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AN ISSUE OF BLACK MONEY AND CORRUPTION – INDIAN CONTEXT

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ABSTRACT

Lately, the issue of black money and corruption has appeared into the forefront following a sequence of scandalous activities regarding finance. Generation of black money and its stashing abroad in tax havens has predominated discussions and debate in public fora recently. Everybody is anxious over the issue especially after the publication of few expert reports relating to vast estimates of unaccounted property abroad. After noisy turmoil in Parliament, the Government of India has been pursuing new policies and principles on the issue of black money and corruption in public life and has constituted several committees and teams to look over the matter. This paper explains various facets and dimensions of black money, tax evasion and their critical relationship with the policy and administration in India. An attempt has also been made to discuss the causes leading to the generation and estimates of black money and tax evasion and present the strategies adopted by the Government to tackle the issue.

Keywords: Black money, Tax evasion, Unaccounted wealth, Corruption, Scandalous activities



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1. Introduction

Black money and tax evasion eating away the social and moral framework of Indian economy are undermining the socio-economic objectives and are responsible for manifest and lavish consumption. Black money and tax evasion foster concentration of economic power in the hands of undesirable groups in the country. With the liberation of restriction and relaxation of foreign exchange control, fresh opportunities have emerged for tax evasion; globalization has decreased the cost of these sophisticated methods and thus, has facilitated generation of black money. It is possible that the black money procreated by the Indian is being routed back to India (Ministry of Finance, May 2012, Para 2.8.5). A multi-pronged strategy can settle the issue of generation of black money and its illicit transfer outside the country by both the Central and State Governments in a coordinated manner.

2. Review of Literature

Review of literature plays a vital role in research methodology. Through this, a researcher knows limitations of existing work or may assist to extend prevailing study. In addition, it helps in rationalizing the results of the study when compared with previous results. Black money and tax evasion have induced many empirical studies. A brief review of the literature is presented here.

Vijay Kumar Singh (2009) in his study on “Controlling money laundering in India-Problems & Perspectives” showed that controlling black money in India is a complicated task only due to poor implementation of laws enhancing the sophisticated crime in the economy and thus creating black money.

Sukanta Sarkar (2010) conducted a study on “The Parallel Economy in India: Causes, Impacts & Government Initiatives”. He opines that the main reason behind the generation of black money and tax evasion in India is the political system. The Government here has more focused on making committees rather than implementing it. He concluded that laws should be effective to control black money and tax evasion in the country.

CA Lalit Mohan Agarwal (2012) edited the “White Paper on Black Money” and observed that violation of laws made by the Central and State Governments beget criminal activities which, in turn, lead to a generation of black money in Indian economy. Mr. NishantRavindraGhughe and Dr. VivekVasatraoKatfare (2016) in his study “A Comparative Study of the Tax structure of India concerning other countries” observed that the tax structure of India lags behind mostly every indicator. Detailed reviews and actions



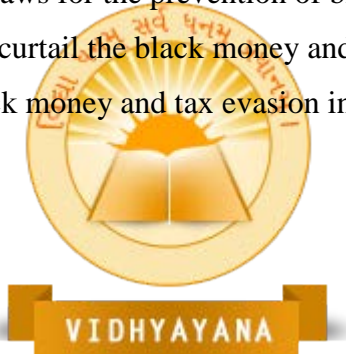
from the government can help simplify the tax structure.

Tax Research Team (2016) in their working paper argued supporting demonetization and analyzed the impact of it on Indian economy. This paper shows the effect of such a move on the availability of credit, spending, and level of activity and government finances.

Dr. Devarajappa S. (2017) in his study on “Tax Reforms in India: A Study of its Impact on the Revenue of the Government” suggested the necessity of consciousness of the Indian about the taxation rules and laws that will create such an atmosphere in which they will pay their due taxes and will not evade it and thereby feeling proud in discharging their duty to pay the same.

3.Objectives of the Study

1. To study the various aspects of black money and tax evasion.
2. To study the effectiveness of tax laws for the prevention of black money and tax evasion.
3. To find out remedial measures to curtail the black money and tax evasion.
4. To study the current status of black money and tax evasion in India.





