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Black Money Circulation In Indian Economy

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Abstract

India being a young country is facing one of the major problems of black money circulation in economy. Though threat of black money is more in developed countries but developing nations too have their shadows. Today black money has become a global issue. For developing countries, the problem of black money circulation in economy is more complex and serious due to limited availability of their resources and weak institutions which are less reliable as compared to institutions of developed nations and this hinders the economic development. The funds generated in the economy from lawful activities and from illegal activities on which taxes have not been paid are illegally held funds. This results in loss of revenue to the government. Since 1946, the government has launched seven black money schemes that generated revenue to government of more than Rs.1400 crore rupees. In 1951, Voluntary Disclosure of Income scheme has been launched to recover unaccounted money which proved successful. The Government of India has successfully launched a scheme in year 1977 to curb black money circulation in economy which accounted to approximately Rs.33, 000 crore rupees. In 1981 the Central government had officially decided to float Special Bearer Bonds. In 1986, government has launched the disclosure scheme for foreign assets which generated around Rs.67 crores to the government. After LPG reforms, India witnessed globalization. There was increase in flow of Multinational companies in India and Indian stock markets became more robust and started attracting financial institutional investors. Today, black money has become a social and economic problem in India.

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Meaning of Black money

Black money is an inclusive term which includes wealth acquired through illegal means, concealment of legal income by way of tax evasion .In common parlance, black money can be referred as one in which there is illegal ownership of funds held by any individual or entity. This is due to the concealment of funds from government by violating tax laws and other statutory laws of the country. Thus, the funds held by an individual or entity in any form on which taxes have not been paid to the government are treated as unaccounted money. It is a taxable income which is not reported to tax authorities of respective countries. Black economy in India adversely affects the society leading to increase in social inequalities and deprivations. This unofficial economy is having a destructive effect on country and nation's planning development. Even though Black money circulation is a world-wide phenomenon, economists failed to estimate the magnitude of black money in an economy.

BLACK MONEY IN INDIA

India is facing the problem of tax evasion since colonial times along with existence of strong underground networks such as hawala transactions. Major source of generation of black money in India were:

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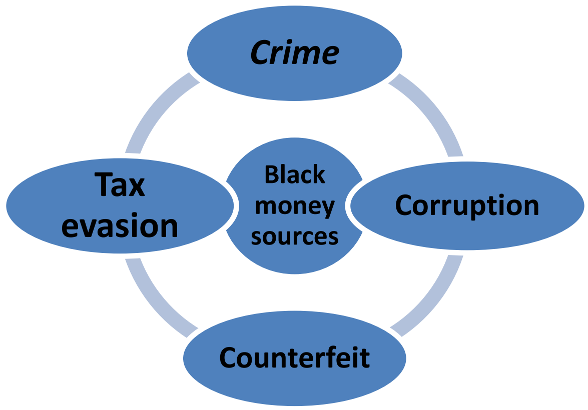

In the year 2017-2018, black money was around Rs.90 lakhs crore. To cope up with this, various committee have been formulated by the government of India to deal with the problem of black money circulation in the economy which includes Direct Taxes Enquiry Committee in 1971, Indirect Taxation Enquiry Committee in 1978, National Institute of Public Finance and Policy Report in 1985, Tax Reforms Committee in 1992, White Paper in 2012

According to the Direct Taxes Enquiry Committee:

YEAR	BLACK MONEY (Approximation Rs.in crores.)
1960-61	916
1961-62,	811
1965-66	2350
1968-69	1800
1976-77	8098

According to the National Institute of Public Finance and Policy:

YEAR	BLACK MONEY ESTIMATES
1975-1976	9958-11870
1980-1981	20362-23678
1983-1984	31584-36784

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Introduction

India started witnessing increase in problem of black money by 1960s due to levy of higher rate of income tax and corporate tax which eventually led to tax evasion. Problem of black money in India has become real threat in post liberalization era as there was increase in circulation of the black money in the economy along with increase in flow of offshore black money. Countries enjoying the status of tax heaven like Luxembourg, Jersey, Ireland, Mauritius, Switzerland with small jurisdiction generally opt for policy of very low or NIL rate of tax. This encourages large number of investors as well as companies to park their black and white money in these countries and shift incidence of tax in these areas. Offshore Financial Centers are extension of old tax heavens and are financial institutions primarily engaged in the business with non-residents. Offshore Financial Centers usually have very low or NIL rate of taxation, banking secrecy, least financial regulation, for example Vodafone-hutch case. Further, in money laundering case, the holder of black money shall be levied penalty by tax authorities if he is unable to disclose the source of such income or unable to reply appropriately to the satisfaction of income tax authorities. Black money is required to be converted into white money in order to invest it in legal venture. Such conversion of black money into white money is done by taking the advantage of existing loopholes in the law which reduces the possibility of tracing the original source of income by tax authorities and thereby levy of penalty. Such money is usually invested in Gold, immovable property, corporate uses this money while issuing securities to the public promoters to convert it into white money. Hawala transactions involve an underground transfer of huge volume of funds instantly at cheaper value due to less cumbersome remittance channels. Criminals, Businessmen, and Nonresidents usually use hawala system to remit money in order to evade tax. Bureaucrats and Politicians use this system to park their corrupt money abroad.

