

Research Papers



CAUSES AND MEASURES OF BLACK MONEY IN INDIA

DR. ROSHANKUMAR M. BHIGANIA
Research Guide & Associate Professor
Yeshwant Mahavidyalaya,
Nanded-431 602

INTRODUCTION:

Several attempts have been made to quantify black money in India. The main findings of the various studies on black money are:-

i) The amount of black money has not only been growing in absolute terms, but also in relative terms as a percentage of Gross National Product (GNP).

ii) Black money which was less than 10% of GNP up to 1975-76 began to grow at a much faster rate thereafter. IMF (International Monetary Fund) staff survey on the unaccounted sector of the economy has estimated black money in India at 50% of GNP, which was Rs.1,45,000 crores in 1982-83 at current prices. On this computation, India's unaccounted sector is of the order of Rs.72,000 crores. In 1994-95 the black money is estimated by the Parliament Standing Committee on Finance as Rs. 11,00,000 crores against the GNP estimate of Rs.8,45,000 crores, i.e. 130% of GNP.

iii) The rate of growth of black income generation is faster than the rate of growth of GNP.

The total amount of black money deposited in foreign banks by Indians is unknown but in Feb 2012, Central Bureau of Investigation (CBI) director A.P. Singh speaking at the inauguration of first Interpol global programme on anti-corruption and asset recovery said : "It is estimated that round 500 billion dollars of illegal money belonging to Indian is deposited in tax havens abroad. Largest depositors in Swiss Banks are also reported to be Indians." India in particular, has suffered from the flow of illegal funds to tax havens such as Mauritius, Switzerland, Lichten Stein, and British Virgin Island etc. Continuing

generation and accumulation of black money poses a grave threat to our economy and is likely to threaten the very security and survival of the country.

OBJECTIVES:-

- i) To know the causes of Black Money.
- ii) To know the measures of Black Money.
- iii) To suggest some measures for curbing the generation and spread of Parallel economy of Black Money.
- iv) To know the nature of Black Money.

CAUSES RESPONSIBLE FOR THE GENERATION OF BLACK MONEY:-

1) Black Marketing during the Second World War period:-

During the Second World War period many in the Indian industry found the situation ripe for black marketing. Supplies of Industrial goods from the foreign countries were cut off. This resulted in severe shortages in many vital lines. The inflationary finance led to price escalation. Taxes were raised sharply on higher incomes and excess profits. In these circumstances many businessmen indulged in black marketing. They evaded taxes. They earned huge profits in respect of goods that were in short supply through black market.

2) Consequence of Controls:-

The system of controls permits quota and licenses which are associated with misdistribution of the commodities in short supply results in the generation of black money. Bribes or speed money were used to secure permits and licenses from quite many Government officials.

Please cite this Article as : DR. ROSHANKUMAR M. BHIGANIA , CAUSES AND MEASURES OF BLACK MONEY IN INDIA :
Review of Research (May ; 2012)

The controls create shortages, often artificial shortages. The prices of these controlled goods were much high. These excess prices have swelled the black money.

3) Transactions in Urban Real Estate:

These have contributed very greatly to the growth of parallel economy. The seller is tempted to evade capital gains tax and the wealth tax. The buyer benefits by evading wealth tax, stamp duty for registration of the property.

4) High Tax Rates and Defective Tax Structure:-

The enforcement of tax laws are very weak due to widespread corruption in these departments. The high rates of these taxes induce business men to avoid recording of these transactions.

5) Increase in Public Expenditure:-

Public Expenditure in such good causes as removal of poverty. Subsidization of the supplies for needy has neither been efficiently administered nor properly targeted. The result has been large leakages into the stream of unaccounted income.

6) Expectation of higher net rate of return:-

The chief factor responsible for generation of black money is that individuals expect a higher net rate of return than the legally permissible rate of return. For this they try to evade the taxes and earn more.

7) Donation to Political Parties:-

To get relation of various controls, and licences, business people contribute to the funds of political parties from the black money to earn again black money. They seek the support of the support of the politicians in power not to bite but only to bark.

MEASURES TAKEN BY THE GOVERNMENT:-

Since black money is a big evil, it is of utmost urgency that we get rid of it, and make the economy function in a healthy manner. In this regard certain measures have already been adopted by the Government. They are:

1) Measure to Check Tax Evasion:-

Tax evasion is the source of generation of black money. Therefore, plugging loopholes in tax laws by a large number of legal and administrative measures was undertaken. Most of these measures were based on the recommendations of various committees and commissions. Most of the

recommendations pertained to improvement in tax laws.

2) Demonetization:-

In 1946, demonetization was resorted but it was not successful then, because only a very small proportion of total notes in circulation was demonetized. Another demonetization was attempted with effect from January 16, 1978 of high demonetization notes, i.e. Rs.1000, Rs.5000, Rs.10000. But this time also demonetization failed to make a serious dent on unearthing black money.

3) Voluntary Disclosure Income Schemes:-

This was adopted as far back as 1951 and their thrice in 1965, 1975 and again in 1997. The scheme envisaged a voluntary disclosure of concealed income by the persons. Under these schemes these declaring their income were not to be punished & they need not declare the source of income. Some compared to the black money. The new voluntary Disclosure Income Scheme which netted tax collections estimated to exceed Rs.10,000 crores.

4) Special Bearer Bond Scheme:-

This Scheme was introduced in 1981 to channelize unaccounted money for productive purpose. They carry an interest of 2% p.a.. Complete immunity has been granted to the original subscriber of the bonds from being questioned about the possession of bonds or about the sources of money from which the same have been acquired. The amount subscribed to this scheme is very meager amount of Rs.960 crores.

The Government measures described above have indeed achieved something. But this is too little considering the big size and complex nature of the problem. The sources of black money remain as before, and the flow of such money continues.

CONCLUSIONS AND SUGGESTIONS:-

Following due considerations may result into eliminating black money in the country.

- 1) The penalty for unreported transactions. Which fall within the tax net, be made more severe.
- 2) The opportunities for corruption should be eliminated. This necessitates an overhaul of the control/ licensing/ permit system. Proper remuneration to administrative functionaries to be paid.
- 3) These is a need for a radical change rather reversal of the attitude of the people. The need is to educate the people and to change their very work ethos.
- 4) The structure of indirect taxes need to be

rationalized so as to cover goods and services which are escaping tax. The introduction of MODVAT that concentrates on the final commodity is a very welcome step.

5) The tax net should be expanded to cover new tax payers.

6) Removal of controls, permits that are considered unnecessary.

7) Donations to political parties by companies should be banned.

8) Expansion and improvement of the public sector and a counter veiling power.

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