

The Black Money Saga In India: A Short Analysis

We hear news about Black Money in Indian economy very often these days. But what exactly is Black money? What makes money black or white? This short analysis is a humble attempt to cover essentials one should know about the black money issue in India.

Definition of Black Money:

It is to be noted here that there is no clear cut definition for black money in either economic or sociological concepts. In very simple terms we can say **any money which is not accounted** as one or another form of black money.

Black money is often money **illegally obtained or transacted**. As being unaccounted money, black money is **not declared for tax purposes**. Black money is also hidden from the government authorities which calculates national income like GDP, GNP etc.

Black money is not fake notes!

It has not be understood that fake notes are not synonymous to black money. Counterfeiting is about printing new money by unauthorized agents. Black money is not about printing new money, but is more related to tax evasion.

Ideal economy – accounted and legitimate transactions

Ideally all transactions where money change hands should be accounted. This helps the government to collect taxes.

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But if money change hands without proper accounting (Eg: cash transactions), government may fail to notice even the presence of such money in the economy. Besides, there are many economic transactions in the countries which are by the nature itself illegal (Eg: Smuggling). These transactions can by now means taxed. All these unaccounted money can be classified under the umbrella term – black money.

Cash transactions can be black money!

You may wonder; but if cash change hands without proper transaction accounting, the money involved is black money!

How is black money generated in an economy?

1. **Illegitimate Activities:** Money is generated through illegitimate activities like trafficking, robbery, smuggling, terrorism, money laundering, corruption etc.
2. **Tax Evasion:** People either fail to report their tax to the authorities by virtue of ignorance or intentionally to avoid paying tax which is otherwise termed as **tax evasion**.
3. **Tax Avoidance:** The third scenario is about taking advantage of the legal system in a country, where individuals and companies avoid paying tax – which is called as **tax avoidance**.

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Black money generation – day to day examples

Some very common forms of this menace may include:

- Sellers who don't give bills for sales creates a form of black money.
- In the land registration process and in other reality sector business, people tend to undervalue their costs (sssets) so as to reduce the tax and registration fees to be paid.
- People investing in jewelry and bullion so as to to hide their actual income. Money is also hidden in places like bank lockers and underground tunnels.
- Nonprofit organizations, trusts, financial markets etc are often pointed for their involvement in black money.
- Tax heavens, round tripping, transfer pricing, hawala transactions, treaty shopping etc. (to be dealt in detail later.)
- Participatory Notes otherwise called P – Notes are another source of black money.
- Till recently bitcoins were also considered to be a source of funding of black money as it provides a safe platform for investors with handsome returns from its value appreciation.

The black money problem in India



The problem of black money in India started popping up by 1960's. This is mainly attributed due to the high level of income tax and corporate tax charged then. This resulted in huge tax evasion by individuals and business communities. Now, after liberalization in 1991, the black money issue has compounded.

Estimates of Black Money in India

As black money is not accounted it is not easy to estimate it either. Different reports suggests different estimates. Some estimates are as below:

- A former CBI Director of India has said that the total black money in India is around 500 billion US dollars.
- Global Financial Integrity Report has mentioned that India lost around 120 billion US Dollars in the time frame of 2001-2010. It ranked India in 8th spot in black money generation.
- Indians' share in tax-havens across the world is estimated at \$152-181 billion (Rs. 10 lakh crore), by one calculation of Bank of Italy. Note – 6-7 trillion dollars worth of black wealth lies hidden in tax havens across the world, according the senior economists from the Bank of Italy.

Indian Black Money – Abroad or in India itself?

There are many experts who consider that 90 percent of India's black money stays in India itself. Some value it around 70 lakh crore. This is because funds transferred to foreign banks fetch very little or no bank interest. But at the same time, the booming Indian economy offers large scope for investment.

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According to one study, out of 100 rupees of black money generated in our country, 90 percent stays in India. The balance 10 percent is takes the form of round tripping and transfer pricing; while a little portion is consumed abroad itself.

Can black money be made white money?

Recipients of black money must hide it, spend it only in the underground economy, or attempt to give it the appearance of legitimacy through **money laundering**. Money laundering is the process by which black money is converted to white money. One of the practice involved in money laundering is **round-tripping**, where tax-evaded money comes back to the same country as foreign investment.

Effects of Black Money

The after effects of black money in our economy is manifold and have serious consequences. Some of the negative impacts are listed below.

- It affects the financial system of the country. RBI may not be able to control the money supply in the economy and thereby leading to higher inflation in the system. The persistent level of high inflation is detrimental to the economy as it will erode the value of money and eats up investments and savings. It will affect the credibility of our country.
- The money generated in the form of black money is often routed for terrorism and hence, it becomes an issue of national security.
- A **parallel economy** will be created in the country and hence, governance will be ineffective to a large extent. We have the examples like Mexico where a parallel economy is rampant due to illegal drug trafficking.
- There is a huge loss of money for government exchequer because of tax loss for the country
- Real estate prices may shoot up. This may result in asset bubble which is detrimental to an economy.

Steps to curb black money: Some recent developments

Different steps has been formulated to curb the menace of black money in India. There were co-ordinated efforts from the part of government, RBI, and Supreme court. Steps taken include:

- Formation of Special Investigation Team (SIT) by SC during the UPA government tenure while considering a case filed by former Law Minister Shri. Ram Jetmalani.
- The government passed The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015
- RBI initiated the process of taking back the currency notes issued before 2005 to reduce the level of counterfeit notes and also to curb the menace of black money to a greater extent.
- The government is mulling for a dual strategy in the form of framing policies to bring back the illicit money stashed abroad and also making domestic laws stringent to locate and identify the black money in India.
- Tax reforms in the form of tax deduction at source (TDS) , increasing tax base than merely increasing tax rates, voluntary disclosure schemes etc.
- Government and RBI are promoting the **cashless economy**. The government has

- either slashed taxes or surcharge on online / card transactions to make transfers accountable and try to bring the money into the normal banking system. Government has scrapped Rs.500 and Rs.1000 notes and changed the cash withdrawal limits from banks and ATMs.
- India joined **FATF (Financial action Task force)** in 2005 to combat against financing terrorism through the black money route. We also framed **AML / PML laws** in 2003 for combating money laundering activities in our country.
 - **Prevention of Corruption Act** and **Binami Transactions Act** were other such steps in the right direction.
 - Under pressure from India and other countries Switzerland and other tax havens have agreed in principle to share the details of accounts to the public authorities on a case to case basis.
 - Making PAN number mandatory for real estate and bullion purchases.
 - The government is in a process of renegotiating DTAA's with countries which we have already signed.
 - Limitation of benefits clause needs to be invoked in appropriate areas where it deemed necessary.
 - 2015 HSBC leak.
 - 2016 Panama Papers leak.

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Summary

It is to be noted here that though we have formulated different strategies and policies to combat black money, its effect is not reflected in implementation. The need of the hour is greater political will and global coordination to counter the issue.

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