

BLACK MONEY – A BIG MENACE IN INDIAN ECONOMY

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Abstract: *Black money is the money that earned in the black market, on which income, no tax have been paid. This money drive an economy which has parallel with the country's true economy, called parallel or black economy. More than 50% of the India's economy is black. Despite the authorities has taken many efforts to curb black economy in our country it grown to 62% of GDP. Whether like to admit or not, black economy involves everybody day to day life. According to Indian Institute of Public Finance and Policy (IIPFP), nearly 94% black money is generated from three major sources like tax erosion, under reporting of production, and under registration of property. There is no reliable estimates of black money in the country. According to world bank working paper 2010, the black money in India was 24% GDP in 2007 and have grown to 62% in 2013. Black money generated through several sources such as corruption, illegal deposits in foreign banks, poor tax system, public sector, money transaction through hawala, during election, financial companies etc. The black economy create adverse effects on the real economy, because the black money has not accounted for the estimation of country's GDP. The Government had taken many efforts to curb generation of black money such as constitution of Task Force, Multi Agency Group (MAG), Demonetization etc. The present situation of the black money dominate on the country's real economy is deals detail in this article. Black money is generated from every Indian's blood and sweat. It is our money and must be brought back to our country which is illegally stashed in foreign banks.*

Keywords : *Black money, black economy, transaction, curb, income tax, evasion, stash, swiss bank, corruption.*

Introduction

All the incomes earned through legal or illegal means which has not reported to concernd authorities for taxation, and their subsequent use in consumption termed as black money. This black money may drive an economy parallel with the country's true economy called parallel economy or black economy.

The black economy refers to the economic activities outside formal banking channel includes cash transaction in high value assets such as gold, real estate etc. Experts suggest that more than 30% of India's real estate sector is funded by black money.

More than 50% of the India's economy is black. Of these, about 10% is in foreign banks. A part of the foreign deposit is consumed there and remaining is routed back to India through various means such as hawala or through mauritius route. If the illegally taken out money were to be invested in India, the gain would be two trillion dollar^[1]

1.4% of the total population only pays income tax and most of the black income generated in the formal sectors. Even though the fiscal authorities has taken many efforts to curb black economy in our country it grown 4% of GDP in 1955 to 62% in 2012^[2]

In the whole world India has one of the lowest direct tax to GDP ratio. But because of the tremendous increase in corporate profits the tax GDP ratio has improved in the recent years. (*P.Chidambaram, former fiancé Minister of India*).

A study in 1995 reveals, the black money was accumulated in the hands of 3% population. The ratio of income between the top 3% and the bottom 40% of the population is assumed as 12:1. But included black economy, this ratio become 57:1^[3]

There are eleven sectors including construction, mining and pharmaceutical are more chance to generation of illegal wealth – A report in India speared.com. Whether like to admit or not, black economy involves everybody day to day life. Places of worships are dumping yards of black money in the form of donations^[4]

According to Indian Institute of Public Finance and Policy (IIPFP), nearly 94% black money is generated from three major sources. About 48% from evasion of personal income tax, 28% from under reporting of production and 18% from under registration of immovable properties.

Most of the businessman never discloses their actual revenue. Even though get non-practicing allowance government doctors are making money by private practice and without account, the advocates charging higher fees from their clients.

India is one of the most affected global economy when it comes to the black economy. Since India is a cash driven economy with 87% transaction made through cash, it is very difficult to curb black money completely. As per the statement of Reguram Rajan, former RBI governor, since the major portion of black money is in the form of gold and other assets, it is not easy to flush out from the economy.

Black money is one of the most debated economical and political problem in India. In 2014, the BJP government came to power promised to bring back the black money which is illegally deposited in foreign banks and promised to deposit Rs. 15 Lakh in every Indian's bank accounts.

Corruption and black money are hit the economy too from every side, results hurdle in development, looting the wealth of nation and make the people poor. It is an essential of the government to close the doors of the system which allow the generation of black money and take drastic action to control corruption.

Size of the Black Economy in India

There is no reliable estimates of black money inside or outside the country. As per the reports of many economists, the black economy cannot be estimated accurately and curb from the true economy is a complex task.

