



REVIEW OF RESEARCH

ISSN: 2249-894X

IMPACT FACTOR : 5.7631 (UIF)

VOLUME - 11 | ISSUE - 10 | JULY - 2022



THE STUDY OF THE PROBLEM AND CAUSES OF BLACK MONEY IN INDIA

Dr. Vivek Sudhakar Chavan

Dr. M.W.P.W.S Arts, Commerce and Science College, Nagpur .

ABSTRACT:

There is no official definition of black money in economics, some people know it as a parallel economy while some also call it by names like black income, illegal economy, and unregulated economy. If we try to define it in simple words, then it can be said that black money is probably the income that is tried to be hidden from the tax authorities. Black money can be obtained mainly from two categories of illegal activities, and legal but unreported activities. Of the above two categories, the first category is more obvious, because of the income that is earned from illegal activities. It is generally hidden from the tax authorities and hence it is called black money. The second category includes income that is earned from legal activities but is not reported to the tax authorities. The purpose of this paper is to study the problem of black money in India.



KEY WORDS: *Black Money, Illegal Economy, Illegal Activities, Unreported Activities, Black Income*

OBJECTIVE OF RESEARCH:

- 1) To study the problem of black money in India.
- 2) To know the contribution of the government in the prevention of black money.
- 3) To study the causes of black money in India.

INTRODUCTION:

In the White Paper on Black Money issued by the Government of India in May 2012, black money is defined as assets or resources about which information is not made available to government sources at any time (neither at the time of collection of these resources). nor during the entire period of possession thereof). A similar definition was given by the NIPFP (National Institute of Public Finance and Policy) in its 1985 report, Aspects of the Black Economy in India. Black money is defined in this report as the aggregate of such incomes which are covered by taxes but on which no tax is paid. In black money, all the income and property is taken on which tax has not been paid (tax evasion), and the income and property which is not accounted for (which is called unaccounted income). Generation of Black Money From the definition given above, it is clear that the meaning of black money is that income. is not fully legitimate in the hands of the holder. This type of income can be generated both legally and illegally.

The methods used to measure black money are based on assumptions and so far there is no uniformity in the assumptions of all the agencies working in this context in India. Almost all small shops across the country do business in cash, due to which it is quite difficult to calculate their profit

transparently. According to the report of the committee, real estate, mining, pharmaceutical, tobacco, film, and television are some of the major industries where black money is found to be high. The report emphasized that India does not have any accurate and reliable method of estimating black money.

The monetary method and input-based method are the two main methods of measuring black money in India. The monetary method is the most popular method of measuring black money in India. Under this, it is believed that the availability of black money and its changes, reflect or affect the flow and storage of money within an economy. In other words, it can be said that to measure black money under this method, it is necessary to keep track of the flow of money in the economy. Under the input-based method, an attempt is made to find out how much money should have been generated within the economy and how much has happened. The difference between these two is called black money. For example, first, calculate all the houses built in a city and estimate how much cement will be required to build all of them, then check how much cement has been sold in the city as per tax records. If there is a difference between these two, it means that some money has been hidden from the tax authorities and that is black money.

Black money is created through criminal activities and corruption. Criminal activities can be of many types. Such as smuggling of goods, production, and trade of prohibited and addictive goods, counterfeiting, illegal mining, illegal destruction of forests and income generated from it, theft, illegal liquor trade, kidnapping, and human trafficking. , dishonesty and financial fraud, misappropriation, illegal trade in arms, etc. 'Corruption' may include activities that result from bribery and theft of income generated by government officials, such as bribes taken while awarding contracts, and thefts from government social expenditure programs, in exchange for assurances of speedy completion of work. Bribes paid, black marketing in price-fixed services, bribes in return for the regularization of unauthorized settlements, etc. All these activities are illegal and are the result of human greed and the weaknesses of the administration.

The Problem and Causes of Black Money in India:

It is very difficult to estimate the total size of the black economy. The reason for this is that this whole economy is a 'hidden economy' and no person tells anything about his black money. This is the reason why efforts to estimate the size of the black economy vary widely in results. Probably the first estimate of the amount of black money in the Indian economy was made in a report published in **1956** by Nicholas Calder. This estimate was for the year **1953-54**. At that time there were **13** sectors in the National Accounting System of India. Calder estimated black money for each of these sectors. He accepted that there is no part of black income in the amount distributed in the form of wages and salary. To estimate black income in each sector, the difference between estimated non-salary income and actual non-salary income above the exemption limit was taken. According to the report, black income in India in **1953-54** was Rs **600** crore, which was **6.0** percent of the gross national income (at current prices) of that year (Gross national income at current prices in **1953-54** was Rs **9,993** crore).

