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## Demonetisation impact on black money

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### Abstract

Demonization is the reinterpretation of polytheistic deities as evil, lying demons by other religions, generally monotheistic and henotheistic ones. Corruption and terrorism and the root cause of these problems are black money. Therefore the black money is playing lead role in our country. The BJP government lead by our Prime Minister Mr. Narendra Modi took a massive step which was to demonetise the two major currency notes of rupees 500 and 1000 in order to curb the menace of black money prevalent in the society on 8th November 2016. This paper is throwing the light on the position of black money in India and the effect of demonetization on black money.

**Keywords:** Black money, corruption, impact on political, social, economic

### Introduction

India was a prosperous nation and the reason of this prosperity was the high Moral values and the love for the motherland, citizens of that time tried to develop their nation by their effort and contribution. The existence of black money has worsened the situation of development. On November 8, the Prime Minister of the country Mr. Narendra Modi Announced that post mid night the most circulated currencies in the denomination of Rs, 500 and Rs.1000 will be considered as illegal tender. The reason given to the citizens was that the measure will serve as a tonic for curbing the menace of black money in the country. The reasons given in support of demonetization are to control counterfeit notes which are contributing terrorism and to eliminate the black money.

Major part of black money is invested with financial institutions outside the country, demonetization may not be sufficient step for removing black money but it is useful tool to make black money valueless in the economy. Therefore there is a need to have a detailed study to evaluate the result of demonetization on controlling corruption and black money.

### Objectives

Two main objectives of demonetization towards black money is,

1. To study the Demonetization Policy in Indian economy.
2. To study the various objectives and effects of the Demonetisation in India.

### Black Money

Black money is money earned through any illegal activity controlled by Country regulations. Black money proceeds are usually received in cash from underground economic activity and, as such, are not taxed. Recipients of black money must hide it, spend it only in the underground economy or attempt to give it the appearance of legitimacy through money laundering.

In its simplest form, black money is money on which tax is not paid to the government. A store that accepts cash for its merchandise and does not issue receipts to its customers will be transacting in black money since it would not pay tax on the unaccounted sales. The most common source of black money is illegal means through the black market or underground economy, such as drug trafficking, weapons trading, terrorism and prostitution, selling counterfeit or stolen goods such as credit cards, or selling pirated versions of copyrighted items such as software and musical recordings.

The term black money would also include legal income that is concealed from public authorities with the purpose of evasion of payment of taxes and statutory contributions and to avoid the compliances of the provisions of industrial laws and other laws which bound for any kind of compulsory payment.

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### **Indian Black Money**

In India, black money is funds earned on the black market, on which income and other taxes have not been paid. Also, the unaccounted money that is concealed from the tax administrator is called black money. The black money is accumulated by the criminals, smugglers, hoarders, tax-evaders and other anti-social elements of the society. Around 22000 Cr are supposed to have been accumulated by the criminals for vested interests, though writ petitions in the Supreme Court estimate this to be even larger, at Rs. 90 the total amount of black money deposited in foreign banks by Indians is unknown. Some reports claim a total of US\$100.06 trillion is held illegally in Switzerland. Other reports, including those reported by the Swiss Bankers Association and the Government of Switzerland, claim these reports are false and fabricated, and the total amount held in all Swiss bank accounts by citizens of India is about US\$2 billion. In February 2012, the director of India's Central Bureau of Investigation said that Indians have US\$500 billion of illegal funds in foreign tax havens, more than any other country. In March 2012, the government of India clarified in its parliament that the CBI director's statement on \$500 billion of illegal money was an estimate based on a statement made to India's Supreme Court in July 2011. In March 2018, it was revealed that the amount of Indian black money currently present in Swiss and other offshore banks is estimated to be Rs. 90 lakh crores or US\$1500 billion lakh crores.

### **Sources of Black Money**

**Under-invoiced inventories:** Sometimes the amount of inventory is under-invoiced so as to keep extra amount to sale in the black market. And the amount of sale is never reported in the account book.

**Over-invoiced plant and equipments:** The fixed costs on plant and inventory are reported higher than the actual amount so as to generate black money. For example, companies buy for perhaps Rs 5lakhs and instead get an invoice for Rs 10lakhs to cover up Rs 5lakhs of black money. Informal sector activities including trade, films, production etc.: All the film industries in India - be it Bollywood, Hollywood or Mollywood are doing dreadfully bad, but still they continue to produce flop after flop after flop. Perhaps, it is because movies are being made simply to hide excess black money.

**Illegal holding of precious metals, gem and jewellery:** The most favourite of the sources is hiding metals and jewellery. There are countless instances of the same in the news all the time where prominent personalities' homes are raided and valuables worth crores are recovered.

**Flight of capital for investments abroad:** Also, black money is used to fund investments abroad as people try to hide their incomes and put it in foreign banks which are situated in the tax haven countries.

**Transfer activities (like secondary share market and real estate) and buying of influence (bribe for work):** Giving and taking bribe in India is pretty common in almost every day activities. Another common source of black money is real estate which is covered in detail later.

**Illegal activities like smuggling, drugs, prostitution, and crime:** The big fishes of all of these sources are smuggling, drugs, prostitution and crime. Being illegal activities, all this money is black money as there are no records of how they are generated and used.

### **Corruption**

Corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority, often to acquire illicit benefit. Corruption may include many activities including bribery and embezzlement, though it may also involve practices that are legal in many countries. Political corruption occurs when an office-holder or other governmental employee acts in an official capacity for personal gain. Corruption is most common place in kleptocracies, oligarchies, narco-states and mafiastates.

