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The problem of black money in India and it's controlling measures

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Abstract

In the post-Independence period the size of the black economy has increased considerably in India giving immense power to unscrupulous people to influence state policies in their favour and marginalize the common and poor people. According to the definition of the White Paper on Black Money released by the government of India in May 2012, Black Money is the assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.

Introduction: Recently, black money becomes a great problem for India in present days. It creates hindrance and obstacle for improving and developing country. Now-a-days tax avoiding and hidden property is common incident for most of businessman & rich high class families. As a result the government does not get actual amount of tax money from the public & organization. The money which is not counted by the government or the money for whose tax is not paid is also treated as black money by the government. A great portion Indian citizen is escaping from paying tax or giving wrong information for their tax. Naturally it becomes impossible for the government to get actual measurement of black money. The government always tries to stop it but fail. Beside Corruption, black money are also growing day by days which beyond out of control. NIPFP had defined black income as the aggregate of income which are taxable but are not reported to the tax authorities. Further black incomes or unaccounted incomes are the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives. Thus black money includes i) tax evaded income ii) unaccounted income. Black money is used to refer to money that is not fully legitimate in the hands of the owner. It can be created by legal and illegal means. There are many causes for creating black money in India. The existence and spread of black money has serious consequences for the socio-economic fiber of the country. This research paper tries to point out the causes and consequences of black money problem in India and tries to find out the ways for solving the black money problem.

Keywords: Black money, demonetization, corruption, smuggling, tax collection, unaccounted income, de-hoarding, illegal money, tax evasion, money laundering, investigation

Introduction

Objectives of the study

The objectives of the study are

1. To know about the reasons responsible for creating the black money problem In India.
2. To know about the consequences and impacts of black money on Indian economy and to suggest the measures for solving the problem.
3. To study about estimates of the size of black money in India and its different estimation method.
4. To put forward an ideal model for removing black money and compare it with total black money in India.
5. To put forward recommendations for developing the black money removing system.

Methodology of the study

The data will be collected from primary and secondary source in India. The primary data will be collected with the help of interview and survey method. The primary data will also be collected from a sample survey among the different black money measuring organization, various richest person in the society, various tax payer of different sections of the society, the producer, retailer & whole seller of different markets etc. The information has been collected

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through observation and the conclusion has been made on the basis of the information. Generally black money is measured by the CBI department by rating or conducting suddenly enquiry survey in different corporate & large companies, production units & organizations, various highest richest person of the country. In this way by searching, the CBI department, arrest the black money holder and discover a large amount of black money from them for which tax are not paid to the government. So information will be collected from CBI department also by taking interview or discussing the matter with CBI officers. For evaluating the objectives of the study the secondary data will be collected from the various sources such as books, reports, journals, websites, university libraries, planning commission, govt. publications (central & state), state & district wise statistical office, Black money measuring & controlling committees etc.

Statement of the problem

Black money can arise from illegal activities such as crime and corruption. The 'criminal' component of black money may include proceeds from a range of activities including racketeering, trafficking in counterfeit and contraband goods, smuggling, production and trade of narcotics, forgery, robbery, kidnapping etc. The corrupt component is leakages from government spending programmes, black marketing of price-controlled services etc. In legal means the black money is usually generated and accumulated by failing to pay the dues to the public exchequer in one form or other. It includes generation of black money through manipulation of accounts ii) generation of black money in some vulnerable sections of the economy. In case of first one, any transaction entered into by the taxpayer must be entered into books of account which are summarized at the end of the year in the form of financial statements. Tax evaders resort to different kinds of manipulations of financial statements resulting in tax evasion and the generation of black money. In case of second one, while the source of generation of black money may lie in any spare of economic activity there are certain sectors of the economy or activities which are more vulnerable to this menace. Estimating the size of the black money is very difficult due to the reason that the black money exist in the shadows and no one reports their black incomes. Therefore; estimation has to be done through indirect ways. There are many method of estimating the black money. i) Input/output method ii) The monetary approach iii) survey approach iv) Fiscal approach. Different economists and agencies estimate black money from time to time which are as follows-

1. **N. Kaldor's estimate:** Kaldor had estimated the amount of black money at Rs 600 core in 1953-54 which was 6% of GNP at market prices in that year.
2. **Wanchoo committee's estimates:** The income which escaped tax was Rs 811 crore. Wanchoo committee scaled down the estimate of black money to Rs 700 core which was 4.4% of the GNP at market prices in the year 1961-62.
3. **Rangnekar's estimates:** Tax evaded income for 1961-62 was Rs 1,150 core against the committee's estimate of Rs 811 core.
4. **O. p. Chopra's estimates:** Black money in 1960-61 was Rs 916 core which was 6.5% of GNP at factor cost in that year.
5. **Estimates by Poonam Gupta and Sanjeev Gupta:** The size of the black economy in 1967-68 was Rs 3,034 core

and this rose to as high as 46,867 core in 1978-79, i. e. more than 15 times.

