Unit 3 — Tax Planning, Authorities & Procedures

Tax Planning & Management | BMB FM 02 / KMB FM 02

Unit 3: Tax Planning, Management and Administration

Syllabus: Tax avoidance, tax planning and tax evasion; income tax authorities — appointment, jurisdiction, powers and functions; provisions relating to collection and recovery of tax; refund of tax; offences, penalties and prosecutions; appeals and revisions; advance tax; TDS; advance rulings; avoidance of double taxation agreements.

Exam Blueprint (2025-26 paper)

Topic	2025-26 paper	Marks
Tax Avoidance vs Evasion vs Planning	Section B	7
Income tax authorities and their powers	Section C	7
TDS and Refund of tax (short notes)	Section C	7
Advance tax	Section A	2
Tax evasion	Section A	2

YE QUESTION BAAR-BAAR AAYA HAI

Is unit se **paanch questions** aaye 2025-26 me. **Tax avoidance vs evasion vs planning** ka comparison lagbhag pakka hai — ye har paper me kisi na kisi roop me aata hai.

1. Tax Planning, Tax Avoidance and Tax Evasion — the flagship comparison

1.1 The Three Concepts

DEFINITION - RATTA MAARO

Tax Planning is the **arrangement of one's financial affairs within the framework of the law** so as to **minimise tax liability by making full use of the exemptions, deductions, rebates and reliefs deliberately provided by the statute**. It is **fully legal and encouraged** by the legislature.

DEFINITION - RATTA MAARO

Tax Avoidance is the **reduction of tax liability by taking advantage of loopholes, gaps or ambiguities in the law** — complying with the **letter of the law** while **defeating its spirit and intent**. It is **technically legal but ethically questionable**.

DEFINITION - RATTA MAARO

> **Tax Evasion** is the **illegal reduction of tax liability by deliberately concealing income, inflating expenses, falsifying records or suppressing facts.** It is **illegal, fraudulent and punishable** by penalty and prosecution.

(Tax evasion was a 2-mark question in 2025-26.)

1.2 The Comparison Table — learn this exactly

Basis	Tax Planning	Tax Avoidance	Tax Evasion
Meaning	Using the **provisions** of the law to reduce tax	Using **loopholes** in the law	**Illegally** escaping tax
Legality	**Fully legal**	**Legal in form**, but against the intent	**Illegal**
Morality	**Ethical and moral**	**Immoral / unethical**	**Immoral and criminal**
Intention	To avail of the benefits the law provides	To defeat the intention of the legislature	To **conceal and deceive**
Method	Investing in 80C, 80D; choosing a tax-efficient structure	Artificial transactions, shell companies, treaty shopping	Not declaring income, fake bills, two sets of books, bogus expenses
Disclosure	**Full and honest** disclosure	Facts disclosed, but arranged artificially	**Concealment and misrepresentation**
Timing	Done **before** the income arises — forward-looking	Usually before the transaction	Usually **after** the income arises
Consequence	**No penalty** — it is encouraged	May be **struck down** under GAAR; no penalty if genuine	**Penalty + interest + prosecution and imprisonment**
Effect on economy	Encourages savings and investment	Erodes the tax base unfairly	Creates **black money**; deprives the exchequer
Example	Investing Rs. 1.5 lakh in PPF under 80C	Routing an investment through a tax-haven company solely to avoid tax	Showing personal expenses as business expenses; not reporting cash sales

> **YAAD RAKHNE KA JUGAAD**
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> Teeno ko ek line me: **Tax planning = kanoon ke saath chalna. Tax avoidance = kanoon ke chhed dhundhna. Tax evasion = kanoon todna.**

1.3 GAAR — General Anti-Avoidance Rules

> **DEFINITION - RATTA MAARO**
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> **GAAR** (Chapter X-A, Sections 95–102) empowers the tax authorities to **declare an arrangement as an "impermissible avoidance arrangement"** and deny the tax benefit, where the **main purpose** of the arrangement is to obtain a tax benefit and it lacks **commercial substance**.

An arrangement lacks commercial substance if it involves **round-trip financing**, an **accommodating party**, elements that **offset or cancel each other**, or a transaction conducted in a manner **not ordinarily employed for bona fide purposes**.