



## Black Money In India – A Conceptual Analysis

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### ABSTRACT

*Black money is not only the problem of Indian economy, but it also transcends the borders and has become a global dilemma. Recently, various studies have taken place under the Government of India to tackle the problem of black money in India. Those studies have revealed some astonishing facts about the black money market in India. In the last decade alone, India has lost approximately \$125 billion in illegal money. A study has revealed that the black money even exceeds 10% of our Gross Domestic Product. When it comes to flow of black money world wide, India is ranked in eighth. The flow of black money can seriously affect the entire economic system of India. Black Money causes the prices of commodities to increase to a level beyond normal. People with black money are able to give bribes to the administrators and politicians for getting whatever they want. To control the generation of black money there should be a strong and appropriate legislative framework.*

### Keywords : Black Money, Indian Economy

#### Introduction

Black money refers to money that is not fully legitimately the property of the 'owner'. Black money may be defined as the money that is generated by activities that are kept secret in the sense and not reported to the authorities. This money is also not accounted to the fiscal authorities or you can say that taxes are not paid on this money. A white paper on black money by the Government of India suggested that there are two possible ways of generating black money in India. The first source of earning black money includes those activities which are not permitted by the law, such as crime, drug trade, terrorism, corruption and all of which are not legal in India. The second, more probable source is that the black money may have been generated through a lawful activity but accumulated by failing to declare income and pay taxes. Some of this black money ends up in illicit financial flows across international borders, such as deposits in Swiss accounts.

#### Black Money in India

According to a report released by Global Financial Integrity (GFI) in December 2012, India is among the top 10 developing countries in the world with a black money outflow of \$1.6 billion ( Rs. 8,720 crore) in 2010. Total outflow of black money from India since independence until 2010 was \$232 billion, generally in the form of corruption, bribery and kickbacks. The cumulative value of illicit assets held by Indians during the same period is estimated to be \$487 billion. The BJP, in a 2011 report, had estimated India's black economy being worth around \$500 billion and \$1.4 trillion or about between Rs. 27.5 lakh crore and Rs. 74 lakh crore, while US think-tank Global Financial Integrity had estimated India had lost \$123 billion ( Rs. 6.76 lakh crore) in "black money" in 2001-10. This is money that is earned and transferred illegally abroad in tax havens, such as the Cayman Islands, typically to avoid taxes. In the post-reform period of 1991-2008, deregulation and liberalization accelerated the outflow of illicit money from the Indian economy. About a third of India's black money transactions are believed to be in real estate,

followed by manufacturing and shopping for gold and consumer goods. If hidden incomes of Rs. 25 lakh crore were to be disclosed and taxed at 30%, it would generate Rs. 8.5 lakh crore, enough to build a 2,000-bed super-specialty hospital in each of India's 626 districts.

#### Black Money of India in Swiss Accounts

India has slipped to 70th position in terms of foreign money lying with Swiss banks and accounts for a meager 0.10 per cent of total global wealth held in the country's banking system. An article in the reputed newspaper "The Hindu" in 2010 revealed that unofficial estimates indicate that Indians had over US\$1456 billion in black money stored in Swiss banks (approximately USD 1.4 trillion). While some news reports claimed that data provided by the Swiss Banking Association Report (2006) showed India has more black money than the rest of the world combined, a more recent report quoted the SBA's Head of International Communications as saying that no such official Swiss Banking Association statistics exist. Another report said that Indian-owned Swiss bank account assets are worth 13 times the country's national debt. These allegations have been denied by the Swiss Bankers Association. James Nason of Swiss Bankers Association in an interview about alleged black money from India, holds that "The (black money) figures were rapidly picked up in the Indian media and in Indian opposition circles, and circulated as gospel truth. However, this story was a complete fabrication. The Swiss Bankers Association never published such a report. Anyone claiming to have such figures (for India) should be forced to identify their source and explain the methodology used to produce them."

In a separate study by Global Financial Integrity concludes, "media reports circulating in India that Indian nationals held around US\$1.4 trillion in illicit external assets are widely off the mark compared to the estimates found by their study." The report claims that the amounts are significantly smaller, only about 1.5% of India's GDP on average per annum bla-

sis, between 1948–2008. This includes corruption, criminal activities bribery and kickbacks, , trade mispricing and efforts to shelter wealth by Indians from India's tax authorities. According to a report, published in May 2012, Swiss National Bank estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were CHF 1.95 billion (INR 92.95 billion, US\$ 2.1 billion). The Swiss Ministry of External Affairs has confirmed these figures upon request for information by the Indian Ministry of External Affairs. This amount is about 700 fold less than the alleged \$1.4 trillion in some media reports. The report also provided a comparison of the deposits held by Indians and by citizens of other nations in Swiss banks. Total deposits held by citizens of India constitute only 0.13 per cent of the total bank deposits of citizens of all countries. Further, the share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 per cent in 2006 to 0.13 per cent in 2010. In 2011, according to the data provided by Swiss Bank, India is topping the list almost \$1500 billion of its black money deposited with them, followed by Russia \$470 billion. The amount of black money is increasing day by day at very rapid speed.

### Impacts of Black Money on Indian Economy

The flow of black money can seriously affect the entire economic system of India. Some important impacts are discussed here:

**1. Less Tax for the Government**—Many times, the Indian Government has failed to collect the estimated amount of tax from the people of our country and for this, credit has to go to the black money driven underground economy. Recently, a report was submitted to the Finance Ministry of India that divides the spread of black money in different sectors like real estate, mining, telecom etc. The study, headed by NIPFP chief P.Kavita Rao, explains how illicit wealth is likely to exceed 10% of GDP.