Illicit money transferred outside India International organization GFI (Global Financial Integrity) in its various studies has presented estimates of illegally transferred money abroad and estimates of black money. For example, in its report *The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008*, published in November **2010**, GFI estimated that the amount of capital transferred illegally from India over **61** years between **1948** and **2008** was **213.2**. Billion dollars, which is **16.6** percent of India's GDP, or if the compound interest on these assets is also added, then by the end of **2008** this estimate reaches **462** billion dollars, which is about **22.5** lakh crore rupees. The openness of foreign trade since the **1991** liberalization has allowed traders to trade at unfair (or discounted) prices, thereby helping to earn income through illegal means, the report said. In addition, the process of economic reforms after **1991** has increased income inequalities. According to the report, "As income inequalities widen. By the way, many high-income people start transferring their money abroad. Thus, rapid economic growth encourages capital transfer. Estimates of black money have also been presented in this report. According to this, the size of the black economy in India has increased significantly since independence from **\$3.3** billion in **1961** (**9.1** percent of GDP) in **1971** to **\$17.6** billion (**28.6** percent of

GDP), **128.1** billion in **1991**. USD (**44.6** percent of GDP), **\$198.4** billion in **2001** (**41.1** percent of GDP), and **\$640.7** billion in **2008** (**50%** of GDP). Thus, the size of the black economy in India was **50** percent (or half) of GDP in **2008**, according to the report.

Another GFI report in December **2015** Financial Flows from Developing Countries: **2004-2013** estimated that during the period **2004** to **2013**, **\$51** billion per year was remitted from India as black money abroad. Thus, during the decade **2004** to **2013**, a total of **510** billion dollars were transferred abroad as black money (which works out to Rs **33.6** lakh crore at an exchange rate of Rs **66** per dollar. Illegally transferred abroad). India was ranked fourth in the world based on wealth after China, Russia, and Mexico in **2004-13**. The reasons for illegally transferring money abroad were large-scale tax evasion, criminal activities, and other illegal activities.

Illegal activities (such as fraud, counterfeiting, smuggling, trade in prohibited and prohibited items, production and trade of narcotics, illegal mining, illegal deforestation, illegal purchase and sale of arms, financial fraud and fraud in banks, etc. The money accumulated from) is converted into such alternative forms so that there can be no doubt about its origin or ownership. Acquired assets are manipulated and presented through complex processes in such a complicated manner that it is difficult to know the activity in which they were created. This makes it difficult to take legal action. Many domestic and foreign banks have played a significant role in financial scams in recent years.

After independence, the Government of India set up large-scale public enterprises. Tenders were called for the establishment of these enterprises and the contract work was awarded by the government officials, in consultation with the politicians. There was large-scale misappropriation of money with the connivance of contractors, government officials, and politicians leading to the generation of black money.

Political parties often require huge funds to contest elections and a large part of it is given by big business houses in the form of donations that are not accounted for. Thus, it is black money. The purpose of the business houses behind this donation is to influence the economic policies in their favour. In recent years a lot of money has been given to get the support of MLAs and MPs to form governments and black money has played an important role in this whole process.

The experience of the common man of this country is that no work is done in government offices unless the officials are bribed. Sometimes people give bribes to get their work done fast (like to get electricity connection fast, to get the home registry done fast, etc.) and sometimes to carry out illegal activities (like illegal forms). For expansion and expansion of buildings, for tax evasion, etc.) give bribes.

The Indian tax system is very complex. There are many types of taxes and there are many different types of tax rates. This complicates the task of tax administration. Tax authorities interpret tax laws in their arbitrariness. Sometimes big businessmen, politicians, and rich people evade taxes on a large scale with the help of tax officials.

