



## Black Money – a Darker Side of Economy

### KEYWORDS

Black Money, Double Taxation Agreement, Tax havens, DTC

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**ABSTRACT** *The consequence of continuous expansion of black economy in India is not only a matter of contraction of government revenue but it has a multidimensional implications. It is also an issue of misuse of public fund. The crisis of black economy in India is really mind-blowing. It leads to the misdirection of precious national resources, worsen the income distribution, corrupted our political system, transfer the financial resources of foreign countries such as Swiss Banks, strengthen the brokers of law, restrict to formulate right policies and actual strength of the country and most importantly it discourage the honest practices in each and every section of social and political life. It has worsened the income-distribution in the country, salaried class pay taxes honestly because they cannot hide their income and the people in business or in professions hold more disposable income through tax-evasion practices. The government officials who hold the key positions in the various departments also earn black money through bribe. As far as the Indian efforts are concern in this regard, Double Taxation Agreements with other countries are taking place. Treaty with Switzerland has also been signed and negotiations have completed with 10 tax heavens. India has also joined global efforts in various ways. Crores of taxes are being collected through various actions. Transfer pricing and other roots of tax evasion practices. But these success are drop in the ocean and demanding wide-ranged reforms and most importantly the strong political will. The proposed DTC and GST are good efforts but the draft and the hurdles of effective implementation both would not be as effective as required for the acute, problem of black money.*

### Introduction

Black money has become more dominant and pronounced in certain specific economic activities and areas. It exists practically in every economy of the world though its magnitude differs considerably from country to country. The crisis of black economy in India is really mind-blowing. "In February 2012, the director of the [Central Bureau of Investigation](#) said that Indians have \$500 billion of illegal funds in foreign tax havens, more than any other country."<sup>1</sup> This disturbs the internal balance and harmony within the dominant classes. On economic front, it is not a serious cause of concern because even after 40 years of independence, our country is facing unemployment, poverty and other numerous economic ills. Though, India adopted socialistic pattern of society but due to uncontrolled corruption the aim is far away from the real essence of socialism. The concept of mixed economy has been adopted to get benefits of private and public enterprises. But the expectation has failed just because of the economic ills especially the black money. The black money crisis has generated a parallel economy in the country which is damaging the efforts of economic development. This kind of money is earned in distributing all human and moral values which was the sound base of Indian culture.

### Sources of Black Money:

Unless more attention is devoted to widening the tax base, and the CBDT made more accountable, public acceptance of tax reforms will not come in full measure and tax evasion would still flourish. "It is common knowledge that trillions of dollars of Indian money is in various tax heavens like Antigua, Switzerland, Bahamas, Liechtenstein, and St Kitts, etc. Along with that, substantial portion of external earnings were siphoned off to these tax heavens. Some of our bureaucrats and entertainers and artists have also accumulated wealth abroad."<sup>2</sup> The information network proposed by the Task Force will facilitate improved tax administration. Mr Kelkar has made his di-

agnosis and given his prescription, but it is no universal panacea. Some other examples of misusing tax incentives include nursing homes and research centers. The definition of the private hospitals and nursing homes has not been laid down under the Income Tax Act, 1961. However, in common parlance, private hospitals and nursing homes are meant for reception and treatment of persons suffering and their objective is to earn profits. Private hospitals and nursing homes pool the services of several specialists and make them available at one place. Private hospitals and nursing homes are a common feature of urban agglomerations. The state-wise position of actual number of private hospitals and nursing homes, those filing income tax return are as follows:

**Table - 1**  
**STATUS OF NON-FILERS 1997-98 to 1999-2000**

State	Actual number of private hospitals and nursing homes as ascertained from different sources	Actual number of private hospitals and nursing homes subject to assessment (as confirmed by the Department)	Number of private hospitals and nursing homes not subject to assessment	%age (4 to 2)
Andhra Pradesh	975	378	697	71
Assam & NE States	132	36	96	72
Bihar & Jharkhand	320	50	270	84
Delhi	536	93	443	83
Gujarat	3746	783	2963	79
Haryana	1228	667	561	46

Karnataka & Goa	1861	1037	824	44
Kerala	1537	492	1045	68
Maharashtra	4564	575	3989	87
Madhya Pradesh	788	501	287	36
Orissa	299	84	215	72
Punjab	941	410	531	56
Rajasthan	530	290	240	45
Tamil Nadu & Pondicherry	1168	966	202	18
UT Chandigarh	48	26	22	46
Uttar Pradesh & Uttaranchal	1202	486	716	60
West Bengal	1228	366	862	70
Total	21103	7240	13963	

Source: [http://www.cag.gov.in/reports/d\\_taxes/2002\\_book2/Chapter3.htm](http://www.cag.gov.in/reports/d_taxes/2002_book2/Chapter3.htm)

It is evident from the above, that out of 21,103 private hospitals and nursing homes, as many as 13,963 (or 66%) private hospitals and nursing homes were not on the records of the Income Tax Department. The position of non-filers was alarmingly high particularly in respect of Maharashtra (87%), Bihar (84%) and Delhi (83%). The Department was not aware, whether all the private hospitals and nursing homes are subjected to assessment or not. The list 'B' of the private hospitals and nursing homes containing names and other details were issued to assessing officers, CsIT (Commissioners of Income Tax) and CCIT (Chief Commissioners of Income Tax) for reconfirmation but replies from them had not been received except from CIT, Gwalior who confirmed that 66 nursing homes were not subjected to assessment in his charge. It is pertinent to highlight that on one hand the Department has taken measures to widen the tax net by making filing of return compulsory, by the persons who fulfil one out of six conditions but on the other hand the Department is not vigilant about the non-filers for mopping up the tax revenue.

