Black Money – Issues and Challenges
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Abstract

Issue of black money is the problem faced by the Indian government in the recent past. Black money is generated by corruption and corruption leads failure of law. Black money leads to considerable impact of the nation at the international level. Every citizen has the habit of nonpayment of tax, for which a justifying answer is given. Hoarding cash is considered to be a security for few, instead of transacting through the banks. There is a need to have appropriate legislation and link all transactions to aadhar card, which in turn would minimise the hoarding of the money. The paper tries to understand the generation of black money, sectors affected due to black money, impact on the economy and the steps initiated by the Government of India to eradicate the problem.

Key words: Generation of Black money, Impact of black money on economy and steps adopted.

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1. Introduction

Black Money flourishes in our system. Black money is very dominant in certain sectors like real estate, politics or the film world.[^1] Black money is linked to corruption, crime, illegal activities and the black economy. A perhaps more accurate description of black money revolves around the concept of money illegally obtained through political and/or bureaucratic corruption, bribery at levels of the government, semi-government, autonomous or semi-autonomous offices or organizations, as well as money amassed by businesspeople through smuggling, black marketing, shady deals, profiteering, money amassed by labour leaders, student leaders, through extortion – and especially, money amassed by functionaries of the ruling government party and

[^1]: "Aano bhadraa krathavo yanthu vishwathaha" - "Let the noble thoughts come to all from all directions". Page No.1
Acme Intellects Research Center- A wing of Help to Help Charitable Trust®
its various organs, and their families, relatives and cronies.² Black money is the amount that is not reported to the government for tax purposes. It may be home black money or overseas black money. Home black money is the money generated in India from the corrupt practices e.g. taking bribe, black-marketing, commission, etc. and used for the financing illegal activities. If this money is made white and used in India it will remove the problem of poverty. Whereas the overseas black money is the money earned in India from corrupt practices same as home black money but kept in foreign banks or invested in foreign projects.³

2. **Objective of the study:**

1) To understand the meaning of black money and the reason for generation of black money.

2) To analyse the impact of black money on economy and the steps adopted by the Government.

3. **Method of Analysis:**

The research carried is Doctrinal, analytical and descriptive method. Sources of data for the most part of this research paper are secondary. The secondary sources such as books, journals and the online data base materials are extensively used to bring out this research.

4. **Data Analysis**

Black Money Defined: Black money is a complex phenomenon, it has never been precisely defined.⁴ In fact, several terms with similar connotations have been in vogue, including “unaccounted income”, ”black income”, “dirty money”, “black wealth”, “underground wealth”, “black economy”, “parallel economy”, “shadow economy”, and “underground” or “unofficial” economy.⁵ Black money is unaccounted money⁶ before the tax authorities is kept out of circulation in cash and is used for speculation.⁷ This is usually done because cash transactions do not reveal the identity of the person who is doing it. So in the process of financial system cycle somewhere black money gets converted into white money.⁸

Black Money refers to that money which is not fully legitimate property of the owner. It is normally received in terms of cash from economic activities. i.e. Individuals who received it
must hide it, spend it on for the fulfillment of their needs. According to National Institute of Public Finance and Policy (NIPFP) defines-“Black Money is the aggregate of incomes which are taxable but not reported to authorities.”

**Committees / Reports on Black Money:**

The Government of India has set up about 40 committees at different levels to look into the issue of black money. Some of the major committees of black money are –

1. Corruption Committee (1964)
2. Study team on Leakages of Foreign Exchange through Invoice Manipulation (1971)
3. Wanchoo Committee also known as the Direct Taxes Enquiry Committee (DTEC) (1971)
4. Committee on Agricultural Wealth and Income (1972)
5. Indirect Taxation Enquiry Committee (1978)
8. Tax Reforms Committee (1992)

**Generation of Black Money:**

It is generated through main two activities or means - Illegal means and Legal means

- High Tax Rates: High tax rates and overregulation result in concealment of income and a labyrinthine regulatory regime is an invitation to bribery.
- Illegal Activities: It is earned through Illegal means such as drug trafficking, weapons trading, terrorism, selling counterfeit or stolen goods etc.
- Corruption: By corruption which includes bribe given to and by public officers.
- Trading: Hiding income through Legal activities i.e. not reported to public authorities or we say to the government for the purpose to evade taxes. Even commercial classes generate black money through trade.
• Political Activities: Black money arises from political activities such as elections where candidates spend well above the ceiling prescribed by the Election Commission. There is a growing tendency of funding of political parties with the help of black money. Big business houses are donating a huge amount of black money to the political parties, especially the ruling party with the sole intention to tame the political leadership for deriving benefits by manipulating policy decision.\textsuperscript{13}

• Habit of not paying the tax: People are not in the habit of paying the taxes. Even if they pay taxed, they are not in correct proportions to their incomes. The taxes are greatly evaded by corporate and industrial sectors. These firms cleverly use income tax rules and laws to evade taxes.