6. **NIPFP estimates:** According to NIPFP estimated the size of the black economy at about 20% of GDP (not accounting for smuggling and illegal activities) during the period 1980-to 1985.
7. **Arun Kumar's estimates:** Arun Kumar has projected the size of the black economy in 2016-17 at 62% of GDP-generating about Rs 93 lakh core of revenue.
8. **Illicit Money transferred outside India, Reports of GFI (2010):** Over the 61-year period of 1948-2008 illicit capital flight from India amounted to a total of US\$ 213 billion or about 16.6% of Indian's GDP which does not include compound interest on these assets. The size of black economy in India in 2008 was 50% of its GDP. As much as 72% of India's illicit assets are held abroad and only 28% are held domestically.

GFI (2015 report): Over the decade 2004-2013 as much as \$510 billion were siphoned off from the country as black money.

Consequences of black economy

1. Loss of revenue of the government.
2. Loss of control over policy
3. Unproductive investment
4. Transfer of funds.
5. Corrupts the political system.
6. Pushes up urban land values.
7. Criminalization
8. Spread of rottenness in public life.

Causes of black economy

1. **Money laundering:** It is a term to describe the process whereby cash from illegal activities like racketeering, trafficking in counterfeit and contraband goods, robbery, smuggling, kidnapping etc. is converted to an alternate form in a manner that conceals its origin, ownership or other potentially embarrassing factors. By increasing the number of steps involved in laundering illegal funds, criminals try to obscure the origin of funds used to acquire assets. The role of foreign and offshore banking in money laundering has taken centre stage in most recent reviews of money laundering.
2. **High tax rates and black incomes:** Very high rates of taxation on income above a certain limit are expropriator in nature. In India the marginal rate of income tax was very high in the pre-1991 period and this provided a strong incentive to tax evasion which in turn generated considerable black money.
3. **State, control and the black economy:** on troll and regulations have been important causes for black money generation in India. The entire system of industrial licensing and controls in pre-1991 period led to considerable corruption and generation of black money due to the vast discretionary powers of the licensing authorities in favour of the large houses like inadequate scrutiny or expeditious disposal of license applications. As a result the whole system tended to promote rent seeking, discrimination based on personality relationships.
4. **Urban land and property deals:** One of the important sources of black money in India is the sale and purchase

of land and property in urban areas. In most cases as much as 60% payment is in terms of black money while the white component i.e. the declared cost of the property registered in the Registrar's office is merely 40% of the actual value.

5. **Complex tax structure and poor enforcement of the tax laws:** The Indian tax structure is complex. There is a multiplicity of taxes and a variety of tax rates. This makes the task of tax administration difficult. Moreover, there are many loopholes which are fully exploited by tax dodgers which have enabled the large businessmen, professionals and politicians to evade taxes on a large scale often with the connivance of tax authorities, poor enforcement of tax laws.
6. **Generation of black money in the public sector:** A large number of public sector enterprises has been set up. The usual procedure is to invite tender for the various works to be undertaken and the awarding of contracts is usually done by bureaucrats in consultation with their political bosses which results in the generation of large amount of black money as the costs are often artificially escalated and underhand dealing are common.
7. **Corruption in awarding public works:** There was massive corruption, escalation of cost in most of the works undertaken and large sums of public money were pocketed by some influential men who were given the responsibility of awarding the projects and overseeing their exclusion.
8. **Telecom and mining scams:** Massive amounts of money have been siphoned off in recent years by political bosses and top bureaucrats through many scams in recent times. The scams that have shaken the conscience of the common people are the sanction of telecom spectrum by the telecom department and the allocation of coal blocks in an arbitrary manner. About 70% of the 122 new telecom license were issued to companies without meeting the basic eligibility conditions set by DOT (Department of Telecommunications) and had suppressed facts, disclosed incomplete information, and submitted fictitious documents for getting licenses and thereby access to spectrum. Not adopting open bidding method and ruling out large grafts in coal blocks allocation, illegal iron ore mining in some states, practices of sand mafia, stone crushers etc. have resulted in loss of large amount of revenue to the government.
9. **Bribes for out-of-turn favours:** The public officials even demand bribes for performing their assigned duties. Sometimes, bribes are offered by people to get out-of-turn favours or for indulging in illegal activities like getting electricity without paying any charges, regularization of illegal building structures & violation of tax laws etc. Bribe bears no relation to the salary of the functionary, it depends on the benefit that the functionary allows to the person offering the bribe. Low salaries of public servants are a cause for the menace of bribes and corruption.
10. **Donations to political parties:** Political parties frequently require large sums of money to fight elections and a substantial chunk of this money is provided by big business in the form of donations to influence the economic policies in its favour which are not accounted for under any head. Recently a lot of MLAs at state level and MPs at the central level have taken place to buy

political support and in this process black money played a crucial role.

