Load and Friction	Reduce the stress and difficulty of compliance
Framing of public goods	Mutual respect and a sense of community	Increase the desire to participate

DISCUSSION

- **Persistent Lack of Trust:** According to NIPFP (2021), only 30% of taxpayers think their taxes are used effectively, which lowers tax morale and provides an excuse for tax evasion.
- **Perception of Low Value:** During the pandemic, 36% of respondents saw taxes as a financial necessity; customers frequently wonder why they should pay when public services are subpar.
- **High Tax Burden:** Small businesses believe that their profit margins are greatly lowered by income tax and GST.
- **Tax Complexity & Fatigue:** Even among law-abiding taxpayers, avoidance results from frequent policy changes and strict procedures that cause confusion (Global Tax Complexity Survey, 2020).
- **Cost-benefit analysis:** taxpayers balance the possibility of being discovered against the possible financial savings from underreporting.
- **Personal Financial Pressure:** According to the Income Tax Compliance Report (2023), 40% of middle-class taxpayers point to growing healthcare and educational costs as obstacles to compliance.
- **Cash-Heavy Sectors:** Jewellery, real estate, clinics, and unofficial enterprises all frequently exhibit underreporting.
- **Lack of Audit Fear:** Many people avoid paying taxes because they believe there is little chance of being caught or punished.
- **Misplaced Advice:** Evasion is frequently encouraged by untrained agents or unofficial consultants.
- **Cultural Acceptance:** Unless there is stringent enforcement, tax evasion may be accepted as a legitimate business practice in some communities.

CONCLUSION

In India, tax evasion is intricately linked to psychological aspects, cultural customs, and governance concerns, going well beyond simple financial calculations. The evidence indicates that broad-based compliance will remain elusive unless key drivers such as trust, perceptions of fairness, ease of procedures, and prevailing societal norms are addressed. Future tax reforms must take behavioural insights into account and recognize these underlying complexities if they are to be truly effective; otherwise, efforts to increase compliance are likely to fail.

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