The size of the India's black economy expanded rapidly over the 70's and 80's and it had been contracting at a gradual pace that estimated around 20% of the country's GDP. Major quantity of black money is locked- up in physical asset such as real estate and gold.

Based on the supreme court of India statement the amount illegally deposited in swiss based banks is estimated as Rs. 90 lakh crore ^[5]

The size of black money stashed in Swiss based banks is shown in the table (1) and fig(1). *source : Bank of International Settlements (BIS).*

In 2006, the total money parked by Indians in swiss banks stood at a record high of Rs. 23,000 crore, but in a decade gap it came down to a level of one-tenth. According to world bank working paper 2010, the black money in India was estimated as 24% of GDP in 2007 and have grown to 62% in 2013.

In 2012-13, the black economy has estimated as Rs. 93 lakh crore or 62% of India's GDP. It has remained at the same figure in 2016-17. People are mislead the concerned by giving wrong data while surveying for their own benefits. Hence there is no clear picture about the black economy as gathering inaccurate data ^[6]

In 2016, the black economy was estimated as 17.22% of GDP, and a total amount of Rs.26,15,800 crore. Due to tax and other economic reforms since 1980, the unaccounted incomes to GDP declined gradually. A government report on black money status, about Rs. 5.3 lakh crore money moved out from India illegally in 2007. This big amount is 5% less than the estimate of water ministry (Rs. 5.6 lakh crore) to meet the target of river linkage project in the country ^[7]

The GDP of India in the year 2016 was 2.3 trillion dollars and the size of the black economy was about 460 billion dollars which is larger than the stated GDP of emerging market like Thailand and Argentina ^[8].

As per Swiss National Bank (SNB) data, the Indian money deposited in swiss banks is Rs.3200 core(CHF 464 million)as personal deposits, Rs.1050 crore (CHF 152 million) through other banks and Rs. 2640 crore (CHF 383 million) as other liabilities such as securities at the end of 2017^[9]. The deposits of Indians in swiss banks is shown in the table (2) and fig (2). *Source :Swiss National Bank.*

According to Panama Papers leak, at least 21 active tax havens in global level running from Nevada, Mauritius and Singapore. The amount of money Indians have stashed in these tax havens could be around Rs.65 lakh crore, where as the domestic black wealth is Rs.15 lakh crore in which a substantial amount could be in the form of assets such as real estates and financial investments^[10].

In the financial year 2016, the income tax department conducted many searches on undisclosed income and reveals that the important sectors that is generating black money is shown in the table (3) and fig (3).

Sources of black money generation

1. Corruption

Corrupt practices of politicians, bureaucrats and other government servants by bribes and kept hidden as they earned through illegal source. Since they make transactions with this undisclosed money, the term black economy come in force. Most of such offenders are never known to the authorities except some.

A probe conducted by DVAC (Department of Vigilance and Anti Corruption) in Anna University, Chennai in May 2017 found students paid Rs.10,000/- as bribe for each re-evaluated answer papers to the professors.

The recent gutka scam in Tamil Nadu is an example of this. From the health minister, police commissioner and several officials across the department right from health and food safety to local councilors, all have allegedly received Rs. 5,00,000/- to Rs.60,00,000/- each as bribe from the gutka manufacturers. Documents assessed by 'The Hindu' and 'Times Now' show that an amount of Rs.40 crore was paid to the minister and officials ^[11].

2. Foreign banks protects the illegal deposits

The foreign banks (Swiss banks) do not disclose the illegal deposits from other countries and become a safe havens for the black money hoarders. While agitating against black money 'Babha Ramdev' alleged that about Rs.50.75 lakh crore of black money deposited in Swiss banks from India. If his allegation is true and bring back the deposits to the government treasury take our economy to peak.

3. Illegal activities of individuals

The individuals who wish to undertake activities such as gambling, smuggling, illegal liquor production, lending money without proper license etc will obviously un reported and so earned income would be black.

4. Black income generation in public sectors

The utilization of the huge investments marked for the public sectors has ministered by the authorities in the government and public sector undertakings. The underhand deals of this authorities, contractors and politicians generates black money. The unscrupulous elements in public service could make opportunities for black income due to rapid rise of public spending for different governmental activities.