BLACK MONEY GENERATION IN ECONOMY

Bitcoins, transfer pricing, Tax heavens, round tripping, hawala transactions, treaty shopping, Participatory Notes, are some of the Common forms of generation of black money. Major sources of black money in India are:

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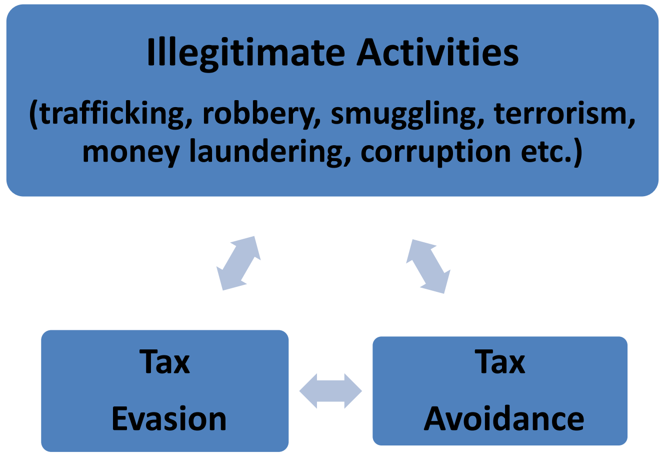

Impact on Indian Economy

Black money has serious consequences on our economy. Major sectors related to it mainly include higher education, real estate and mining sectors. Some of the destructive effects are:

- **Effect on Indian financial system**: It leads to higher inflation in the economy as the RBI is unable to control the money supply. Higher level of inflation eats up savings and investments. The increase in inflation enables black marketers to strongly encourage high spending leading to higher demand and price hiking.
- **Loss of revenue**: Due to evasion of tax, there is huge loss of taxes to government. Corporate usually transfer their income to countries with NIL or low rate of taxes. Real estate sectors attempts to evade taxes in the form of stamp duty and capital gains tax through under-reporting of transaction price. Further, Charitable institutions receive funds for promotion of charitable activities which are exempt as per provisions of section 10 of income tax Act, 1961. These funds are often misused.
- **Affects credibility of country**: Black money is used to manipulate tenders and these results in compromise of quality in public sector projects. Black money is usually routed for criminal activities, terrorism due to which National security is threatened. Terror funding networks are being operated with generation of Black money from drugs and smuggling.
- **Loss of Investment**: Black money creates a vicious cycle leading to corruption. Our economy is distorted due to investment in country other than

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in India. People park their black money in tax heaven countries or deals in hawala transaction.

- **Unaccounted wealth:** Black money is usually invested in form of gold, immovable property, other precious and semi precious stones, metals and bullions. It enables generation of undisclosed or unaccounted wealth.

STEPS BY GOVERNMENT OF INDIA TO CURB BLACK MONEY

In India, various schemes and acts have been passes like Income Declaration Scheme, 2016, Foreign Account Tax Compliance Act, "Unified payment interface", Base Erosion and Profit Sharing strategy, KYC norms, various legislative frameworks like The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015, Lokpal and Lokayukta Act, Benami Transactions Prohibition Act, 1988, Prevention of Money Laundering Act, 2002, Prevention of Corruption Act, 1988,. Some of them are as follows:

- **SPECIAL INVESTIGATION TEAM**: During the tenure of UPA government, Supreme Court formulated Special Investigation Team. This multi-agency investigation team has recently imposed the limit of Rs.15lakhs for holding cash. With effect from Jan 1, 2016 it has mandated the quoting of PAN for identification purpose in case of transactions involving amount in excess of Rs.2 lakhs. Further, Industries willing to hold cash in excess of permitted limits are required to take prior approval of commissioners of Income Tax.
- **Benami Transaction Act**: Parliament has passed Benani Transaction (Prohibition) Amendment Act in August 2016 to prohibit the further generation of black money and to confiscate the existing benami property. This Act mainly covers Real Estate sector as they usually follow the practice of parking their unaccounted money by way of investment in properties. Thus, the Benami Transaction Act prohibits fictitious ownership of property and imposition of penalty thereon along with rigorous imprisonment.
- **Income Disclosure scheme** : With a view to curb black money from domestic market, the budget 2016-17 provides for Income Declaration Scheme, 2016 which requires Indian citizens to declare within 4 months,

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their source of undisclosed income on payment of 50% tax thereon. This enabled people to disclose their unaccounted income and asset. More than 64000 declarations amounting to around Rs.65000 crores were filed during the specified period.