• Gifts and illegal foreign exchange deals: Gifts and illegal foreign exchange deals are not monitored by the govt. to check their validity.\textsuperscript{14}

• Ineffective enforcement of laws: The Government have plethora of tax laws such as income tax law, sales tax, stamp duties, excise duty et., but their enforcement is very weak because of widespread corruption in these departments. Officials have made corrupt practices as their part of work culture. They take bribes and let the black money goes unchecked.\textsuperscript{15}

• Economics of Gold: The next best option for investing black money is Gold. India is the highest consumer of gold in the world. In the early 90s, import and export of gold was restricted as the government realised that saving & investment in gold was leading to a loss of foreign exchange reserves. This was also because privately held gold did not help India’s balance of payment situation. As a result, gold smuggling became a huge racket which was funded extensively by black money as people got a vehicle to park money which was illegally obtained. This was further accentuated by the fact that the money which was given to the importer and the smuggler would leave the country thus depleting resources. This eventually led to loss for our economy.\textsuperscript{16}

• Out of Book Transactions: One of the most widely adopted methods of tax evasion, generally prevalent among the small shops, unskilled or semi-skilled service providers, etc. Transactions that may result in taxation of receipts or income are not entered in the books of account by the taxpayer who either does not maintain books of account or maintains two sets or records partial receipts only. This method is a likely source of
generation of black money across Real Estate, Hotels, Consumer Markets, Retailers, Betting, etc.\textsuperscript{17}

- Misuse of laws by Multinational Corporations: Economic liberalization reduced barriers for cross-border flow of goods and services and also led to relaxation of foreign exchange control. MNCs found new opportunities for tax evasion through tax havens, misuse of transfer pricing, and other sophisticated methods. Shell companies are being created to avoid tax liabilities. Globalisation reduced the cost of these sophisticated methods thereby facilitating generation of black money and its transfer across the border.

- Trusts/NGOs: Taxations allows certain privileges and incentives for promoting charitable activities. Misuse of such benefits and manipulations through entities claimed to be constituted for non-profit motive are among possible sources of generation of black money. Many bogus trusts and societies are created which become source for routing black money.\textsuperscript{18}

- Shell companies: A shell company is an entity that has no active business and usually exists only in name as a vehicle for another company’s business operations. In essence, shell are corporations that exists mainly on paper, have no physical presence, employ no one and produce nothing. They are frequently used to shield identities and/or to hide black money. Sometimes it can also involve hawala operators, who operate shell entities in the form of proprietorship firms, partnership firms, companies and trusts. Shell companies are often associated with fraud. Although they are legal entities that do have a legitimate function in business operations, shell companies are also utilized by criminals to facilitate fraudulent activities. Such activities include money laundering, billing schemes, fictitious service schemes, bankruptcy fraud, tax evasion and market manipulation. These companies are frequently linked to multiple forms of scams; law officials are unable to prosecute all cases because state agencies do not collect enough ownership information on company formation documents. Thus, leaving no paper trial for the government to trace back to a particular individual or individuals.\textsuperscript{19}
In addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:

- To evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- To evade payment of other statutory contributions;
- To evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and/or
- To evade compliance with other laws and administrative procedures.²⁰

Key sector impacted:

- Real Estate
- Jewellery
- Consumer Goods
- Hotels and Hospitality
- Financial Market Transactions
- Non-Profit sector and Education.²¹

**Impact of Black Money on Indian Economy:**

1. Less Tax for the Government
2. Uncontrollable Inflation: When black money is out in the market, the amount of money in the system is higher than the Government expects. This causes the prices of commodities to increase to a level beyond normal. Black money is kept stacked at home or in bank lockers but does not pass through normal banking system. For this reason, propensity of holders of this money is not affected by Credit Control measures by RBI and hence remain immune to efforts to control inflation.²²
3. Investment in Unproductive Assets: Black money leads to:
   i. Investment in precious jewellery, bullions, stones etc.
   ii. Investment in luxury housing
   iii. Wasteful expenditure on non-essential articles, luxurious cars, parties etc.²³
4. Encourages Anti-Social Activity: Black money always promotes anti-social activities in society like terrorism, bribery etc.,

5. Transfer of Indian Funds Abroad to Safe Heavens – Black money results in transfer of funds from India to foreign countries through secret channels. Black money generated in India is kept in foreign tax havens. For this, money has to be transferred from India to other countries through secret channels. Under invoicing of exports and over-invoicing of imports are two of the main methods used by black money holders for transferring money overseas.

6. Impact on Growth by moving investments on Gold, Stones and Jewellery—People who are looking to turn black money into white money are largely investing in precious metals like Gold and other jewellery. One reason for people to invest in gold is that it is hard to trace. People in black market may buy gold bars, coins, jewelries etc. because one can buy gold easily and can be converted back to money anytime. This flow of underground money has caused Indian economy to pause on its growth.