5. Money transaction through hawala

Hawala is one of the biggest source of black money generation and money transaction system in South Asia. Despite many hawala scams were busted by police such operations still going on. Hawala is a common tool for money transaction by hands across the national and international borders. As this transaction made through non-banking channels, it become unrecorded tax evading black money. The individuals who involve this hawala scams make their own codes for the illegal operation. Maharashtra and Gujarat, the two rich state of India, found many times such tax evading business.

6. Black Money Generated During Election

The candidates who run the election campaign generated crore of black money at the time of election. In 2006, 'Centre for Monitoring Indian Economics' (CMIE) Mumbai, conduct a study reveals each parliamentary poll generated 10.19 billion dollar to 11.33 billion dollar of black money^[12].

7. Flaws in Tax system

The structural defects in the tax system is also one of the cause for black money generation. Our tax collection mechanism has several flaws. Because of the high rate of tax, the tax payers try to escape from the tax ring and search for ways and means for tax evasion. The high personal income tax rates force people to evade taxes and thus lead to black money generation. Despite many tax laws pertaining to income tax, stamp duties etc, widespread corruption in these departments make enforcement weak. According to Dr. Jayaprakash Narayanan, member of second administrative reforms commission, "tax evasion has become a national pastime in India".

8. Large Public expenditure

For infrastructure development and poverty alleviation, large amount of money was spend during post independence through centralized planning. Due to the inefficiency of the administration and improper targeting the huge spending has been accumulated as unaccounted fund.

9. Education Institutions generate black money

In India education institutions are the major contributor of domestic black money. The National Institute of Public Finance and Policy (NIPFP) submitted a report to the finance ministry in December 2013, reveals the capitation fees collected by the private institutions for management Quota seats in Professional course was around Rs.5953 crores^[13].

10. Non banking financial company

Financial companies are also the source of creating black money. Without paying any income tax for their transactions, lot of finance companies had been running across the country. Millions of unauthorized chit funds are also running by the individual persons in the cities, villages and also government offices and industrial estates. The operation of these companies are not came to the knowledge of government authorities.

Effects of black economy

- The violation of environmental rules and regulations make the air and water bodies polluted and led to increase disease. This incidents impacted mainly the poor who living deteriorate condition in cities and also villages due to usage of polluted water (*Example : around sterlite industries in Tuticorin*)
- It make many economic problems such as inflation, fiscal deficit etc and social problems like poverty, inadequate education and health etc.
- Since most of the illegal transactions made through cash, any evasion from the true economy create currency demand in circulation.
- All the illegal economic activities in the system parallel with the account one. Being unaccounted, such activities reduce tax revenue significantly.
- The black economy make the quality of life of a large number of population in India is more poor than that found in other parts of the world. Many welfare schemes implemented by the government for the poor have not make any improvement in their life. Of every rupee send to the field, only 15 paise reached to the ultimate beneficiary (*former prime minister Rajive Gandhi, In 1987*)
- The welfare targets cannot achieved by the government, since a large portion of investment goes to wasteful and non production path like holding gold and real estate.
- Because of the elimination of meritocracy due to corruption the economy of the country distorts and make the economy uncompetitive .
- Since most of the black money invested in gold and real estate, it leads to artificial demand on currency, results price raise due to import of gold and currency weakening.
- The movement of black economy in real estate make the land price costly, consequently the output of production price rise and the general economy become uncompetitive.
- Generally many illegal activities funded by black money it may threaten the country.
- As the bribe burden due to corruption in various goods and services is passed on to the heads of the consumers leads inflation and reduces movement in the economy leading to less production make inflation spiral.
- It does not supports the growth of the country because this money is not used in any banking industry and financial institutions.
- Since people depositing in foreign banks, it will make only the other countries formidable.
- The people resorting in money lending, chit funds etc. and if it gets unnoticed and unpunished, the whole domestic system losses its credibility.
- Since most of the illegal transactions made through cash any evasions from the true economy would raise currency demand. The countries in which money transaction carried out by cash is shown in the table (4) and fig (4).

