A Survey on Various Techniques and Features of Suspicious Tax Evasion User

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Abstract: As the growth of any country depends on the economic condition, which is directly dependent on the tax system. Businesses or individual either small or large are working for profit maximization, since taxes reduces their profit they use different ways by which they can either reduce tax payment or not paying taxes at all. So tax evasion has serious impact on the country development. Keeping this goal in mind paper focus on tax payer property validation. Here detail survey of different tax evasion techniques was study.

Index Terms— Graph mining, tax evasion, interest affiliated transaction, heterogeneous information network, big data.

I. INTRODUCTION

Introduction Tax Evasion refers to the process of using illegal means by which to avoid paying taxes. Typically, tax evasion involves an individual or corporation miss-presenting their income to the respective Revenue authority. Miss presentations can be done through understating sales revenue, inflating allowable expenses. Tax evasion is different from tax avoidance because evasion is completely illegal action while tax avoidance makes use of loopholes available in applicable tax laws to minimize tax burden. Tax evasion is quite popular phenomenon; it has been in existence for quite long time and still continues to impose growing challenges to the tax authorities in several countries in the world regardless of country's level of development less of country's level of development.

Businesses either small or large are after profit maximization, since taxes reduces their profit they use different ways by which they can either reduce tax payment or not paying taxes at all. There are several ways used to reduce tax liability among them are overstating of sales which results to lower Profit, understating sales revenue and other more. In his speech to five days training workshop sponsored by the United Nations Development Program (UNDP) said "unscrupulous investors should be aware of the negative effects that arise from 3 their quest to maximize profits".

Tax is the amount of money paid to the government by the person (juristic or natural) on whom it is imposed often accompanied by a tax return filed by the taxpayer. It includes income tax, corporate tax, Value added tax (VAT) and import taxes. In other words, a tax may be defined as a "pecuniary burden laid upon authority. Hence it is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority. It is therefore refers to any contribution imposed by the government.

Tax avoidance and tax evasion can decrease the economic welfare by making tobacco products more affordable and available, thus exacerbating the negative health consequences associated with tobacco use and secondhand smoking. Furthermore, tax avoidance and tax evasion can undermine the impact of tobacco control measures, primarily tobacco tax policies. The existence of illicit tobacco trade has been used to increase political pressure on governments and discourage them from adopting and implementing effective tobacco tax strategies. Moreover, illicit tobacco trade can channel sales proceeds to organized crime and lead to a loss in government tax revenues.

II. TAX EVASION TECHNIQUES

Parallel Books of Accounts: This is a practice usually adopted by those who are obliged under the law or due to business needs to maintain books of account. In order to evade reporting activities or the income generated from them, they may resort to maintaining two sets of books of account – one for their own consumption with the objective of managing their business and the other one for the regulatory and tax authorities such as the Income Tax Department, Sales Tax Department, and Excise and Customs Department.

Manipulation of Books of Account: When books of accounts are required to be maintained by taxpayers under different laws, like the Companies Act 1956, the Banking Regulation Act, and the Income Tax Act, it may become difficult for these taxpayers to indulge in out of books transactions or to maintain parallel books of accounts. Such parties may resort to manipulation of the books of accounts to evade taxes.

Manipulation of Sales/Receipts: A taxpayer is required to pay taxes on profit or income which is the difference between sale proceeds or receipts and expenditure. Thus manipulation of sales or receipts is the easiest method of tax evasion. Other innovative means may include diversion of sales to associated enterprises, which may become more important if such enterprises are located in different tax jurisdictions and thereby may also give rise to issues related to international taxation and transfer pricing.

Under-reporting of Production: Manipulation of production figure is another means of artificially reducing tax liability. It may be resorted to for the purpose of evading central excise, sales tax, or income tax.

Manipulation of Expenses: Since the income on which taxes are payable is arrived at after deducting the expenses of the business from the receipts, manipulation of expenses is a commonly adopted method of tax evasion. The expenses may be manipulated under different heads and result in under-reporting of income.

Other Manipulations of Accounts: Besides inflation of purchase / raw material cost, expenses like labor charges, entertainment expenses, and commission can be inflated or falsely booked to reduce profits. In these cases, bogus bills may be prepared to show inflated expenses in the books.

