



“Black Money – Meaning, Nature, Sources, Methods to tackle it and its Impact on the Indian Economy.”

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ABSTRACT: Every sector in our country generates and uses black money for its survival in the market, society, etc. It includes Real estate, financial market, bullion & jewellery market, non-profit organisations, external trade and so on. In India black money persists due to the existence of Demonstration Effect i.e., the way to live a life in terms of other points of view or we say live a life by looking at others livelihood. People of India are very much affected by the lifestyles of other people of the society who are maintaining considerable high status, and in turn want to be like them. For this, they want to generate money by any means. Therefore, to fulfil these desires or to maintain their status in society they force themselves to generate and use black money. Corruption in India is a major issue that adversely affects every field of economy. Manipulation of accounts also helps in generation of black money. Many a times, Government of India has failed to collect the estimated amount of tax from the people of country and this is due to the black money driven by underground economy.

KEYWORDS: Black money, Tax Evasion, Manipulation, Indian Economy, Loss of Revenue

Introduction-

As we know that in ancient times our country, INDIA, was popularly known as Golden Bird because people of our country were more enlightened in terms of coordination and co-operation, worked in a very enthusiastic & honest manner so as to provide fruits of their work to everyone without any selfishness and/or jealousy i.e., they were not concerned about their earnings as compared to others. They focused on the welfare of the nation as a whole. So, it could be predicted at that time that our country will become



one of the greatest economies in the world and be at the top as regards developed country very soon, but sadly it didn't happen.

There were many reasons behind it but the basic reason was use of black money to a large extent in our country. In Ancient times the ways to generate money as well as its usage was very transparent i.e., everyone knew the sources of money and its application, which may be referred as white money. So, in the past, White Money was in use but now the colour of Indian money has changed to Black. Before discussing the use of black money, one must know what Black Money is.

Meaning-

There is no definition for black money in economics because in the present time, black money is used in our country up to a very large extent so it not possible for us to define it properly or with an accurate definition. Different people define it different ways with different terms such as unaccounted income, underground income, black wealth, or at economy level it is known as parallel economy, black economy, shadow economy and unofficial economy. Broadly or in layman's language we can define it as, money that has been acquired through illegitimate means or money which is unaccounted for, that is, for which tax is not paid to the government. 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.

Nature of black money-

Black Market and Black Money came into light during Second World War. At that time due to various control on distribution and prices of goods, a secret market came into light where goods were available but at a higher price than the controlled one. The term "black money" became current to describe the money received or paid in "black market". With time black money acquired a wider area much wider than black market.

Sources and Methods of Generation of Black Money-

Black money may be generated through the crude approach of not declaring or reporting the income or the activities leading to it. This is the likely approach in all cases of criminal, illegal, and impermissible activities. Another approach can be by not declaring or



reporting activities and the income generated there from may also be followed in cases of failure to comply with regulatory obligations or tax evasion on income from legitimate activities. However, complete evasion or non-compliance may make such incomes vulnerable to detection by authorities and lead to consequent adverse outcomes for the generator. Thus, a more sophisticated approach for generation of this kind of black money is often preferred, involving manipulation of financial records and accounting. Tax evasion involves misreporting or non-reporting of the transactions in the books of account.

Different kinds of manipulations of financial statements resulting in tax evasion and generation of black money are summarized below:

- Out of Book Transactions
- Parallel Books of Accounts
- Manipulation of Books of Account
- Manipulation of Sales / Receipts
- Under-reporting of Production
- Manipulation of Expenses
- Manipulation by Way of International Transactions through Associate Enterprises
- Manipulation of Capital
- Manipulation of Closing Stock
- Manipulation of Capital Expenses

Impact of black money on Indian economy-

The existence of black money or parallel economy has disrupted the planning of the economy of the country. And its flow is seriously affecting the entire economic system of India. Some important are as follows:

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 investment and development.

Uncontrollable inflation:

When black money is out in the market, the amount of money in the system is higher than the one 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 and 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.

Loss of revenue to the state exchequer:

Many times, the Indian Government has failed to collect the estimated amount of tax439 from the people and for this, credit has to go to the black money driven underground economy. A report was submitted to the Finance Ministry of India that depicts 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 per cent of GDP.

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 coloured money to legal money.

Underestimation of GDP:

Black income has been causing underestimation of GDP in India as enormous volume of income is diverted to this unaccounted sector resulting in growing continuation of parallel economy of the country.

Measures taken to tackle black money-

In order to curb the menace of black money the Central Government has been taking Hercules efforts through introduction of various laws and amendment of the existing laws. Some of the measures taken by the Government are discussed hereunder.



Demonetization:

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization refers to the withdrawal of currency from circulation which is done to ambush black market currency and unaccounted money. Demonetization undertaken twice in the past miserably failed, with less than 15 per cent of high currency notes being exchanged, leaving more than 85 per cent of high value currencies untouched as the owners suspected penal action by the government agencies.

Raids:

Income tax department's powers have to be considerably enlarged and it should be empowered to conduct raids on the premises and properties of the taxpayers or any other individuals and can seize the unaccounted income and wealth and take necessary legal actions against the tax evaders.

Linking Aadaar to Pan for income tax returns and to bank accounts:

The Aadhaar Card is now a necessity in various fields - to register for a SIM card, for opening bank accounts and to file income tax returns. The recent step taken by the government to link Aadhaar to PAN for filing income tax returns is mandatory as it would help the authorities to keep track of tax evaders. The Aadhaar and the PAN details would help officials keep track whether the taxpayer is fulfilling the requirement of filing for ITR. On the same note, linking Aadhaar to bank accounts is also compulsory. This will help officials to keep track of the digital transactions, transfers, etc.

Prevention of Money Laundering Act, 2002:

The Prevention of Money Laundering Act 2002 (PMLA) was enacted to prevent money laundering and provide for confiscation of property derived from, or involved in, money laundering and for matters connected therewith or incidental thereto. The Act also addressed international obligations under the Political Declaration and Global Programme of Action adopted by the General Assembly of the United Nations to prevent money laundering. The Act prescribes that any person found guilty of money-laundering shall be punishable with rigorous imprisonment from three years to seven years. He could also be liable to fine of up to Rupees five lakhs.



Benami Transaction (Prohibition) Act, 1988:

Benami is a Persian language word that means "without name" or "no name". In this Act, the word is used to define a transaction in which the real beneficiary is not the one in whose name the property is purchased. As a result, the person in whose name the property is purchased is just a mask of the real beneficiary. Benami Transactions (Prohibition) Act, 1988 prohibits holding of property that is "benami" or not in the name of the person who purchased the property.

Conclusion-

Prevention and control of black money is pre-requisite for establishing an equitable, transparent and efficient economy. As economy is the backbone of a country, black money will paralyze the economy and the country will be in doldrums. It becomes a hurdle in the development of the economy and will definitely destroy the same. 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.

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, coextensive 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. A multi-pronged strategy is essential to deal with the issue of generation of black money and its illicit transfer outside the country and for bringing back to India. The factors leading to a generation of black money in India along with the various may exist due to lack of adequate and reliable data.



Endnotes:

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