

BLACK MONEY IN THE SCENARIO OF INDIAN ECONOMY

Dr. Anupam Bahri

Assistant Professor, Department of Commerce, Government Degree College, Drang at Narla, Mandi, (HP)

Abstract

Black money is practically hidden from the eyes of the Income Tax Department. This money is not accounted for anywhere in the government pages. This is the undeclared money of big businessmen, politicians, officials, mafia and hawala traders. The issue of black money is prevalent in India and the government has recently taken drastic steps to tackle it. Money earned illegally is known as black money. There are many sources of generation of black money and people are practicing this work for decades despite the negative impact on the society. The paper entitled "BLACK MONEY IN THE SCENARIO OF INDIAN ECONOMY" is an attempt to clarify the meaning of black money, throw light on its various sources and different ways to reduce it.

Key Words: Economic Activity, Indian Economy, Black Money, Tax-Evasion and Tax Planning

INTRODUCTION

Different activities are undertaken by people to satisfy their wants. There are broadly two types of activities viz. economic and non-economic. Where the purpose of economic activity is to earn profit, on the other hand, the non-economic activities are done for psychological satisfaction. Business is an economic activity in which production, consumption and investment are performed. These factors are very important for any economy, without them no economy can be imagined. Indian economy is the fastest growing economy in the world. Liberalization, privatization and globalization are three pillars on whose shoulders this Indian economy stands. Due to the Make in India initiative by the government of India, investment in the Indian market is growing very rapidly. Along with this fact it is also one of the major characteristic of Indian economy is that it is the fastest growing economy in the world where investment or money is flowing from everywhere. This money flowing in the economy contributes to the economic development of the country in various ways. The government collects this money in the form of tax, from which many types of schemes are implemented such as employment, health education, telecommunications, and transportation. But in many situations people do tax evasion and do not pay tax. Tax evasion means a situation in the economy, where tax can be assessed on a

person but tax has not been paid by him and finally which comes under the category of black money.

BLACK MONEY

According to the National Institute of Public Finance and Policy (NIPFP), “black money is income on which tax liability is incurred but the same is not reported to the tax department.”

FEATURES OF BLACK MONEY

- It is created through real or fake transactions.
- It constitutes black economy which is parallel to country’s real economy.
- It works against the economic development.

IMPACT OF BLACK MONEY

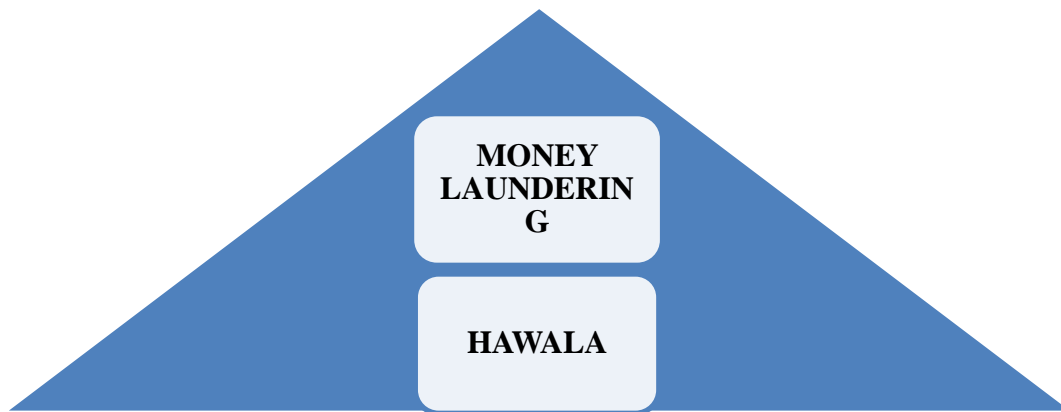
The problem of black money is one of the major problems of the country in these days. Due to which many other types of problems have arisen, the details of which are as follows.

- Loss of revenue to the government due to which deficit financial occurs.
- Creates economic inequality, which in return promotes social inequality.
- It increases prices due which cost of living rises in an economy rises.
- The major part of black money is invested in real estate therefore the real estate industry prices are increasing day by day.

ILLEGAL WAYS TO CONVERT BLACK MONEY TO WHITE

Money laundering refers to the portrayal of illegally earned black money as money earned illegally. Money laundering is a method of concealing illegally obtained funds. Through money laundering, money is invested in such works or investments that even the investigating agencies are not able to trace the main source of the money. There can be many ways to do money laundering, one of the most important of which is “creating fake companies” which are also known as “shell companies”. Shell companies are a company like a real company but in reality no assets are involved in it nor do they have any actual production work. In fact, these shell companies exist only on paper and not in the real world. However, the launderer shows large transactions in the balance sheets of these companies. He takes loan in the name of the company, gets tax exemption from

the government, does not file income tax return and through all these fraudulent activities, he accumulates a lot of black money. If a third party wishes to examine financial records, false documents are displayed to mislead the investigation as to the third party's source and location of funds.



In Hawala transactions, money is exchanged unauthorizedly from one country to another, i.e. Hawala means transfer of money from one country to another country through agents. There is a legal method, which is also called "hundi". According to the data of the Ministry of Home Affairs, the size of the hawala business in India is 20 to 25 billion dollars per year.