Efforts taken by the government to curb black money

1. Non banking financial companies (NBFC) are establishments that provide financial services and banking facilities without follow the legal definition of a bank. There are a huge number of NBFCs operating across the country. To control the NBFC, the government

enacted a law in 1997 and to make the companies to follow the rules and regulation, a separate department of NBFC also formed in all RBI offices^[14].

2. Under the control of two former supreme court judges, government constitute a Special Investigation Team (SIT) to deal with black money cases in May 2014. So for the SIT has submitted six reports against black money to supreme court.
3. To tackle the Income Tax cases effectively involving undisclosed income stashed in foreign banks impose a Tax Act in March 2015 with effect from 01.07.2015.
4. To handle the domestic black money cases effectively, enact the Benami Transaction Amendment Act (BTAA) 2016 with effect from 01.11.2016.
5. After the announcement of demonetization on 8 November 2016, the IT authorities try to detect undisclosed assets in a multi pronged approach. During November 2016 to March 2017, the IT department seize an asset of Rs. 900 crore including Rs. 636 crore as cash and an undisclosed income of Rs. 7961 crore. In that period 8239 surveys were conducted and detected Rs. 6745 crore as undisclosed income.
6. The anti-evasion measure such as PAN is mandatory for sale or purchase above Rs. 2 Lakh, quoting of PAN made mandatory for cash deposits above Rs. 50,000/- and a total above Rs. 2.5 lakh for the period from 9 November to 31 December 2016.
7. Under the joint chairmanship of 'revenue secretary' and secretary, minister of co-operative affaires constitute a Task Force (TF) on shell companies on February 2017. So for this force has met six times^[15].
8. The IT department launched 'Operation Clean money' (OCM) on 31 January 2017. By this initiation 1,16,262 notices issued under the IT act 142(1), to the non filers who deposited Rs. 25 lakh or more in cash during demonetization but failed to file IT returns before the due^[16].
9. A total of 20,572 IT returns were closely examined under computer Assisted Security System (CASS). Moreover 17.73 Lakh PANs identified involving cash transaction of Rs. 3.68 lakh crore in 23.22 lakh bank accounts^[17].
10. For the effective investigation of 'Panama Paper Leaks' and 'Paradise Leak' cases, constitute Multi Agency Group (MAG) included with officers of the Central Board of Direct Taxes (CBDT), Reserve Bank of India (RBI), Enforcement Directorate (ED) and Financial Intelligent Unit (FIU)^[18].
11. On 21 December 2017 an Indo-Swiss agreement of Automatic Exchanging of Information (AEOI) has signed that started collecting data in accordance with global standard on 01 January 2018 and start an automatic data exchange between these countries from September 2019 on yearly basis. This makes relevant information that prevent the menace of black money and action can be taken against any entity involving such activities^[19]. To enhance the Exchange of Information (EoI), India has tax agreements with 148 abroad jurisdictions on 30.06.2017.

Suggestions

- Reforms in RTI, Media, Judicial and bureaucracy should be encouraged which will result on increase of transparency in the system.
- To enforce the monetary laws effectively, make a Special Task Force with full power.
- Simplify the tax laws, as it will make easy to catch who are funding the accounts.
- The link between the politicians and bureaucrats need to be broken as this leads to the policymakers themselves resorting to source for easy money.
- Political leaders and person in position should file a return of their properties and revenues and should be subjected to inspect by a special agency.
- Lowering of tax rates makes tax evasion become unnecessary.
- Like other incomes, agriculture income should also be subjected to income tax as recommended by Wanchoo committee.
- Election expenditure of political parties should be audit by the government as done in Germany.
- Registration fees for property and other real estate should be lowered.
- To eliminate loopholes, all tax laws should be revised.
- Keep only low valued currency up to Rs.100/- in circulation, so that cash is used for only small transactions. All big transactions should be made through card/cheque with the knowledge of fiscal authorities.
- By giving amnesty without punishment or penalty those who are found black marketing, smuggling etc. and insist them to pay tax.
- Ban cash payment in real estate and purchasing jewels.
- By conducting single CEE (Common Entrance Exam) for various professional courses such as Medicine, Engineering etc, releasing the audit report of educational institutions which are own by non-profit trusts and stop government fund to such institutions, if anything found unusual to reduce black money generation.
- A 'Special Economic Task Force' should be made for keeping a check on chartered accountants.
- The bank lockers must check randomly in the presence of bank officials and owner of the lockers.
- Bank should be made-up with wallets that can work without internet and smart phones, so that small transaction can be made with simple mobile phones through SMS and NFC and keep a check on tax evasion.

