
THE STUDY OF THE PROBLEM OF BLACK MONEY IN INDIA AND ITS CONSEQUENCES

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Abstract:

There is no official definition of black money in economics, some people know it as the parallel economy and some also call it by names like black income, illegal economy, and unregulated economy. Try to define it in simple words then it can be said that possibly black money is the income that is tried to hide from the tax authorities. Black money can be obtained mainly from two categories one from illegal activities and the other from legal but unreported activities. Of the above two categories, the first category is more evident because the income that is earned from illegal activities is generally hidden from the tax authorities and hence is called black money. The second category includes income earned from legal activities but not reported to the tax authorities. This research paper has been written to study the problem of black money in India and its consequences.

Keywords: *Illegal Activities, Unreported Activities, Black Money, Income Tax, Indian Economy*

Research Methodology:

The research paper has depended on secondary data.

Objective of Research:

- 1) To study the Problem of Black Money in India.
- 2) To study the Consequences of Black Money in India.

Introduction:

Black money can be generated in any sector of the economy, however, there are some sectors in which it has more scope. The most important sector in this context is the land property and building buying and selling sector. To avoid stamp duty and capital gains tax on transactions in this sector, the face value of the transaction is often kept much lower than the actual value. This creates black money. The gold and jewellery sector are another important sector. Many people use their black money to buy gold and jewellery and businessmen keep their undisclosed income in the form of stock, which is not recorded in the accounts or is marked at a price much lower than the actual value.

Exchange operators in the financial markets also generate black money by manipulative activities in these markets. The government provides various types of tax concessions to units

working in the field of philanthropy. Many people become successful in tax evasion by taking advantage of these tax concessions. In a developing economy like India, there is a large unorganized informal sector in which no account is maintained for many payments made in cash. Thus, this sector is also a major source of the generation of black money.

According to the White Paper issued by the Government of India in May 2012, multinational corporations, while operating in many countries, transfer their profits and income to countries and territories that have either low tax rates or high tax concessions. There are It is estimated that a large part of the money remitted from India abroad through illegal means is reinvested in India in the form of Foreign Direct Investment by friendly countries of India which have lower tax rates. Often black money is also generated by non-payment of the full amount deposited in the government treasury. In this situation, the activity performed by the person can be completely legal. He deliberately does not give details of the entire income generated from this activity alone. That is, he evades taxes and gives incomplete information to government officials.

The Problem of Black Money in India and its Consequences:

One of the main reasons for the generation of black money in India has been the prevalence of government machinery and the abundance of controls. Economists believe that in the period before 1991, the widely implemented industrial licensing policy and industrial control policy resulted in a lot of corruption, which led to the large-scale generation of black money. The main reason for corruption was that the government officials used to implement the industrial licensing policy arbitrarily and used to demand huge amounts as bribes for issuing the license. The Dutt Committee Report, published in 1967, stated that licensing authorities often used their powers to benefit large industrial houses and received huge sums of money from these houses.

Black money generated through legal means can have the following two forms. Black money is generated by the manipulation of accounts and exchanged as black money in any vulnerable parts of the economy. It is necessary to include the details of any type of exchange by the taxpayer in the accounts which have to be presented in the financial statement at the end of the year. Tax evaders do not present complete details in the financial statements through various types of manipulations which leads to the generation of black money. The simplest method which is adopted in this context is that the taxpayer does not give any receipt in return for the exchange and so received. The money amount is not included in the account at all. Either the taxpayer does not maintain any account or maintains two separate accounts or records only a few receipts. The easiest way to evade tax is to fudge the sales (or receipts) i.e. to write off less amount than the sales proceeds received.

Some producers sometimes form associate companies along with their main company, whose income is not kept at all. The products of the main company are sold to these subsidiary companies at a lower price, resulting in a fall in the profit margin. To reduce the tax liability, many times the recorded quantity of production is written as less than the actual production level. Its purpose is to evade sales tax, production tax, or income tax. A common method is

inflating expenses. Since the expense is removed from the income received to estimate the tax income, therefore, if the expense is written in excess, then there is a decline in the tax income. This reduces the tax liability.

A major portion of black money is used in the purchase and sale of urban land. Due to this, there has been an unprecedented increase in the prices of land and houses in many cities, especially in big cities, even now it has become almost impossible for low-income groups and middle-income groups to buy land or house in urban areas. Black money is the direct reason for the deteriorating condition of law and order. Illegal activities and crime go hand in hand. As illegal activities spread in the country, the economic power of those involved in these activities increases, and the law are openly violated. The result of the dominance of black money is that today the public life in the country No side of the world is untouched by its influence. Be it any government work, whether it is to get a driving license, contact the Income Tax Department, work in electricity offices, or do any other work, nothing gets done without giving a bribe.

There have been many scams on a large scale in recent years. The two biggest scams have happened in the field of telecom and coal mining. For example, in 2007-08, there was a huge scam in the auction of 2G spectrum in the telecom sector, due to which, according to the CAG, the government lost between Rs 67,364 crore and Rs 1,76,645 crore. In its inspection, the CAG found that there were irregularities in the allotment of licenses by the Department of Telecom, and a transparent policy was not adopted. The CAG claimed that out of 122 new telecom licenses, 70 percent were given to companies that did not fulfill even the basic conditions and had submitted insufficient and false information to obtain the license. As far as the allocation of coal mines is concerned, the CAG found that this allocation was done arbitrarily and this allocation caused a loss of Rs 1.86 lakh crore to the government. The process of the open auction was not followed and there was a large-scale scam in the allocation of coal mines.