3 people are definitely involved in this type of business 1. From whom payment is to be taken 2. To whom payment is to be made 3. Agent acts as a link between the payer and the payee. This can be understood through an example: Mr. A, the leader of a political party in India, has earned a huge amount of black money and now he does not want to keep this black money in India so he has decided to deposit this money in Switzerland. They do the job of the agent who opens his bank account in Switzerland and deposits the black money of 100 crores earned by Mr. B living there in the account of Mr. A in the currency of Switzerland itself (Swiss franc). Now Mr. B living in Switzerland has deposited money from Mr. A in the account of an acquaintance in India through the same agent. Thus both the people involved in this hawala business have made their black money white. The method mentioned above is only one way to convert black money into white. Apart from this, hawala business is also done in many ways. In this trade, the exchange rate between Swiss franc and Indian rupee is also taken care of. People who live there also take advantage of the fluctuations in the exchange rates between the two countries.

NEED AND IMPORTANCE OF THE STUDY

Black money runs the black economy. It is parallel to normal economy. It has many disadvantages it is very dangerous for the country. This money is used against economic development of a country. It is mainly used for funding terrorist activities. At present, it is necessary to put check on black money to end the problem of unequal distribution of income. According to an estimate, if all the black money can be brought back to India, then every village will have a school, a hospital and all the amenities. That is why this topic has been chosen. In the study, various stakeholders have been made aware of the suggestions so that the spread of black money can be stopped and the pace of economic development can be accelerated. The present research will explain the causes, ways to convert black money to white money and remedies to stop black money, which will lead to better policy formulation.

STATEMENT OF THE PROBLEM

“Black Money In The Scenario Of Indian Economy”

OBJECTIVES

The paper entitled “**Black Money In The Scenario Of Indian Economy**” is an attempt to find out the causes of black money, suggest the measures to stop the black money and finally, effort has been made to speed up economic activities.

SCOPE OF THE STUDY

There are many aspects of Indian economy but the study covers only one aspect of Indian economy that is black money.

The whole part of the study is based on the secondary data and it has been collected through online newspapers, income tax websites and other articles available on internet websites.

DATA COLLECTION

Secondary data has been used in the study. The secondary data has been collected with the help of online newspapers, books and income tax of India website.

CAUSES OF BLACK MONEY

- **Unrealistic Tax Laws:** There is a direct relationship between the income and tax rate of a person in India, the more the person earns, the more he will have to pay the tax that is why tax is evaded and black money rises.
- **Political Funding:** Big business houses give a lot of funds to the politician at the time of election so that when the time comes, many can take advantage of it. This whole process contributes towards the production of black money.
- **Agricultural Income:** Income from agricultural produce does not come under the purview of tax; so many people invest in farming and agricultural activities and keep a large part of their income without tax.
- **Bribery:** Traders and common people also bribe employees and officials to get licenses, quota-permits and to get any work done illegally. In this way, the tendency to control and delay decisions produces black money in abundance.
- **Scarcity and inflation:** Inflation and shortage of goods in the economy also give rise to black money. Due to the rise in prices, traders hide or store the goods and later sell these goods in the black market at high profit. As a result, there is an increase in black money.
- **Corruption:** Similarly, corrupt business practices, limiting and not allowing business expenses, high rates of sales tax and other taxes, ineffective implementation of tax laws, etc. are also important reasons, which generate huge amount of black money.

SUGGESTIONS

- The tax system should be simplified so that people should not be afraid of the tax system and go ahead and pay their taxes. This system can be made on the basis of America where capitalists earning more income are given concessions. And this step will be a meaningful step to prevent tax evasion and black money somewhere.
- India is the oldest democracy country in the world. Political funding is also very high in India, which leads to the generation of black money. To

deal with this situation, government has to bring political funding under tax net with some exemptions.

- India is a densely populated country and about 70 percent of the population of the country depends on agriculture and related business, but the income from agriculture is not under the tax net, which generates black money. To deal with this situation, the government should have exactly the same tax slab rates as for income tax for income from agriculture.
- Bribery is an important factor in the generation of black money, the government can be suggested to make the rules stricter in this direction so that people are afraid of taking bribe and the problem of black money can be solved from the root.
- People are ready to give more and more money for price for scarce resources that is why it is suggested that Government should take control of scarce resources so that people can buy them at the right price and the problem of black money should be decreased.
- Under the BLACK MONEY (UNDISCLOSED FOREIGN INCOME AND ASSETS) AND IMPOSITION OF TAX ACT, 2015 only 30% of the black money is deducted and the rest is returned. This should be decreased to some extent because the rate of HAWALA and Money LAUNDERING rate of commission to covert black money to white money is very low.

REFERENCES

Books

- Contini B., "India's Economic Problems", Tata McGraw Hill, New Delhi. 2nd edition, 1981
Tollison, Robert D., "The Unsanctioned Economy in India", Himalaya Publishing House, Bombay 1982.
M.M Sury, "Fiscal Policy Development in India - 1947 to 2007", New Century Publication, New Delhi, 2007
Shreekantaradhya, B.S., "Structure and Reform of Taxation in India", Deep and Deep Publication Pvt. Ltd., New Delhi, 2000

Websites

- <https://search.incometaxindia.gov.in/pages/results.aspx?k=black%20money>
<https://www.jagranjosh.com/general-knowledge/what-is-money-laundering-and-how-is-it-done-in-hindi-1497940287-2>