4. Black Money and Tax Evasion – Conceptual Settings

Generally speaking, the term Black Money stands for money earned by illegal means and kept secret and unaccounted for. It has many synonyms including underground economy, parallel economy, shadow economy, unofficial economy, unaccounted economy, etc. Thus, black money is neither reported to the public authorities at the time of its generation nor disclosed at any point of time during its possession. Black money may be generated either by illegitimately drug trade, terrorism, corruption, or legitimate failure to pay the dues to the public exchequer yielding the generation of unaccounted wealth. There are certain sectors and activities like land and real estate transactions, bullion and jeweler dealings, complex financial market transactions, charitable activities, informal sector and cash economy, self-employed professionals, external trade and transfer pricing, which give birth to the generation of black money.

Tax evasion is an illegal attempt to reduce the tax liability deliberately under-reporting or not reporting taxable incomes or concealing one's actual position from tax authorities. It is a problem in a developing country like India. The global economic conditions deteriorated sharply during the year 2008 with several advanced economies experiencing their sharpest diminution in the post Second World War period. The associated adverse shocks spreading across developing countries accentuated the synchronized global slowdown. The global environment entered a crisis phase following the growing distress among large international financial institutions and the declaration of bankruptcy of Lehman Brothers. The financial crisis of 2008 and the resultant need for protecting revenues further strengthened the need for coordinated global efforts to tackle the challenges posed by tax haven mediated arrangements for evading tax. Various conventions like United Nations Conventions against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Multilaterals on Mutual Administrative Assistance in Tax Matters, United Nations Convention against Corruption, United Nations Convention against Transnational Organized Crime Convention, International Convention for the Suppression of the Financing of Terrorism, Financial Action Task Force, and Asia/Pacific Group on Money Laundering are held from time to time to promote, facilitate and support international cooperation and technical assistance in the prevention of and fights against corruption. It will help India get international cooperation in tracing, seizure, freezing, and confiscation of the proceeds of crimes under a wide range of mutual legal assistance clauses, even with countries with which it has no agreement.

National Institute of Public Finance and Policy (NIPFP) opines that Black money is the aggregate of



incomes which are taxable but not reported to authorities.

5. Causes and Consequences of Black Money and Tax Evasion

5.1 Causes

The factors responsible for the generation of black money are mainly either through illegal or legal activities.

5.1.1 Illegal Activities

It includes the criminal component of black money involving a host of activities of anti-social nature as smuggling of goods; forgery, embezzlement, counterfeit currency and other financial frauds (i.e. Chit funds); production/ trade of contraband goods (i.e. narcotics, illicit liquor and arms); illegal mining and felling of forests; hoarding and black marketing of price-controlled materials and services; theft, robbery, kidnapping and extortion, human trafficking, sexual exploitation and blackmailing; bribes to public offices to secure favors such as altering land use, regularizing authorized constructions; speed money to circumvent/fast-track procedures, and commission to secure government purchase orders. These illegal activities reflect the declining social and moral values and are punishable under the various Acts of the Central and State Governments and also the schedule of Prevention of Money Laundering Act, 2002.

6.1.2 Legal Activities

Legally permissible economic activities also create a substantial portion which is beyond disclosure to the public authorities as per provisions of the law to evade taxes. Too much procedural regulations sometimes create an incentive to conceal the actual position and thereby remaining outside the reported and accounted proportion of one's activities.

Increased globalization and economic liberalization have an impact on cross-border transactions resulting in growing opportunities for sophisticated devices to avoid tax payment following the different tax rules of different countries and use of tax havens. Global trade amongst multinational companies has increased misuse of transfer pricing leading to estimations that developing countries like India might be losing significant resources owing to transfer pricing manipulation.



The factors or causes of tax evasion are the high level of tax rates, less respect to the Government and its laws, lenient penal action, and nature of the economy. High tax rates usually make tax evasion more tempting. Tax evasion is more in those countries where there is general apathy on the part of people towards the Government and its laws. Tax evasion by politicians sends wrong signals to the general public relating to non-compliance with rules and laws; lenient penal action also sometimes encourages tax evasion. Usually, countries with relatively poor implementation of regulations tend to have a high share of the unaccounted economy than others performing due to the implementation of the same and sound deterrence. Peculiar characteristics of underdeveloped countries with mostly agricultural-based, much illiteracy, lack of accounting practices, limited monetization, shortage of administrative resources cause breed tax evasion and black money.