Conclusion

The income earning people who are not disclosing in tax returns make the white money also black. Instead following only large income people, let the income tax officers do it for every individuals, not for punishing but making them aware of filing IT returns and keep record for the income.

The government force the people those who are already paying tax, to pay more to increase the government revenue, since our country may have a low direct tax to GDP ratio. But India has the highest indirect tax ratio. By removing direct taxes and have only indirect taxes on consumption, there is a chance of rid from black money and corruption. Indirect taxes at consumption stage (GST) is the best way which could not affect poor much since the poor has low consumption and rich consume more.

In our country one percentage of the population pay income tax and two percentage have filed IT returns. This position has to be changed, because 45% of the population in US paying tax and in South Africa this figure is 10%. But still there is no sign that it is improving in India.

To protect the economy, we have wonderful financial laws and regulatory agencies. With the monitory power the regulating agencies are ineffective. So long term structural reforms such as improvement in RTI, reforms in election etc are needed to strengthen the democracy.

There is a triad -corrupt politicians, businessman and executive officers of the government of vested interest that runs everything in the country. This triad is the main beneficiary of the black economy. So a political will never been tackle the black economy. By giving pressure from public movements, force the government to crack down the black economy.

Instead of recover the looted wealth of lakh cores of money from nationalized banks by Nirav, Choksi, Mallaya and countless others, government extracting money through different ways from the poor public to pay for banks losses. Under the Jan Dhan Yojana scheme, the account holders those who cannot able to maintain minimum balance in their accounts in various nationalized banks has fined inhumanely up to Rs: 5000 crore in the FY 2017-18 [20]. It is a great theft of poor public. The rulers are not only act as political leaders, but being a real developers with un-selfishness to make the country developed.

Black economy grown not only by corruption but bureaucratic, failure of government spending and inefficiency of management also contributed. The extermination of black economy is the only solution to achieve a stable economy. In the name of SSI, several industries are running with large investments and earn more profit who never paying any tax across the country. The fiscal authorities should find out such companies, audit their accounts perfectly, bring in to the tax ring and enforce them to pay tax.

It is very shame to say that Indian black economy exceeds the GDP of Thailand and Argentina, the cost of housing beyond the capacity of common man and the monthly salaried persons. The black money hoarders are elite class, some of them are sitting in parliaments as policy makers and some others are worshipped by people. They are shameless. The public and government must marked such persons and hunt them out.

Despite swiss government willing to inform the details of the account holders of Rs.70 lakh crore in their banks, the Indian government not interested to asked the details because most of the account is owned by Indian politicians. (News in Times of India, on 22.05.2008) From this large fund we can closed thirteen times of our foreign debt, make yearly budgets without deficit, people need not pay any taxes and can deposit one lakh to the bank accounts of 45 crore poor family.

The current estimation of black economy which is 62% of GDP, is larger than the government expenditure in a year which is estimated as 24% of GDP. Because of its presence, the real economy of the country has been loosing a growth rate of 5% since 1970.If no black economy in India currently, the real economy would be Rs.1050 lakh crore or 15 trillion dollar instead of the current Rs.150 Lakh crore (2.2 billion dollar). If the 5% added to the rate of growth for the past 40 years, the economy of India would have become the second largest in the world, next to US. The per capita income also would be Rs.7.4 lakh instead of one lakh at present (Prof. Arun Kumar). The black money is generated from every Indian's blood and sweat. It is our money and must be brought back to our country.