7. Inflated realty—When people with deep pockets are ready to pay more for a piece of land, the price of surrounding land also tends to increase; thus artificially inflating the prices of an entire area. Generally, people involved in black money market are always ready to pay more for a piece of land as this helps in converting their coloured money to legal money.

Steps taken by Government to curb black money generation and flow:

Tax Reforms:

- Rationalization of income tax with greater tax base and lower taxes.
- Tax deduction at source in which the tax is deducted from the payment itself by the payee.
- Voluntary Disclosure Schemes: The government allows reporting black money generated through tax evasion in a given time frame, as government has given in the Black Money Bill passed this year.
- Removal of Notes of large denomination: As unaccounted money is often kept in notes of large denomination making it useless.
• Removing currency after certain time. So that unaccounted wealth is either brought into economy or becomes useless.

• Encouraging Cashless transactions: Government has recently announced tax benefits for making online payments for amount greater than twenty thousand rupees.\(^{28}\)

• Economic liberalization: introduction of economic liberalization has detached the regime of control and regulations and thereby the extend of black money would be reduced regularly (lekhi, 2003, 196)\(^ {29}\).

• Special Bearer Bond Scheme: Under Special Bearer Bonds Scheme, any person holding black money could purchase such bonds and the person purchasing such bonds would not be questioned about his sources of income and his identity would be kept secret. This scheme was launched in year 1991. Under this scheme, Special Bearer Bonds, 1981 of the face value of Rs. 10,000 each were issued at par with a maturity period of 10 years. Holders of these bonds would get Rs. 12,000 per bond at its maturity.\(^ {30}\)

• Amnesty Scheme: The Amnesty Schemes, introduced by the Finance Ministry from time to time to allow tax defaulters to pay a tax, waiving the penalty and interests. Using these schemes, a defaulter could disclose their wealth and convert them to legal money. No more questions will be asked. These schemes help Government to rake up the taxes and huge amount of legal money back into the Indian Market.\(^ {31}\)

• The legislature introduced the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act in the year 2015 to tackle the problem of Black Money stashed abroad. The Act provides for a voluntary declaration of the undisclosed assets and payment of tax on the same. It provides for a rigorous imprisonment up to 10 years and calls for a penalty equal to three times of the tax evasion amount. The said Act also provides for One Time Compliance window thereby giving people who possess undeclared assets abroad an opportunity to declare and regularize the same.\(^ {32}\)

The White Paper, Ministry of Finance, 2012 describes the framework that the Government of India has resorted to five pronged strategy which involves:

• Joining the global crusade against black money,
• Creating an appropriate legislative framework,
• Setting up institutions for dealing with illicit money,
• Developing systems for implementation, and
• Imparting skills to personnel for effective action.  

Present administrative system of Government to tackle Black Money transactions:

i. Central Board of Direct Taxes (CBDT)
ii. Enforcement Directorate
iii. Financial Intelligence Unit
iv. Central Board of Excise and Customs and DRI (CBEC)
v. Central Economic Intelligence bureau
vi. CBI and Police Authorities
vii. State Police Agencies.
viii. Integrated Tax payer Data Management System (ITDMS).

5. Conclusion

Black money is a menace which definitely brings down the economy of the nation. When the problem of black money is addressed various reasons for generation of black money is analysed from the view of the nation and corrupt officials. No analysis touches the requirement of a man at the basic level. Eradication of black money is impossible it can only be minimised. More than economic measures India needs to adopt measures to eradicate poverty and punish the corrupt, irrespective of the position they have in the society. Poverty leads to corruption.

Another reason for the generation of black money is because people do not trust the government. Government only can tax salaried people, and close observation proves that government regularly raises the prices of all commodities and our infrastructure is poor and pathetic. E.g., Small nations like Singapore, Malaysia is able to maintain a clean environment and law abiding citizens. Any common man is threatened and lives in apprehension by such price rise as the value of purchasing comes down and money power is down day by day. Eg. If 2 kgs of rice cost 100 today due to the price rise the same 2 kgs of rice cost 110 tomorrow. Another classic example is the price rise of petrol. The price risk has hit the poor man below the belt. Everyone wants to make money to live a decent living. Government is unable to cater to the needs of the people.
The question that comes to one mind is from where we generate money to face the price rise. Every rich man is living a luxurious and a powerful life. Citizens start adopting corrupt practices to earn money and one method is not to pay taxes. In country like India, to get efficient service one must depend on private sectors, e.g., hospitals, schools. These private sectors no doubt provide efficient and expected service but at a very high cost. If Government would provide remarkable service, no common man would have to pay high price for every good service. There is need to change the mindset of the people and they have to understand that they are the sole reason for people to make black money.

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