

FinancialQuotient

What are tax avoidance and tax evasion?

Simon Poh

WHAT DO THEY MEAN?

Both the terms “tax avoidance” and “tax evasion” refer to arrangements seeking to minimise tax liabilities that are not acceptable to the tax authorities.

Tax evasion involves reducing a taxpayer’s liability through illegal means such as failing to declare taxable income or claiming fictitious or non-existent expenses. It is a

criminal offence and offenders are expected to pay hefty fines and penalties, including serving imprisonment terms.

A tax avoidance scheme may involve an arrangement that is artificial or has little or no commercial substance and is designed to obtain a tax advantage that is not intended by Parliament.

While there are no criminal penalties for tax avoidance, the tax authorities may exercise their powers to carry out appropriate adjust-

ments to cancel out the advantage obtained through the avoidance scheme.

WHAT IS THE IMPORTANCE?

Businesses and individuals need to be careful when managing their tax affairs.

When reporting taxable income, extra caution must be exercised to ensure that no tax evasion or tax avoidance activities are involved.

These two terms should be contrasted with “tax planning”, which

involves structuring transactions to minimise tax liability, and fulfils both the legal requirements as well as the intent of tax laws.

If you want to use the term, just say: “To ensure that tax planning is legal and defensible, taxpayers should be careful not to engage in tax avoidance or tax evasion activities.”

• The writer is associate professor (practice) of the department of accounting at NUS Business School.