It is an obvious fact that actual estimation of black money is not possible. Various bodies and committees estimated the black money in the country by adopting different methods following are some dimensions by which the black money, estimated in the past. The income not reported and included in All India Income Tax Statistics (AIITS) is another dimension of black money generation. The Comptroller and Auditor General (CAG) is an agency who also watch on the under reporting is AIITS. The following figures from 1967-68 to 1981-82 as regard the number of assessment and number assessee reported in AIITS and estimated by CAG is as under:

**Table - 2**  
**Number of Assessments and Assessee reported in Alternative Sources and Derived Indicators of Underreporting in AIITS**

Assessment Year	Number of assessment AIITS (thousands)	Number of assessments C. and A.G. (thousands)	Number of assessee C. and A.G. (thousands)	Indicators of underreporting (percentage) [Column (2) as percent of Column]
1967-68	1702	2557	2708	62.9
1968-69	1983	3421	2673	74.2

1969-70	2025	3558	2910	69.6
1971-72	2203	3844	3209	68.7
1972-73	2245	3598	3388	66.3
1974-75	2445	3841	3637	67.2
1975-76	2514	4008	3796	66.2
1976-77	2556	3949	3759	68.0
1977-78	2651	4044	3955	67.0
1978-79	2042	3310	3970	51.4
1979-80	1915	3490	4176	45.9
1980-81	1543	4035	4594	33.6
1981-82	1501	4548	4161	32.2

Sources:

1. Ministry of Finance, Directorate of Inspection, All India Income Tax Statistics (AIITS), various annual issues.
2. Ministry of Finance, Directorate of Inspection, All India Income Tax Statistics, Assessment Year, Various annual issues.
3. Government of India, Report of the Comptroller and Auditors-General (C & A.G.), various annual issues.

The table number 3 reveals that number of assessment in AIITS was always under reported as regard the estimation of CAG. In 1967-68 the under reported cases in All India Income Tax Statistics was 62.9% as estimated by CAG. There was 1702 thousand assessment cases in AIITS as compared to 2557 thousand to Comptroller and Auditors General of India. The under reporting cases reached 74.2 percent which was highest in period 1968-69 up to 1981-82. Since then the indicator shows a declining rate. In 1981-82 number of assessment according to All India Income Tax Statistics was 1501 thousand and number of assessee according to Comptroller and Auditor General was 4161 thousand.

**Table - 3**  
**Estimated Size of Black Economy in India as per the currency transactions**

Year	Currency Transactions (Rs. Crore)	Demand deposits Transactions (Rs. Crore)	Total transactions (Rs. Crore) cols. (2)+(3)	Ratio of total transactions To official GNP	Size of black economy (Rs. Crore)	Black economy as percent of official GNP
1967-68	127974.5	82272.4	210246.9	6.56	3034.4	9.50
1968-69	133399.3	91582.0	224981.3	6.81	4504.2	13.64
1969-70	145252.8	106770.0	252022.8	6.89	5458.8	14.92
1970-71	158738.7	135479.9	294218.6	7.32	8900.3	22.15
1971-72	171925.9	161520.9	333446.8	7.70	12354.8	28.56
1972-73	182731.7	194626.6	377358.3	7.90	15195.5	31.82
1973-74	214030.9	234142.5	448173.5	7.61	15894.9	27.00
1974-75	230685.7	274531.2	505217.0	7.24	14518.1	20.81
1975-76	237077.4	309402.7	546480.1	7.52	18458.0	25.39
1976-77	268784.9	372391.4	641176.3	8.33	30014.8	39.01
1977-78	284537.1	442028.0	726565.1	8.37	34335.2	39.53
1978-79	315284.3	541782.2	856966.4	8.92	46866.9	48.78

Source: Acharya, Shankar N.: "Aspects of the Black Economy in India", Government of India, 1985 p. 52

The table 4 shows the size of black money in India. In 1967-68 it was 3034.4 crore rupees i.e. 9.50 percent of Gross Domestic Product (GDP). This percentage increased to 31.82 in the 1972-73 where size of black money reached 15195.5 crore rupees. From then percentage shown a declining trend for two successive years; in 1973-74 and 1974-75 it was 15894.9 crore and 14518.1 crore rupees of 27 and 20.81 percent respectively. From 1975-76 when the percentage of black money was 25.39 shoot up to 48.78 percent in 1978-79.