Corruption can occur on different scales. Corruption ranges from small favors between a small number of people (petty corruption), to corruption that affects the government on a large scale (grand corruption), and corruption that is so prevalent that it is part of the everyday structure of society, including corruption as one of the symptoms of organized crime. Corruption and crime are endemic sociological occurrences which appear with regular frequency in virtually all countries on a global scale in varying degree and proportion. Individual nations each allocate domestic resources for the control and regulation of corruption and crime.

### **Political Impacts on Demonetization**

The political impact of the move is huge across the whole country with majority of the educated people offering support to the demonetization. The sentimental speeches against black money made by Prime Minister Modi are drawing huge crowds turning into vote banks for BJP. There is a growing support for BJP from the educated mass and especially the youth for the bold step taken to curb black money.

The opposite political parties however oppose the demonetization drive. The continuous adjournment of both the houses indicates this scenario. The ever silent Dr. Manmohan Singh, previous prime minister has said this move as unlawful and against democracy. His statement came out of the blue in the Raja Sabha in the presence of Mr. Narendra Modi, Prime minister of India. Dr. Manmohan Singh further added that nowhere in the world, people are restricted to withdraw only 2,000 rupees from their account. Opposition parties strongly oppose the demonetization implementation process.

### **Social Impact**

The information on demonetization was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions in marriages coming to a standstill. Currently, People conducting marriages must produce the marriage invitation to withdraw 2,50,000 and above. This has caused great hassles among the public.

Social problems in the form of road blockades and quarrels arouse with people waiting in long queues before the banks and ATM machines. People become restless spending an entire day to withdraw money. Several deaths have been registered as a result of waiting in long queue. Pensioners are worst affected with no special provisions made for senior citizens in banks.

### **Economic Impact**

Demonetization is viewed as a measure of sterilizing the money. RBI plays the pivotal role in this demonetization drive. All the banking experts welcome this demonetization

measure. Considering the banking sector, both public and private sector banks are facing the severe issue of Non-Performing Assets (NPA) or Bad loans to the tune of 10 lac crore including the stressed assets according to RBI sources. This demonetization measure will help banks to recover some bad loans and improve their financial position.

Considering the entire economy of India as a whole, demonetization will make most of the transactions to be done through the formal banking sector. This will increase the transparency with people and corporate paying tax properly. Income Tax department has reported that only 4 percent of the individuals pay income tax while this figure has to be increased to 28 percent. The demonetization will help achieve this target of the Income tax department.

When black money within India gets curbed, it will result in the overall economic development of the nation. This was revealed in the demonetization when terror financing and other sources of illegal financing was curbed. However, demonetization does not address the black money stashed abroad and the illegal foreign transactions taking place through the participatory notes. Corruption, fraudulent practices and broker menace remain areas of concern in carrying out the mass demonetization in an efficient manner.

#### **Impact of Demonetization towards Black Money**

Already, several analysis projects that demonetization will bring several long-term besides netting black money deposited in the form of banned notes. Hence, it is logical to classify the black money fighting effect of demonetisation as (a) direct or immediate and (b) long term.

#### **Direct or immediate effects**

Immediate effect of demonetisation comes through the netting of black money deposited in the banking system in the form of banned Rs 500 and Rs 1000 notes from November 10 onwards.

Around Rs 12 lakh crore of the Rs 15.44 lakh crore demonetized currency is with banks now and the extent of black money identified out of this will be the direct effect. Here, it is believed that an estimated Rs 1.5 to 2 lakh crore may be identified as black income. Out of this, around Rs 1.2 lakh crores may be collected as taxes at 50% to 85% tax rate. If Rs 2 lakh crore is revealed as black money out of demonetisation, it will amount to around 1.75% of India's GDP. According to National Institute of Public Finance and Policy (NIPFP), black income amounts to nearly 40% of the country's GDP.

**Direct effect depends upon two steps:** The Benami Act and the Pradhan Mantri Garib Kalyan Cess A recent case study on black money front is the non-acceptance of tax from a Gujarati trader -Mahesh Sha and Mumbai family by the Tax Department. In both these cases, the Tax Department refused disclosure under Income Declaration Scheme (which was closed on September 30, 2016) to accept 45% taxes. Instead, the Department invoked provisions of the newly enacted Benami Prohibition Act by waiting till November. The Act prescribes imprisonment up to seven years for having Benami property besides confiscation of the property.

The same procedure will be repeated in the case of big accounts parked with banks under demonetisation. This shows how effective will be demonetisation when combined with a built-in Income Disclosure Scheme in the name of

Pradhan Mantri Garib Kalyan Yojana and the sharpened Benami Prohibition Act.

#### **Long term effects of demonetisation on black money**

The long-term effect will be much impactful and depends considerably upon how government deploys more measures to depress the shadow or black economy.

#### **Impact on Direct Tax Collection**

The effect of demonetization is also clearly visible in the growth in direct tax collections. Collections of advances tax under personal income tax (i.e other than corporate tax) as on 05.08.2017 showed a growth of about 41.79 %over the corresponding period in the financial year 2016-2017. Collection of self-assessment tax under personal Income tax showed a growth of 34.25% over the corresponding period in financial year 2016-2017.

#### **Conclusion**

The major outcome of the entire demonetization process has been that it has created a sense of awareness amongst the people regarding black money and have also created a sense of fear in keeping with them money in the form of hard cash. In urban areas steps are still on to create awareness regarding cashless modes of payments but in the rural areas people are still reluctant to go cashless. As far as effecting black money is concerned this process has certainly destroyed the black money accumulated by the people but not to much benefit of the economy as the money was not discovered but destroyed. What the future of black money in the country will still depend upon the legal and legislative measures to be taken by the government.

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