**2. Uncontrollable Inflation**—When black money is out in the market, the amount of money in the system is higher than the Government expects. This causes the prices of commodities to increase to a level beyond normal. This is a direct result of people having more money offering more money on specific items. Even if the Government tries to control the credit flow in the market by taking necessary measures, the amount of black money present upsets the move, resulting in some sort of pressure on the economy.

**3. Leads to Mass Poverty**—The distribution of wealth and income in our country has been severely affected by the growth of underground economy. The common people get affected indirectly in so many ways. The tax evaders are keeping the money away from the deserved. If all the black money in the tax havens is recovered and used by the Indian government, all the outstanding liabilities of the country could be paid off and money would still be left for spending.

**4. Lack of Technology**—Due to the existence of black money, India is facing the problem of shortage of capital. This has the direct impact on the upgradation of technology in all sectors. The major reason behind such backwardness is the parallel economy.

**5. Impact on Growth by moving investments on Gold, Stones and Jewellery**—People who are looking to turn black money into white money are largely investing in precious metals like Gold and other jewelry. There are people who believe that almost 70% of the total gold investment in our country is black money. One reason for people to invest in gold is that it is hard to trace. People in black market may buy gold bars, coins, jewelries etc because one can buy gold easily and can be converted back to money anytime. This flow of underground money has caused Indian economy to stall on its growth. It is estimated that if all the money in the underground economy could be diverted to our main economy, our economy would grow by more than thrice in no time.

**6. Corruption**—While corruption creates black money in the economy, it can also be a result of the growing underground market. People with black money are able to bribe the administrators and politicians to get what they want. By doing this, they are able to get what they want and others are pushed down the stack.

**7. Inflated Real Estate**—When people with deep pockets are ready to pay more for a piece of land, the price of surrounding land also tends to increase; thus artificially inflating the prices of an entire area. Generally, people involved in black money market are always ready to pay more for a piece of land as this helps in converting their colored money to legal money.

**8. Transfer of Indian Funds Abroad to Safe Heavens**—The black money generated in India is kept in foreign tax havens. For this, money has to be transferred from India to other countries through secret channels. Under-invoicing of exports and over-invoicing of imports are two of the main methods used by black money holders for transferring money overseas.

**9. Encourages Anti-Social Activity**—It is no doubt that black money is a curse to any country. Black money is always promoting anti-social activities in the society. Bribery, mentioned earlier, is only one example. The anti-social effects of black money include activities like terrorism, a huge threat already to our country.

### Measures taken by the Government of India

The government has introduced compulsory reporting in case assets held abroad and also started tax collection at source in case of purchases in cash of gold in certain cases. The Government of India is working with fervor to bring up all the black money in our country. Different strategies have been formulated to curb the problem of black money in India.

**1. Lower Tax Slabs for encouraging Voluntary Compliance**—In the early '70s, the tax rates were high that it encouraged many people to be involved in tax evasion. Since this became an evident reason for increasing black money, Government took steps to reduce the tax rates. However, the fact remains that with lowering of tax rates and introduction of new laws, new opportunities opened up for tax evasion. A global presence of black money also started to help these people in pursuing the crime.

**2. Introduction of Tax Deduction at Source on high Value Transactions**—In the recent budget, the Finance Minister introduced TDS, Tax Deducted at Source, to all transactions involving immovable assets above Rs 50lakh. He also introduced a new tax, Commodities Transaction Tax or CTT, hoping it will help in keeping a trail of bullion trade.

**3. Special Bearer Bonds**—These were special bonds introduced by Indian Government in 1981 to make use of the 'unaccounted' money for constructive purposes. Black money holders could convert their money to these bonds and could enjoy the freedom from any enquiry or investigation about sources of these funds. It carried 2% interest and had a lock in period of 10 years.

**4. Amnesty Scheme**—The Amnesty Schemes, introduced by the Finance Ministry from time to time, allows tax defaulters to pay a tax, waiving the penalty and interest. Using these schemes, a defaulter could disclose their wealth and convert them to legal money. No more questions will be asked. These schemes help Government to rake up the taxes and bring huge amount to legal money back into the Indian market.

**5. Punishment to Corrupt Officials**—The Government of India has taken and continues to take stringent actions against those involved in corruption. The actions against the Telecom Minister A.Raja, during his tenure the 2G spectrum scam took place, is an example. The Government is keen to inflict of insecurity to those involved with corruption and black mon-

ey market. If Government continues to act strong against the corrupted, India will soon be a better country and maybe even a world leader in economy.

The law in our country, even today, has some loop holes which tax evaders take advantage. The lawmakers in the country have to come forward with better and strict laws regarding tax payment and to control flow of black money. If Government does not take proper timely action, the trend is only going to grow up.

### Conclusion

Black money or the illegal money circulating in the parallel economy is a big menace for the Indian economy. It is also an originator of big loss in the tax-revenues for the government of India. Because of the existence of the black money in Indian economy, the per capita income of the people has not been growing in line with the other advanced countries despite the liberal measures taken by the government of India since early 1990s. Even after several decades of economic planning and push in the right direction, India still continues

in the same state as an underdeveloped economy in terms of per capita income and the reason behind it is the existence of black money. The elimination of black money from Indian economy is needed and it will benefit the economy in more than one way. It will also help in creating more revenues for the government.

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