



# ECFH Financially Speaking

East Caribbean Financial Holding Company Limited

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This week's term is **Tax Avoidance vs. Tax Evasion:**

## **Tax Avoidance**

Tax avoidance is the legal use of the tax regime to reduce the amount that one would pay in taxes. The emphasis here is on the word legal. There are a number of methods that can be employed to accomplish this.

- **Country of residence-** to reduce the amount that is paid in taxes people can choose to live or do business in what are termed **tax havens**. These are countries where taxation rates are very favorable.
- **Setting up a legal entity-** one can set up a legal entity and donate his/her assets to this entity.

## **Tax Evasion**

Tax evasion is the illegal process of avoiding the payment of income taxes. This usually involves taxpayers deliberately concealing the true state of their affairs. This could be done by not reporting income received or overstating deductions.

## **What does this mean for you?**

There are legitimate ways of reducing the amount of taxes you pay. They include using tax havens etc. Individuals can also check that their tax codes are correct or find out about deductions for which they qualify. We advise that before making any attempt to reduce your tax payments ensure that they are within the confines of the law.

Although it is within your right to reduce the amount of tax you pay, this must be within the legal framework. You may face severe penalties for evading payment of taxes so it is in your best interest to comply.