- **Black money Act**: The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 has been passed to unearth black money parked outside the country. The Undisclosed Foreign Income and assets and Imposition of Tax Act, 2015 provided to declare the assets held outside India by paying the taxes and penalty thereon on the value of assets. More than 640 declarations involving around Rs.4100 crores were filed. Further, it generated tax and penalty of around Rs.2400 crores.
- **Tax Reforms:** Higher tax rates encourage the tax evasion along with black money circulation in the economy. So, the government has rationalized the tax reforms in form of increase in tax base, disclosure schemes, tax deduction at source thereby bringing down corporate tax. Government aimed to promote cashless economy by providing benefits in form of reducing the taxes or surcharge on online transactions to make transactions transparent and accountable. This enables government to bring back the money into the normal banking system thereby enabling economic development of the country.
- **Double Taxation Avoidance Agreement:** Tax payers evade the tax by taking the advantage of loopholes of tax treaties with tax heaven countries. In light of this, government has revised the existing tax treaties. Currently India has Double Tax Avoidance Agreements with around 82 nations. Recently, in the year 2016 India and Mauritius has amended their existing treaties.

At International level, Government has entered into various International Cooperation through G20, Bilateral agreements, United Nations Convention against Corruption, International Convention for the Suppression of the Financing of Terrorism, Multilateral Convention on Mutual Administrative Assistance in Tax Matters, United Nations Convention against Transnational Organized Crime, OECD, Sustainable development goals, various International Treaties including Financial action Task force to combat against terror funding, Panama papers to investigate into

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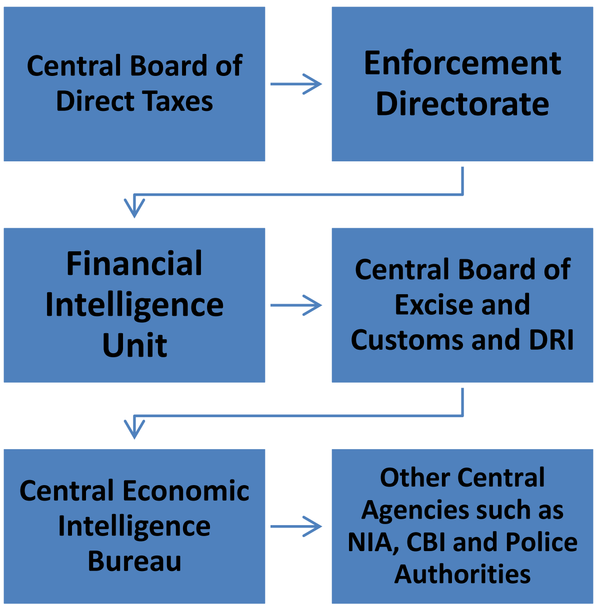
details relating to bank accounts and tax evaders, adopting automatic exchange of information standards with all major countries to ensure payment on tax on wealth generated outside India

Institutions to deal with black money

Government of India has taken stringent steps to deal with the black money circulation and has established various institutions such as:



Further Reforms needed to curb black money:

- Strengthening existing tax regime to overcome instability in tax rates
- Ensuring more transparency in international transactions and transfer pricing matters.
- Reducing higher transaction costs of compliance requirements of tax laws to ensure that cases like Vodafone does not arise again.
- Signing agreements with tax heaven countries to eliminate tax evaders to a great extend along with money launderers.
- Setting up of appropriate institutions and legislative framework to deal with illicit money. There should be development of systems to implement and impart necessary skills for effective action.

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- Amendment to tax laws dealing with international transactions to overcome practices of round tripping.

Conclusion:

The foundations of both a shadow economy and a corrupt bureaucracy have been laid down during world war-II in the 18^{th} century by East India Company. Post Independence, there was a signification expansion of circulation of black money in the economy. There was increase in Round tripping of investment due to globalization. Various steps have been taken by Indian government to unearth & stop black money and encourage card payments for all transactions in economy to curb black money circulation. Various policies and strategies formulated does not reflected the desired result. So, the global cooperation along with the political will is required to counter the issue of black money.

Existing cumbersome and opaque regulations hinder the time taking procedural compliance requirements and encourage the people towards creation of black money and involve in underground transactions such as hawala. Thus, India is required to take quickly the necessary reforms to aid in curbing the black money generation in economy.

In India black money is mainly used in Elections. Indian economy is mainly affected from Corruption. Thus, Government needs to work on the loopholes in the existing tax system in order to deal with the problem of Tax evasion. Existence of black money affects not only social, economic and political lives of people but also have a significant impact on the institutions of governance in the country.

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