

Influence of black money and tax evasion in India: A conceptual study

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ABSTRACT

The amount of money that the income-earners do not reveal or the income which is held by them, on which the tax has not been paid, is Black Money. Black Money in economic terms means underground economy, unofficial economy or unaccounted economy. It is the money which is earned both through legal and illegal activities. The purpose of this study is to review the current scenario of black money and tax evasion in India. The paper also highlights the future challenges faced by the Indian economy due to the upsurge in black money. In the last part of the study the paper suggests the remedies that can help in eliminating black money and tax evasion to some extent.

Keywords: *Black money, Tax evasion, unaccounted economy, Challenges, Corruption*

I INTRODUCTION

In India, most of the people do not pay their taxes regularly. Due to the loopholes in the Indian tax system, most of the people take undue advantage by avoiding tax payments. The amount of money which could have been used for overall development of the country is used for anti-social activities which give rise to black money and other social evils.

Black money is defined as the money that is generated in the black market (partly or fully escaped assessment). In simple words, it is the money that is not taxed or is a tax evaded income that can be earned both through legal/illegal means. The income-earners do not reveal their whole income for tax purposes. For example, government doctors earning money by private practice even when they get non-practicing allowance; teachers earning money through tuitions, examinations and book royalty and not including it in income-tax returns; advocates charging much higher fee than shown in their account books, and so forth.

Its illegitimate source is bribe, smuggling, black-marketing, selling commodities at prices higher than the controlled prices, taking puggree (interest free security deposit paid to landlords) for house, shop, etc., selling house at a high premium price but showing it at much lower price in the account books, and so on.

Tax evasion is an illegal and deliberate attempt aimed at reducing the tax liability under reporting or not reporting taxable incomes or hiding one's actual position from tax authorities.

In Indian Economy, black money crisis has always been a grave concern. As per the reports of Wanchoo Committee, black money is referred to "as a cancerous growth in the country's economy which, if not checked in time, will surely lead to its ruination". As a result black money and tax evasion are slowly destructing the structure of Indian economy and are liable for marked and lavish consumption

As per the reports published by Global Financial Integrity (GFI) in 2012, India is amongst the top ten developing countries in the world with a black money drop of Rs 8720 crores in 2010. Since 1947 until 2010, the total outflow of black money was amounted to \$232 billion in the form of corruption, bribery and kickbacks. The country's black economy was estimated to be \$500 billion in 2011 as per the reports of BJP (Bhartya Janta Party). During the post reform period (1991-2008), due to deregulation and liberalization, the outflow of illicit money in Indian economy got accelerated. It is believed that about one third of India's black money transactions were held up in real estates.

Most of India's black money is believed to be held in bank accounts in Switzerland. As per the Swiss Bankers Association, Swiss law and tax agreements prohibit third countries from general searches for possible tax evaders.

According to Report published by Swiss National Bank, the estimates of total deposits are given below:

Country	Money deposited
India	\$1456 billion
Russia	\$470 billion
UK	\$390 billion
Ukraine	\$100 billion
China	\$96 billion

Source: Swiss Banking Association Report 2006

Committees formulated by Government of India to tackle black money.

1. Corruption Committee (1964)
2. Study team on Leakages of Foreign Exchange through Invoice Manipulation (1971)
3. Wanchoo Committee also known as Direct Taxes Enquiry Committee (DTEC) 1971
4. Committee on Agricultural Wealth and Income (1972)
5. Indirect Taxation Enquiry Committee (1978)
6. Economic Administration Reforms Commission: Reports on Tax Administration (1983)
7. National Institute of Public Finance and Policy Report (1985)

8. Tax Reforms Committee (1992)
9. Measures to tackle Black money in India and Abroad- Report of the Committee headed by Chairman, CBDT (2012)
10. White Paper on Black money (2012)

II REVIEW OF LITERATURE

'Tax Reforms in India: A study of its impact on the revenue of the government' was conducted by **Dr Devarajappa Sin** 2017 in which he has highlighted the importance of consciousness of Indian Government about the rules and regulations pertaining to tax laws that will help in creating an atmosphere by which people will pay their due taxes and will not evade the same. Another study (A Comparative Study of the Tax Structure of India concerning other countries) carried on by **Mr Nishant Ravindra Ghuge and Dr Vivek Vasant Rao Katfare** in 2016 reveals that tax structure of India almost lags behind all the major indicators. It further reveals that detailed reviews and measures from the government can improve the tax structure further. According to the study "White Paper on Black Money" edited by **CA Lalit Mohan Agarwal** in 2012, the criminal activities are mostly caused by the violation and breach of laws made by the Central and State Governments which, in turn, give rise to the initiation of black money in Indian economy. **Sukanta Sarkar** conducted a study on "The Parallel Economy in India: Causes, Impacts and Government Initiatives" in 2010. He blames the political system of India as the main reason behind generation of black money and tax evasion. He says that the Government of India focuses only on establishing committees rather than implementing it. He concludes with the fact that laws should be effective enough to curb black money and tax evasion. In 2009, **Vijay Kumar Singh** says that for a country like India it is difficult to curb black money because of the poor implementation of laws.