Manipulation by Way of International Transactions through Associate Enterprises: Inter corporate transactions between these associate enterprises belonging to the same group or owned and controlled by the same set of parties may be arranged and manipulated in a way that leads to evasion of taxes. This can often be achieved by arrangements that shift taxable income to the low tax jurisdictions or tax havens, and may lead to accumulation of black money earned from within India to another country.

Manipulation of Capital: The statement of affairs or balance sheet of the taxpayer contains details of assets, liabilities, and capital. The capital of the taxpayer is the accumulated wealth which is invested in the form of assets or as working capital of the business. Manipulation of capital can be one of the ways of laundering and introduction of black money in books of accounts.

Manipulation of Closing Stock: Suppression of closing stock both in terms of quality and value is one of the most common methods of understating profit. More sophisticated versions of such practice may include omission of goods in transit paid for and debited to purchases, or omission of goods sent to the customer for approval. A more common approach is undervaluation of inventory (stock of unsold goods), which means that while the expenses are being accounted for in the books, the value being added is not accounted for, thereby artificially reducing the profits.

Manipulation of Capital Expenses: Over-invoicing plant and equipment or any capital asset is an approach adopted to claim higher depreciation and thereby reduce the profit of the business. As already stated, increase in capital can also be a means of enabling the businessman to borrow more funds from banks or raise capital from the market.

III. RELATED WORK

In Apr 2013 Pamela Castellón González a, Juan D. Velásquez b, purposed “Characterization and detection of taxpayers with false invoices using data mining techniques”,[2] in that the classification and clustering methods used to characterize the taxpayers who have good or bad financial behavior associated with the use of false invoices (bill of sale).It is possible to identify some distinguishing characteristics between one group and another, according to what happens in reality. Particularly the neural gas method found that it was possible to identify some relevant variables used for differentiating behavior is good or bad, not necessarily associated with the use and sale of false invoices. Clustering algorithms like SOM and neural gas are used to identify groups of similar behavior in the universe of taxpayers. But the result of clustering based and neural network based methods are not explainable and they are not sensitive. Computer based case selection means data mining techniques are useful in tax evasion detection.

Roung-Shiunn Wua, C.S. Ou b, Hui-ying Lin b, She-I Chang b, David C. Yen c, Purposed “Using data mining technique to enhance tax evasion detection performance” in august 2012.[3] In that the operation of tax evasion detection is divided into two sub functions tax evasion prevention and tax evasion detection. The goal of tax detection is to locate defective tax reports. However, the current study has some limitations. Due to budget limitation, the current study used IBM DB Miner 2.0 as the data mining tool, rather than more advanced software. Moreover, this study only filtered out suspicious tax evasion case without processing real auditing. Actually here is limited resources and traditional tax auditing methods are time consuming and respective.

You-Shyang Chen a, Ching-Hsue Cheng b purposed “A Delphi-based rough sets fusion model for extracting payment rules of vehicle license tax in the government sector” in 2010.[4] One of the most commonly used qualitative forecasting techniques is the Delphi method that is proposed by Anderson, Sweeney, & Williams in 1998. The Delphi method used to tackle with real world decision-making problems is a systematic, interactive forecasting method, which relies on a panel of independent experts without face-to-face meetings taking place. The proposed hybrid model provides an alternative approach for those who intend to use intelligent technology in the government sector, because it effectively discovers hidden information from data and improves some service qualities for achieving better performance to unfold the derivative problems of fast-growing demand of vehicles.

In [1] Tax evasion has been an important issue in the accounting literature for several decades, but the focus has been on corporate income taxes. We develop a new way to examine tax evasion that focuses on corporate transactions, rather than corporate profits. Specifically, we examine how commodity flows respond to destination sales taxes, allowing for tax evasion as a function of distance between trade partners. After accounting for transportation costs, we find that the effect of taxes decreases as distance increases. This is consistent with the notion that longer distances between trade partners hinder government oversight and increase the likelihood of successful tax evasion. Our results are robust with respect to outliers, strategic neighbor effects, information sharing agreements and other re-specifications. These results are important to policymakers because they evidence the difficulty of enforcing destination taxation in open economies such as U.S. states and the European Union.

