

Black money in india essay sample

Government



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WHAT IS BLACK MONEY

There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including ' unaccounted income', ' black income', ' dirty money', ' black wealth', ' underground wealth', ' black economy', ' parallel economy', ' shadow economy', and ' underground' or ' unofficial' economy. All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate per se, like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption. For the purpose of this document, ' black money' can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession .

BLACK MONEY IN WORLD

According to the Swiss Bank Report 2006, the

TOTAL AMOUNT HELD

(\$ Billion)

India - 1, 456 (65000 CRORE)

Russia - 470

U. K. - 390

Ukraine - 100

China - 96

Evidently, India with \$ 1, 456 billion or \$ 1. 46 trillion has more money in Swiss Banks than the rest of the world put together.

ROLE OF SWITZERLAND

* Switzerland is also known as tax havens (the countries which have zero or very low income tax like Switzerland, Angola, Bermuda etc). * They ask no question on the origins of money coming into banks. * They keep all banking records secret and cooperate very less with other countries. * They have no contribution to the world except as points on the world map where “ dirty money” is kept safely * Switzerland has 1/3rd of global private funds.

* Total money in tax havens is 11. 5 trillion \$.

* 50 % of this money belongs to the developing countries like India.

BLACK MONEY IN INDIA

* India has about 1500 billion US dollars in Swiss banks. (70lakh Crores) * Black money is about 40% of India's Gross Domestic Product (GDP) * This amount is about 13 times larger than the country's foreign debt. * Once this large amount of black money and property comes back to India, the entire foreign debt can be repaid in 24 hours.

SOURCES OF BLACK MONEY

* High rates of taxation & evasion of tax :

An unrealistic and disproportionate increase in taxes and duties compel some people to evade tax and accumulate black money. As per the present rule [2012-13] the tax free income limit is fixed at Rs. 1, 80, 000/-. It is a <https://assignbuster.com/black-money-in-india-essay-sample/>

known fact that no one can run his family smoothly in this age of inflation within this limit of Rs. 1, 80, 000/-. A mason, a carpenter, a plumber, a painter earns about Rs. 400/- to Rs. 600/- per day in a city. The yearly income of these people ranges between Rs. 2, 00, 000/- to Rs. 4, 00, 000/-. But they rarely file their income tax returns and pay their taxes. Similarly, doctors, advocates, chartered accountants, who earn a few lakhs of rupees normally hide their real income to escape paying income tax between 20% to 30% of the total income. There is an argument that if income tax is reduced there is less likelihood of hiding the income and paying more tax.

* Corrupt business practices :

Directors of companies may be interested in reporting a higher net profit in order to win shareholders' confidence or to earn more commission if they are entitled to a commission on profits or to fetch better price for the shares they hold. In order to show inflated profits such methods are employed as inflating sales, suppressing purchases, writing off inadequate depreciation, providing inadequate provision for bad debts, etc.

* Political and bureaucratic corruption :

Political corruption is the use of power by government officials for illegitimate private gain. Misuse of government power for other purposes, such as repression of political opponents and general police brutality, is not considered political corruption. Neither are illegal acts by private persons or corporations not directly involved with the government. An illegal act by an officeholder constitutes political corruption only if the act is directly related to their official duties, is done under color of law or involves trading in

influence. Forms of corruption vary, but include bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement. Corruption may facilitate criminal enterprise such as drug trafficking, money laundering, and human trafficking, though is not restricted to these activities.

* Prohibited trades {liquor and drugs :

Prohibited goods are the goods that cannot be imported into any of the Partner States and Restricted goods are those goods which the Partner States have identified that need to be controlled by different government agencies. The importation of the identified goods will only be granted against import permits, certificates or any other authority issued by respective agencies, providing or granting authority before importation into the region. But when these are traded without notifying the relevant authorities , black money is generated. * Manipulation of public expenditure :

Every successive five-year plan is planned for a larger size of investment in the public sector. The projects undertaken by the public sector have to be monitored by the bureaucrats in Government departments and public sector undertakings. Tenders are invited for the various works and these tenders are awarded by the bureaucracy in consultation with the political bosses. Thus, a symbiotic relationship develops between the contractors, bureaucracy and the politicians and by a large number of devices costs ' are artificially escalated and black money is generated by underhand deals. * Inadequacy of power to the tax authority :

The tax authorities made in India are not much empowered to have a proper control over The taxation system . There are political as well as govt powers
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which influence the tax rates. Moreover many tax rules are just made but not even implemented properly. No proper bodies and institutions had been set up which should implement the tax laws efficiently. * Ineffective enforcement of the tax law:

Whereas the Government has an armoury of tax laws pertaining to income tax, sales tax, stamp duties, excise duty etc., their enforcement is very weak due to widespread corruption in these departments. . The high rates of these taxes induce businessmen to avoid recording of these transactions. This evasion largely goes unchecked and thus sets in a chain reaction for the generation of black money at the wholesale, retail as well as production levels.

* Real estate transaction:

People amass black money through real estate transactions. Purchasing a house and/or land at a cheaper rate and selling it at a higher rate by manipulating to pay very less stamp duty has become a profitable business in all major towns and cities. This is also an important source of black money

* Excise and custom duty evasion :

Most of the businessman and companies tries to evade excise duty imposed by government by various malicious practices . They prepare false reports showing less production/import than actual, to avoid paying excise tax/custom duty.

* From exports :

As explained in the previous point many business houses prepare fake reports showing less production than actual , but when the actually produced goods are exported the black money is generated because there is no or very low tax on exports.