The report submitted by **D.K Rangnagar** in 2012 reads that the tax evaded income in 1961-1962 was Rs 1150 crores, from 1965-1966 it was amounted to Rs 2300 crores, from 1968-1969 of about Rs 2833 crores and Rs 3080 crores in 1969-1970. The amount of black money in Indian economy was Rs 100000 crores in 1985 as per **The National Institute of Public Finance and Policy**. **The Hindustan Times** on January 20, 1997 published that the black money was amounted to Rs 400000 crores in 1996. It was assessed by **N Jayalakshmi and N. Rajesh** that corruption is the main reason behind the generation of black money in India. They suggested that Indian government must adopt policies, tactics and different strategies to eliminate poverty from the society as well as penalize the corrupt and fraudulent involved, irrespective of the status they possess in the society.

In 2005, India Today revealed a report of a Committee formed by **O.P Chopra** in the year 1982. A series of estimates of black money was presented which showed that it increased from Rs 916 crores to Rs 8098 crores from 1961-1977. Chopra also supports the fact that higher the tax rates, higher will be the amount

of tax evasion. His conclusions also corroborate the hypotheses that increase in prices lead to increase in unaccounted income.

III RESEARCH METHODOLOGY

This paper attempts to theoretically review studies conducted by various researchers. The main source of data collection was secondary data. The secondary data was collected from journals, magazines, reports as well as through surfing net.

IV OBJECTIVES OF THE STUDY

The study has been conducted to achieve the following objectives:

- To study and review the existing status of black money and tax evasion prevailing in India.
- To find out the causes of tax evasion and black money.
- To study the future challenges emerging due to black money
- To suggest the measures adopted to control black money and tax evasion based on the review of various studies.

V DISCUSSIONS

Causes of tax evasion and black money

The main reasons for the origination of black money in India are through: -

- **Illegal activities:** - These activities include illegal mining and falling of forests, hoarding, black marketing, theft, robbery, kidnapping, smuggling of goods, production/manufacture of illegal goods, bribery etc. All these activities are anti-social in nature and clearly exhibit the deteriorating social and moral values of the Indian society.
- **Legal activities:** - Black money is earned through legal activities such as by charging higher rates of tax, rapidly increasing licensing system, hike in prices of commodities (inflation), ineffective enforcement of tax laws, transactions in urban real estates, etc. Also the reluctance of bringing agricultural income in the domain of income tax has contributed to the creation of black money. Over the past few decades many big industrial houses are entering into the agricultural sector with the aim of transforming black money into white money by viewing it on the agricultural returns account.

Future challenges arising out of black money

- One of the biggest challenges to the Indian Government is to bring back money from overseas. The government needs to change the situation and create means through coordination, cooperation and consensus among other countries.

- There are many illegal activities such as smuggling, black marketing, bribes, drug trafficking etc through which a huge amount of black money is generated in the country. It requires all the agencies of both State and Central governments to frame strategies to control such criminal activities and bring them to a halt.
- The increasing level of corruption and the way people with black money bribe the administrators, politicians and authorities to get what they want poses a threat to the economy as a whole
- Reduction in the cost of compliance and administration.
- To properly form committees and run them in a very efficient & effective manner.

VI SUGGESTIONS

After analyzing and examining the concept and causes of black money in India, it's time for some recommendations and suggestions that might help to curb black money. These are as follows:

1. The government should make its primary objective to control black money and must take initiative measures to tackle black money and tax evasion
2. The government must put restriction on cash transactions because mostly black money spins around cash only. More preference must be given to the usage of plastic money.
3. Citizens having both agricultural and nonagricultural sources of income must be taxed for nonagricultural income.
4. The use of technology must be promoted and there should be less human involvement in order to reduce the level of corruption.
5. There is a need for creating transparent, friendlier and less discriminatory administrative system.
6. Strick rules must be formed against the tax evasion and black money.
7. Strick check on foreign bank transactions
8. Banks should properly inspect before sanctioning the loans.
9. All the political and other funding must be done through cheques.

VII CONCLUSION

Black money stands for money earned in black market which is kept secret and is earned through legal and illegal means. It is neither reported to the authorities at the time of creation nor revealed at any point of time. India has always been at the top in terms of total deposits of black money. The Government of India has framed several committees which look after the problems arising out of black money. Despite that our country faces a number of challenges due to the generation of black money. In order to improve the Indian tax compliance, an environment must be created in which people pay their due taxes, do not evade the tax and feel proud in discharging their duty to pay. Both the private and public sector needs to be vigilant and strict in crushing the scams like money laundering, tax evasion and other such issues. The

scams like black money and tax evasion is not a problem to the business organizations only but is also a threat to national economy.

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