

What Is Tax Evasion?

Tax Evasion

Tax evasion is the failure to pay or the deliberate underpayment of federal income taxes. The U.S. income tax system is based on voluntary compliance, and it is the taxpayer's responsibility to report all income and to pay all taxes due. Tax evasion is a known violation of a legal duty, and may result in monetary penalties, imprisonment, or both.

Tax evasion may be contrasted with tax avoidance. Tax avoidance refers to an action taken to reduce tax liability and maximize after-tax income. Tax avoidance achieved through taking advantage of available deductions, credits, and adjustments to income is sometimes referred to as "tax minimization" to distinguish the activity from abusive tax avoidance. In the United States, the Internal Revenue Service (IRS) closely scrutinizes tax avoidance transactions and warns taxpayers about tax avoidance transactions that the IRS has determined to be abusive. Abusive tax avoidance transactions will be challenged by the IRS, and taxpayers who engage in them may be subject to penalties.

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