#### Government efforts towards Black Money:

"According to the Transparency International, which publishes a Corruption Perception Index, about Rs 21,000 crore (\$ 4,108 billion) annually is estimated to exchange hands in the form of bribery in the country."<sup>3</sup> Government's efforts towards control on tax evasion are continuous but all are unsuccessful in one or the other way. The legal and administrative changes were proposed by many experts and committees. They were Taxation enquiry commission 1953-54, proposal for reform of the Indian Tax system by Prof. Nicholas Kaldor 1956, The Director Taxes administration Enquiry committee 1958, the studies by the Administrative Reforms Commission on direct Tax Administration 1969, Direct Taxes Enquiry committee, 1971 etc. Each year the tax law has been amended and modified to plug loopholes for making tax realization effective and for imposing penalties for tax evasion. Similarly, efforts have been made to strengthen and streamline the machinery for tax administration for better compliance with tax laws.

**Table 4**  
**Some Measures Took by the Government**  
**(Rs. Crores)**

Years	Agency or Scheme	Concealed Income	Tax collected
1940-46	Income Tax Investigation Commission	48	30
1951	Voluntary Disclosure Scheme	70	11
1963-64 to 1966-67	Detected by the Department	81	31
"	Voluntary Disclosure Scheme I	52	39
1965	Voluntary Disclosure Scheme II	145	20
1965 to 1968	Under Section 271 (4A) of I Income Tax Act, 1961	22	NA
1975	Voluntary Disclosure under Income & wealth Act	Income 842 Wealth 746	7.7 249
1980	Special Bond Scheme	400	160
1985-86	Finance Act	2940	388
1991	Voluntary Deposit (Rebate)	NA	984
1997	Voluntary Disclosure Income Scheme (VDIS)	33000	10100

Source: Machiraju, H.R.: "The Economics of Black Money", Vora, 1974 p. 190

A large number of legal and administrative measures have been taken to deal with tax evasion. In 1936, the Ayers Committee made a review of the income tax system in India. The recommendations sought to strengthen the machinery to deal with fraudulent evasion as well as legal avoidance. Another category of measures fall various steps taken since 1946 for unearthing that part of black wealth

which is kept in monetary form. "In 1946 currency notes of high denominations were demonetized. But it was not successful because only a very small proportion of the total notes in circulation were demonetized. Notes demonetized were of value Rs. 143.97 crores as against the total notes issued of the value of Rs. 1235.93 crores. It is significant to note that in spite of the limitations, demonetized notes of the value Rs. 9.07 crores out of Rs. 143.97 crores were not presented for conversion. Another demonetization was attempted in 1978."<sup>4</sup> Being a limited and partial move, it is difficult to expect that a serious dent was made through this measure in invalidating a large part of monetized black incomes and wealth. Even seizures and searches for tackling the problem have only touched the periphery of the problem. During 1965-69, these efforts yielded Rs. 105 crores by way of taxes and penalties.

#### Conclusion

"This is not to deny the practical administrative difficulties in taxing a large part of the agricultural population when the population is illiterate, tax officials are scarce, and tax compliance is rather weak."<sup>5</sup> The issue of black money is very hot today especially after the three major scams i.e. CWG, 2G spectrum and Adarsh Society Scams, uncovered. After this the government's efforts to bring back unaccounted Indian money stashed away abroad have come under intense scrutiny. Though, the authentic estimate of black money is not available, it is undoubtedly accepted that the parallel economy of black money is very large. In 2009, the BTP task force estimates it around \$ 500-1500 billion whereas the global financial Integrity estimates the out flow of black money from Indian about \$ 642 billion. The 70 lakh crore (about 7 times of the union government of Indian budget 2010-11) with Swiss Bank is another data which is in the limelight today in the political area. It is a matter of great satisfaction that the G-20 nations decide to address the issue in 2009 by extending co-operation for exchanging the information's in this regard. All tax heaven countries have also agreed to cooperate in the mission to end black money. Countries agreed to tax information exchange agreements in absence of tax treaties.

As far as the Indian efforts are concern in this regard, Double Taxation Agreements with other countries are taking place. "India seeks changes in DTAAS with 65 countries and negotiations with 9 of than fast tracked."<sup>6</sup> Treaty with Switzerland has also been signed and negotiations have completed with 10 tax heavens. India has also joined global efforts in various ways. Crores of taxes are being collected through various actions. Transfer pricing and other roots of tax evasion practices. But these success are drop in the ocean and demanding wide-ranged reforms and most importantly the strong political will. "Finance minister Arun Jaitely proposed to enact a comprehensive law to bring back black money by amending the FEMA Act to incorporate black money provisions"<sup>7</sup>. The proposed DTC and GST are good efforts but the draft and the hurdles of effective implementation both would not be as effective as required for the acute, problem of black money. The reformatory measures should be multi-dimensional as well as with the greater support from taxpayers and it can only be attained through an honest, transparent and well planned income tax structure.

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