Table - 1

Sl.No.	Year	Deposits in crore
1	2013	19263
2	2014	7817
3	2015	9000
4	2016	5819
5	2017	3812

Source : Bank of International Settlements (BIS)

Figure -1

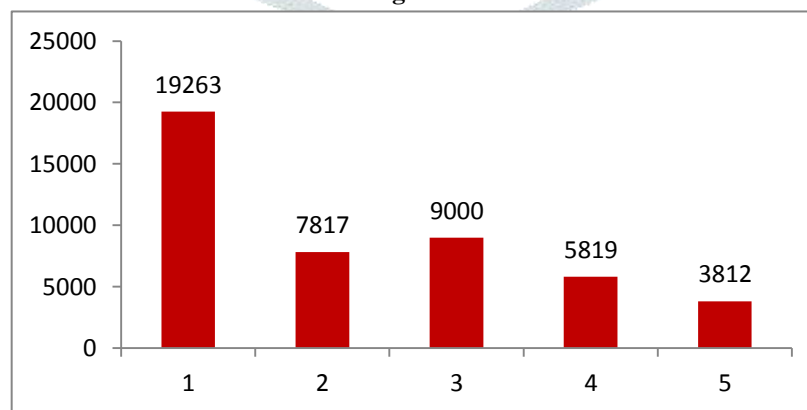


Table -2

Sl.No.	Year	Amount in million Swiss franc (CHF)	Amount in INR (In crore)
1	2006	1906.2	14185
2	2007	1432.8	10663
3	2008	992.2	7384
4	2009	1146.9	8535
5	2010	1339.8	9971
6	2011	1034.2	7696
7	2012	979.9	7297
8	2013	1655.7	12321
9	2014	1378.4	10257
10	2015	425	3163
11	2016	377	2806
12	2017	464.2	3440

Source : Swiss National Bank

Figure - 2

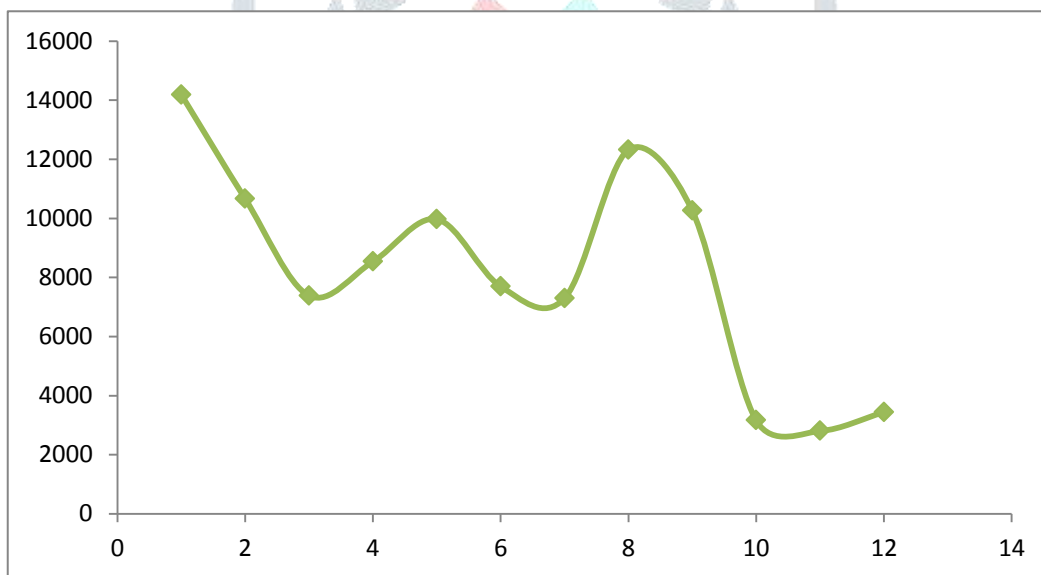


Table-3

Sl.No.	Man sectors	Percentage of Black money
1	Manufacturing	31
2	Real Estate	29
3	Trading	8
4	Educational Institution	7
5	Government Contracts	6
6	Services	5
7	Gems and Jewelry	4
8	Others	10

Source : National Institute of Public finance and Policy (NIPFP)