A large part of the black money is invested in the purchase of gold, silver, jewellery, diamonds, and jewellery. Thus, the resources which could have been used for productive activities are wasted. This adversely affects economic growth. Black money is often kept in different accounts at different places in other countries. The GFI estimates that we discussed earlier in this chapter indicate that huge amounts of money have been illegally remitted from India to other countries. For example, according to the GFI report released in **2010**, during the **61** years between **1948** and **2008**, the amount of illegally transferred capital from India was **\$462** billion, which is about Rs **22.5** lakh crore. This amount can meet the infrastructure requirement of India, which is evident from the fact that the Planning Commission has set a target of **500** billion dollars for investment in infrastructure for the period of the Eleventh Plan (i.e., from **2007** to **2012**). was. According to a **2015** report by GFI, a total of **\$510** billion was remitted abroad as black money, which is equivalent to Rs **33.6** lakh crore, during the period **2004-13** just one decade. Corruption spreads through black money. As is evident from various reports, black money is openly used to raise funds for political parties and to buy MLAs and MPs for government formation.

After independence, the government has taken some steps to tackle the problem of black money, but these efforts have been less successful. As is evident from the estimates in this chapter, the size of the black economy has steadily increased. Tax evasion is one of the main sources of the

generation of black money. The government has constituted several committees from time to time to suggest ways to reduce the problem of tax evasion. Some economists have suggested from time to time that demonetization of large currency notes should be done to reduce the amount of black money. In **1978**, the Government of India made an effort in this direction by demonetizing Rs **1,000** and Rs **5,000** notes. But this policy had no effect as only Rs **165** crore currency was in circulation in the form of these notes. An even bigger and wider impact step was taken on **8 November 2016** when the Rs **500** and Rs **1,000** notes were demonetized. As a result, **86** percent of the currency in circulation became demonetized, meaning it ceased to be part of the currency.

In **2015**, a stringent law Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, **2015** was implemented. Under this, people were given time from July **2015** to September **2015** to declare their foreign assets. It is estimated that a little over **600** people declared foreign assets under the scheme and tax collections of around Rs **2,000** crore were made. Since lakhs of crores of rupees have been illegally deposited abroad since **1948**, this tax collection of Rs **2,000** crores is not even 'one' percent of the amount illegally deposited abroad. According to Arun Kumar, the reason for this is simple- "Those who have stashed money abroad illegally know that the government has not been able to take any coercive action against them in the last seventy years, and in the existing law, there is no such system which can harm them. So, they do not need to worry. An Income Declaration Scheme was announced in the budget of **2016-17**. In this scheme, there was a provision that those who have undisclosed income can declare the same within four months (from **1st June 2016** to **30th September 2016**) and make their black money white by paying tax. Those who can declare their black income under this scheme declare that they will have to pay a **30** percent tax, **7.5** percent surcharge, and a **7.5** percent penalty. Thus, the total tax on undisclosed income will be **45** percent. Under this scheme, **71,726** people collected black money worth Rs **67,382** crore. Undoubtedly, this was the highest declared black income in the history of Indian taxation. But, as is evident from the above figures, The per capita black income declaration works out to less than 'one' crore rupees.

It was amended on **1 June 2009**. The Act was amended by the Prevention of Money Laundering (Amendment) Act **2012** which came into force on **15 February 2013**. Sections **48** and **49** of the **2002** Act empowered the Directorate of Enforcement to investigate all cases related to money laundering. After the investigation, he can initiate proceedings for confiscation of the property.

For most of the post-independence period, the economic and political system of the country has been working in a non-transparent manner, as a result of which no one has been able to know what is happening in the public sector or the private sector. For example, companies have been trying to get investments by giving wrong information to people and financial institutions by manipulating their balance sheets. Similarly, many government officials have been abusing their authority on a large scale in the belief that their exploits will not be traced. The accountability of government officials has often not been there. This is the reason that despite the presence of rampant corruption, no concrete action has been taken against any government official or politician.

CONCLUSION:

Annual returns should be made mandatory for charitable institutions, there should be a system for the registration of these institutions and the exchange of information between different agencies. Black money generated in this sector can be curbed by enacting a strong real estate law. A comprehensive action plan should be made to stop the use of black money in elections because it is very easy to spend black money here which motivates the creation of black money. Political parties should be brought under the purview of Right to Information (RTI) and their books of accounts should be regularly audited. The hawala trade should be curbed. The powers and autonomy of the Income Tax Department should be increased. Although at present the government is making efforts to stop black money generation through steps like Black Money Act, Benami Transactions (Amendment) Act, Income Declaration Scheme, Demonetization, Pradhan Mantri Garib Kalyan Yojana, these efforts are being taken care of by considering the above suggestions. More speed can be given.

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