6.2 Consequences

People have observed the nexus between tax evasion and black money and its distortion of the redistributive role of tax policy in India's Seventh Five-Year Plan. A reduction in the scale of black money generation can improve the distribution of income and wealth after taxation. In addition, reduction in the extent of tax evasion can generate a high volume of tax revenue and more public expenditure will benefit the poorer section of the population of the society (Planning Commission, 1985-90). The success of an inclusive growth strategy highly depends on the capacity of society to eradicate the evils of corruption and black money from its very foundations. Black money in every sphere of social, economic, and political space of the country has a debilitating effect on the institutions of governance and conduct of public policy in the country. Governance failure adversely affects the interests of vulnerable and disadvantageous sections of society. The effects of tax evasion resulting in black money on Indian economy are indeed disastrous. A few consequences/effects are as follows:

- Tax evasion resulting in black money prevents the resource mobilization efforts of the Government. Shortage of funds distorts implementation of developmental plans and forces the Government to resort to deficit financing in case public expenditure is inelastic.
- Tax evasion interferes with the declared economic policies of the government by distorting saving/investment patterns and availability of resources for various sectors of the economy.
- Tax evasion undermines the equity attribute of the tax system. Honest taxpayers willingly bear disproportionate tax burden, feel demoralized and lured to join the tax evaders' camp.



- Tax evasion and black money encourage concentration of economic power in the hands of undeserving groups in the country which, in turn, is a threatening to the economy in its way.
- Evasion of tax consumes time and energy of tax administration to disentangle the intricate manipulations of tax dodgers.
- Unsocial activities like bribery, intimidation, blackmailing, tampering with official records, submitting fake documents, etc. are all abuses degrading social and moral values that ultimately go with tax evasion.

7. Devices Adopted to Evade Taxes

7.1 Income-Tax

One can evade income tax through non-reporting, underreporting and misreporting of income. The measures usually adopted to curb evasion of income-tax include non-reporting or underreporting of taxable income, maintaining multiple sets of books of accounts, knavish changes in books of accounts, keeping transactions out of books, opening and operating bank accounts under assumed frames, doing business in the names of dummies, over-reporting expenses, fragmenting income for reducing tax liability, under-invoicing sales and other transfer pricing manipulations.

7.2 Excise Duties

Evasion of excise duties usually takes place by adopting the malpractices like incorrect valuation of goods flouting the conditions subject to its exemption.

7.3 Value-Added Tax (VAT)

As VAT is only a fraction of the total amount of tax, the incentive for evasion is relatively weak; but despite the self-policing nature of VAT, opportunities exist for evasion and fraud. The devices commonly applied to defraud tax authorities under VAT include use of fake invoices to claim tax credit, tax credit claims on purchases for personal use, over-reporting of sales of zero-rated goods, secret dealings as regards issuance of receipts, formation of fake companies selling receipts to traders to enable them to claim tax credit on inputs. Hence, VAT is as impressionable to evasion and fraud as any other taxes.

7.4 Customs Duties

Evasion of customs duties usually takes place in the form of invoice misclassification, manipulation of



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documents, and suppression of quantities imported.

8. Concluding Observation

Prevention and control of black money is pre-requisite for establishing an equitable, transparent and efficient economy. Black money and tax evasion – the two fiscal maladies are undermining the socio-economic objectives and are responsible for manifest and lavish consumption, reduced savings and increasing gap between the rich and the poor. Even after an uproar in Parliament, the Government of India came out with a White Paper on Black Money in May 2012 (Ministry of Finance, 2012), presenting the different facets of black money and its complex relationship with policy and administrative regime in the country which also reflected upon the policy options and strategies, the Government has been following to address the issue of black money and corruption in public life. Globalization and liberalization of restrictions on the cross-border flow of goods and services, relaxation of foreign exchange control etc. have accelerated new opportunities for tax evasion through tax havens, misuse of transfer-pricing and other sophisticated methods. They have also reduced the cost of these sophisticated methods thereby facilitating generation of black money and its transfer across the border. The fight against generation and accumulation of black money and curbing black money is far more complex and prolonged requiring new strategies and stronger intervention of the state, which, in turn, needs a hardy legal framework, co-extensive administrative setup and a very strong determination to fight the threat. Effective implementation of the tax laws can arrest tax evasion. Relaxation in tax laws, simplification of tax laws, removal of drawbacks in the tax system, proper processing of information available can be the best tool for the betterment of Indian tax compliance. Educating the people about the tax laws is vital as it will create an atmosphere to perform their duties to the nation. The Government of India has announced several schemes offering opportunities to bring back black money overboard but the result is not fruitful. DTC Bill, 2010 is an urgent need for the effectiveness of tax laws for the prevention of tax evasion. Tax evasion and generation of black money have been producing severe impacts on the social and economic system of the country.



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