Figure -3

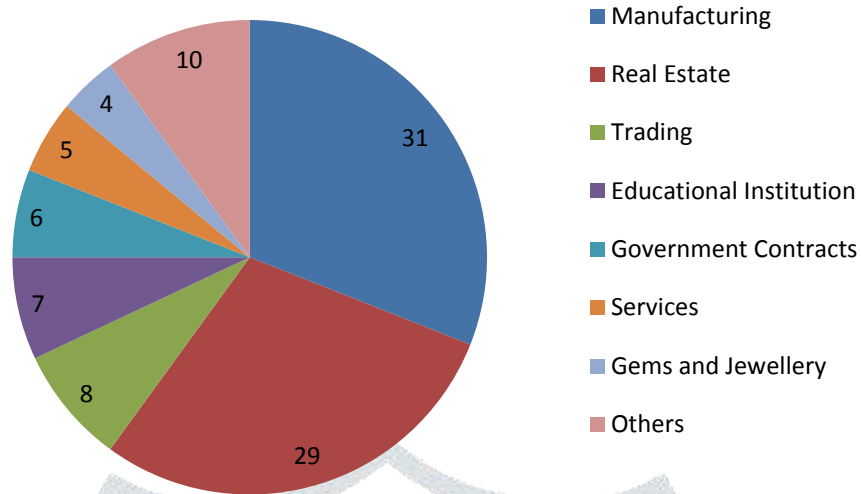
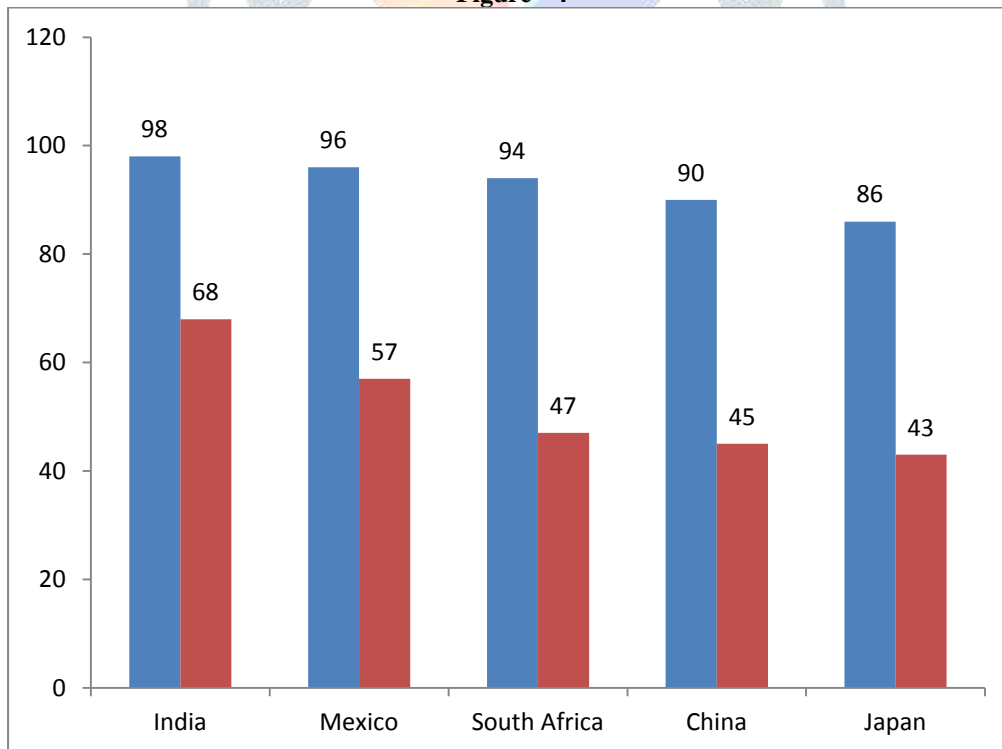


Table -4

Sl.No	Country	Transaction made through cash in percentage	
		By volume	By value
1	India	98	68
2	Mexico	96	57
3	South Africa	94	47
4	China	90	45
5	Japan	86	43

Source : National Institute of Public Finance and Policy (NIPFP)

Figure - 4



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