In [5] paper presents a model for tax compliance based on prospect theory wherein an individual makes the decision whether to file, and declare a certain amount of income, or to not file based on a set of policy parameters as well as his/her preferences. The paper poses the question- at what incomes would individuals choose to file a return and answers the same using a model based on prospect theory. Further, simulations are presented to illustrate the impact of changes in tax rates, penalty and audit probability on the individual's preference to file. The results from the simulation show that for different values of policy parameters there exists crossover income at which individuals would choose to file a return.

IV. TAX AVOIDANCE

Taxavoidance Tax avoidance includes legal activities and purchases in accordance with customs and tax regulations, most of which include the payment of some tobacco taxes, and are done mostly by individual tobacco users, including cross6border shopping, tourist shopping, duty6free shopping, Internet and other direct purchases, industry reformulation and/or repositioning. These include:

Crossborder shopping. This type of tax avoidance involves individual tobacco users residing in higher tax jurisdictions purchasing tobacco products in nearby lower tax jurisdictions for their own consumption within the customs constraints. This can involve crossing national borders, particularly where such border crossing is freely or relatively easily done (as between the European Union Member States) or can take place within a given country where there are significant differences in subnational taxes (as in Canada where provincial taxes differ, or in the United States where state and local taxes can vary considerably across jurisdictions). Within some countries, this also involves purchases from shops located in taxexempt areas, such as Aboriginal reserves in Canada and Native American reservations in the USA. In some cases, there are limits on how much can be purchased outside of the jurisdiction in which the individual resides (e.g. the European Union), while in others the individual is supposed to pay the difference between the tax in their home jurisdiction and the tax they have paid on the products purchased in other jurisdictions (e.g. in various US states). However, enforcement of these provisions is difficult.

Tourist shopping. This type of tax avoidance is similar to the cross border shopping described above, but involves the purchase of tobacco products in more distant jurisdictions, again subject to the constraints imposed by customs laws and/or other policies (e.g. consumption of taxpaid cigarettes by the large tourist population in Thailand). This is a more limited phenomenon, but can account for a significant share of overall tobacco product sales in popular tourist destinations

Dutyfree shopping. This type of tax avoidance is similar to the others, but in this case involves the purchase of taxfree tobacco products purchased in airports, on airlines, and in other travelrelated venues. Again, most governments impose limits on how much an individual can purchase and bring home from duty free sources.

Internet and other direct purchases. This type of tax avoidance involves individual tobacco users buying tobacco products online, through the mail, or over the phone from establishments based in low tax jurisdictions for consumption in their own higher tax jurisdiction. This has attracted the most attention in the USA, given relatively widespread access to the Internet and significant differences in subnational taxes. For US consumers, for example, these may include purchasing from vendors based on Native American reservations, in lowtax states or in lowtax countries as above, however, purchasers are obligated to pay taxes to their home state on these types of purchases. Over the past several years, US states have taken steps to curb direct purchases through a variety of policy and enforcement actions and Internet and few smokers purchase cigarettes through direct channels.

Differences in legal obligations for paying taxes in the home jurisdiction can make this type of activity more a form of tax evasion than tax avoidance (e.g. EU countries). Industryreformulation or repositioning. Tobacco companies can reduce the tax imposed on their products by reformulating or repositioning their products. For example, in countries with multitier tax structures where higher taxes are levied on higherpriced brands, a company can lower the price of its product so that it moves from a higher tax tier to a lower tax tier. As occurred recently in Germany, where cigarette taxes are based on quantity, companies produced long cigarettes that were readily cut into smaller, standard size cigarettes, effectively reducing the tax per cigarette.

V. CONCLUSION

In this paper a deep study of different tax avoidance techniques is explain with their implementation area. In those techniques different features of tax user were also identified Paper has given brief explanation of the tax evasion features as well. Different user or organization behavior were also studied by various researcher. So a robust and fast algorithm is the requirement of the field which provide tax evasion activity identification with high accuracy.

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