Recommendations and government policy to control black money

The government has introduced some steps in the post – Independence period to tackle the black money but the actual success achieved has been too little. Those steps are as follows-

1. **Measure to check tax evasion:** One of the main causes of black money generation is tax evasion. So the government has undertaken various measures to check tax evasion by plugging loopholes in tax laws based on the recommendations of various commissions appointed over a period of time like Nicholas Kaldor's proposals for Indian Tax Reforms (1956), Recommendations of the Administrative reforms committee (1969), Direct tax enquiry Committee (1971) etc. But success was not achieved much due to total lack of commitment to implement the tax laws with full honesty and determination. High tax rate lead to black income generation and they should be brought down. So income tax rates have been brought down considerably in the post-economic reform period. As a result income tax collection has increased.
2. **Demonetization:** Demonetization of large denomination currency notes has been suggested from time to time as a restrictive measure. The Indian government attempted demonetization in 1978 when it demonetized high denomination notes (Rs 1000 and Rs 500). But this measure was not more effective. Later a much bolder measure with profound implications was announced on November 8, 2016 when the two largest denomination notes, Rs 500 and Rs 100 were demonetized with immediate effect. As much as 86% of the cash in circulation was thereby rendered invalid.
3. **Special Bearer Bond Scheme:** The government of India announced a Special Bearer Bond Scheme in 1981 for canalizing unaccounted black money into productive uses. Complete immunity was granted for questioning the possessor of the bond about their possession or about the sources of money used to acquire these bonds. The Special Bearer Bonds, 1981 of the face value of Rs 10000 each were issued at par with a maturity period of 10 years. On maturity, the holders of these bonds were to receive Rs 12000.
4. **Voluntary Disclosure Schemes:** The government has floated various voluntary disclosure schemes from time to time. The Direct Taxes Enquiry Committee opposed the introduction of such schemes. These schemes serve as conduits to convert black money into white on payment of a small amount of tax & help many people to turn habitual tax evaders. Voluntary Disclosure of Income Scheme (VDIS) announced in the 1997-98 Budget. In this scheme irrespective of the year of nature of the source of funds, the amount disclosed cash, securities or assets within India or abroad was charged to tax at 30% for individuals and 35% for corporations. Total immunity was granted for any action under the scheme under the income tax, wealth tax acts and FERA. Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 was enacted in 2015. A one-time compliance window under the new law was provided July to September 2015 as an opportunity to

declarants to declare their undisclosed foreign assets subject to certain prescribed conditions. An Income Declaration Scheme (IDS) was announced in the 2016-2017 Budget which provided an opportunity to people having undisclosed income to come clean through a one-time compliance window of four months from June to September. Individual tax payers were provided an opportunity to be compliant by paying tax at the rate of 30% as increased by surcharge of 7.5% and a penalty of 7.5% which would sum up to a total of 45% on undisclosed income. The secondary voluntary disclosure scheme announced in the year 2016-17 and the first after the November 2016 demonetization was the Pradhan Mantri Garib Kalyan Yojana (PMGKY) covering the period December 17, 2016 to March 31, 2017. Persons declaring cash deposits under the scheme were required to pay a tax of 50%.

5. **Prevention of Money Laundering Act, 2002:** The prevention of Money Laundering (PML) 2002 was enacted to prevent money laundering and provide for confiscation of property derived there from or involved in money laundering and for matters connected there with or incidental thereto. The Act came into force from July 1, 2005 which was amended by the Prevention of Money Laundering Amendment Act 2009.
6. **Right to Information Act:** It is a welcome measure. RTI Act seeks to empower the citizens, promote transparency and accountability in the working of the government, contain corruption and make the democracy work for people in real sense. It gives all the citizens the right to seek information held by any authorities or body or institution of self-government established under the constitution or by law made by the parliament or a state Legislature or by notification issued or order made by the central government or state government.
7. **Lokpal and Lokayukta Bill, 2013:** It was passed by the parliament in 2013. It seeks to establish an anti-corruption watchdog that will have within its preview even the office of Prime Minister. Important features of the Bill are
 1. Lokpal at the centre and Lokayukta at the States.
 2. The Lokpal consist of a Chairperson and a maximum of eight members of which 50% shall be judicial members.
 3. All entities receiving donations from foreign source in the context of the Foreign Contribution Regulation Act in excess of Rs 10 lakh per year are brought under the jurisdiction of Lokpal.
 4. Provides adequate protection for honest and upright public servants.
 5. Lokpal will have power of superintendence and direction over any investigation agency including CBI for cases referred to them by Local.
 6. Transfer of officers of CBI investigating cases referred by Lokpal.
 7. Incorrect provisions for attachment and confiscation of property acquired by corrupt means even while prosecution is pending,
 8. The Bill lays down clear times for preliminary enquiry and investigation and trial and providing setting up of Special Courts. 15) Setting up of the institution of Lokayukta through enactment of a law by the state legislature within a period of 365 days from the date of commencement of the Act.

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