Extremely high tax rates are a major source of black money as they encourage tax evasion. It is often said in this context that in the pre-1991 period India had a very high marginal rate of income tax. For example, in 1971 the marginal rate of income tax was 97.5 percent. Due to such a high tax rate people were motivated to tax evasion. This was used to increase black money. Keeping this in mind, the income tax rates were reduced systematically under the economic reform program to be implemented from 1991 onwards. In 1997-98, the highest rate of income tax was fixed at 30 percent. This argument was given in favor of reducing the rate of income tax. Some economists have argued that the above relationship between income tax rates and tax evasion is not necessarily true. According to these economists, to reduce tax evasion, it is necessary to take strict and effective measures for tax collection and not to reduce tax rates.

One of the main reasons for the generation of black money in India is the sale and purchase of land and property in urban areas. The registered value of land and property is often much less than its actual value. Often the declared value of land and property in the registrar's office is only 40 percent of the real value, while 60 percent of the value is given as black money.

In 2016, the amount of black income in India was 92 lakh crore rupees, which is 62 percent of the GDP, then only 0.7 percent of the black income generated in that year was declared. Under the scheme which was implemented in 1997-98, about 5 percent of black income was declared. In 1997, four lakh people had declared black income while in 2016, the number of people who declared in this scheme was only 71,726. The period for the second Voluntary Declaration Scheme after IDS in the financial year 2016-17 and the first Voluntary Declaration Scheme after demonetization in November 2016 was from 17 December 2016 to 31 March 2017. This scheme was named Pradhan Mantri Garib Kalyan Yojana (PMGKY). Under this scheme, people who declared black income had to pay a 50 percent tax. Apart from this, it was also arranged that 25 percent of the declared black income would have to be deposited in the Pradhan Mantri Garib Kalyan Deposit Scheme, 2016 for four years and no interest would be paid on this deposit. will not be given.

The government passed the Prevention of Money Laundering Act in 2002 to control illegal income and confiscate assets purchased with such income. This act came into force on 1 July 2005. In this context, the Right to Information Act passed in 2005 is important. The objective of the RTI Act is to bring transparency to government functioning, control corruption, and strengthen political democracy through citizen empowerment. This act gives the right to the common citizen he can ask for information related to his work from any institution or officer established under the constitution. Apart from the Central and State Governments, those institutions also come under the RTI Act have received financial assistance from the Central Government or State Governments. Getting information under this Act is very easy. Any person who wants to get information from any government department has only to ask for information by giving a letter to the Public Information Officer of that office. If the person does not get the information within 30 days or does not get a satisfactory answer, then that person can file an appeal within 30 days, which must be answered within 30 days. The scope of the RTI Act is very wide and all government and allied sectors come under it. This act has been used by many persons to obtain information from various government departments on matters of public interest. But in the recent period, the effective implementation of the RTI Act has been hampered by the killing of persons seeking certain information and has spread panic. The Lokpal and Public Commissioners Bill 2011 was passed by the Parliament in December 2013. Its purpose is to establish an official body to prevent corruption, under whose jurisdiction the Prime Minister's office also comes.

According to the book "Understanding the Black Economy and Black Money in India" by eminent Indian economist Arun Kumar, the total value of India's black economy is equivalent to 62 percent of the country's GDP. There is no denying the fact that black money has been the most discussed issue politically and economically in India in the last few years. Experts believe that so far, the Indian economy has suffered a lot due to black money. Although the government had taken a big step like 'Demonetization' in the year 2016 to end black money, when RBI presented its annual report for the year 2017-18, the fact came to the fore that about 99.3 percent of the banned notes were The banks are back. In fact, in addition to the option of demonetization, the Black Money Act was also considered an important tool, due to which people expected that the government would get a lot more amount of black money from it, but

according to the data released in May this year, those Only Rs 12,500 crore could be realized from foreign assets which were not taxed. The above facts show that till now the government has made many efforts to deal with serious problems like black money, but due to various reasons, it has not been possible to achieve this objective.

The government has already enacted several laws in this context to curb black money in the economy and make it mandatory to report economic transactions. This includes the Goods and Services Tax Act, Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act 2015, Benami Transactions (Prohibition) Amendment Act, and Fugitive Economic Offenders Act, etc. The government has made PAN mandatory for transactions above Rs 2.5 lakh, with the main objective of controlling transactions being hidden from the tax authorities. The Income Tax Department has also started identifying people who do high-value economic transactions in a financial year but do not file their returns.

Conclusion:

Due to the excess of black money in the economy, a 'parallel economy' is being created in the country, which is very difficult to identify and regulate. Black money creates an underground economy, which makes it difficult to accurately estimate national income and GDP figures and presents a wrong picture of the economy. This does not bring accuracy in policy making. Tax evasion takes place during the generation of black money which leads to a loss of revenue for the government. As a result, the government has to resort to high taxation and 'deficit financing' (which harms the economy). Black money is spent on entertainment, luxury, corruption, funding elections, betting, or criminal activities, which on the one hand Crime and corruption are encouraged, on the other hand, due to the deterioration of the usage pattern, there is a wastage of scarce resources. The Income Tax Department should also fix the limit of expenditure in the form of a certain percentage of income so that spending more than this, will automatically come under scrutiny.

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