* Smuggling :

Smugglers amass black money and unaccounted wealth. They disrupt national economy, evade payment of income tax and other taxes and cause a huge drain on foreign exchange. They set up a parallel economy, so today. Ever since the independence of the country, smuggling has been going on thereby doing great damages to the national economy.

* Educational institutions :

Many institutions in India do not provide admissions to students without taking bribes . Due to this only rich class people can educate their children and class educated people could not get quality education they have to rely upon govt . and other third class colleges.

* Bribes:

Bribe is one of the main source for generation of black money as this money is not disclosed to income tax office. bribe is used as means to get work done at a faster pace by all kinds of people from peon of a company to the owner of a company and is used for all kinds of work i. e. from getting admission in school to getting a job in a company, from getting birth certificate of a new born baby to the pension of a retired person.

* Professional income :

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Many professionals like Doctors, lawyers, cas, Teachers do not disclose their actual income. For example : Mostly teachers who do part time job of tuitions at their home apart from teaching job at school/colleges do not disclose it in their total income moreover they charge fees without any proper standards set . they charge according to their wish .

* Selling of licenses and permits:

The system of controls, permits, quotas and licenses which are associated with misdistributions of the commodities in short supply results in the generation of black money. The Wanchoo Committee explaining this factor as a source of black money observed, “ In spite of the vigilance exercised by the Government, controls and regulations came to be used by the unscrupulous for amassing money for themselves. Since considerable discretionary powers lay in the hands of those who administered controls~ this provided them with a scope for corruption – ‘ speed money’ for turning a blind eye to the violation of controls. All this gave rise to trading in permits, quotas and licenses, malpractices in distribution and in the process; it generated sizeable sums of black money.”.

* Cap on salary :

Government had capped the salary of top executives of big companies, as result of which a part of the salary was paid to them in form Cash (Unaccounted money). This further boosted the growth of Black economy in India.

* Others :

Gambling, financial transaction, prizing, coaching classes, political leaders using grant money for their personal expences etc.,

IMPACTS OF BLACK MONEY IN INDIA

* Affecting the GDP Growth:

Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living. The biggest impact of black money is that it halts the country GDP growth due to lack of funds from government. Government earning is depends upon the tax revenue. If the public will not pay the tax to government, Government cannot fund to particular sector which needs the funds for their better operation. Due to lack of funds government force to have take loan from World Bank or other's countries. Which will increases the burden of foreign debit on the government.

* Greater Burden on Honest Tax Payers :

The tax rates are so high and the innocent tax payers has no way to escape from this liability . They keep filing their returns regularly whereas some corrupt business man knows how to escape from this by showing less profits in books and other malpractices . Due to this the govt increase tax rates to earn more income from this source so ultimately these tax payers has to suffer more.

* Inflation :

The inflation rises while the black money circulates in the market. The price of eatable /others goods are increased to supply of that black money and less production of things in the market. So people which have that money they offer more price in the market. As compared from other person in the market.

* Impact on Society :

Black money leads to increase the corruption in the society. The person who has the black money they will give bribes to politician, government officials for their business or for their personal work. These people can get everything what they want from the society. So other people face the problem. In that case qualified and eligible person have to do more hard work to get that job or business from government or from other source. Because they cannot give bribes for getting the job , contract etc. When they will get disappointed from his effort then they have force to gives bribes for particular task to politician, high profile government person. So they also involves in corruption.

* Creation of parallel economy:

The money generated through ill legal activities that are kept hidden from the concern government authorities. Taxes are not paid on that money. In opposite to this white money shown in accounts and tax paid on it. There is not transaction record of black money in the market. This is two different economy one is accountable and other is not accountable. Now a day's plenty of case of black money rises. The black money involved in illegal

transaction accounts that its between the range of 20% to 50% of country's growth. The effect of parallel economy is too much on Indian economy.

* Anti social activities:

The dirty money is mosly used in antisocial activities like riots, bribes, political campaigns , blasts, terrorist activties etc. Because in these cases no one want to know about the origin of money the keep this money secretly for their personal benefits.

STEPS TAKEN BY GOVT AND OTHER BODIES

* Voluntary disclosure scheme 1951. (bring all unaccounted income before 31 aug 1951 by intimating tax office and paying tax on it) * Voluntary disclosure scheme 1965.(pay in two instalments 60% tax and 40 % can be retained of total undisclosed income) * Second voluntary disclosure scheme 1965 (bring all unaccounted income of any years and pay tax on it acc to rates of 1965-66) * Ann Shann Movement(' Anti corruption activist Anna Hazare' on 5 April 2011 at Jantar Mantar in Delhi started hunger strike to uproot corruption in India through the Jan Lokpal Bill.) * Satyagraha Against Corruption (Yoga guru ' Baba Ramdev' went on indefinite fast on 4 June 2011 to protest against Black money and Corruption. Religious leaders from Sikh, Jain and Muslim communities joined Baba Ramdev to support him in his protest.)

WAYS USED TO CONVERT BLACK MONEY INTO WHITE MONEY

* Donation to Charity (Anonymously): It is now widely believed that the the two pillars of the Indian economy, that is the politics and the business are
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acting and lending their hands to each other in the development of these illegal and parallel economy. The big players in the field of business sponsors all the expenses of the political parties relating to the election fight and contests. In return, they ask the political party to relax the stiff laws of the government and the Indian constitution in their favor and also give them concession and incentives without any staunch reasons. This has created a vicious circle as the ruling party keeps on demanding various form of donations that the business houses regularly provide and the party keeps on giving them the concessions, thus putting a huge burden on the budget of India, sometimes leading to the deficit financing.

* Altering the Source of Income:

Now a day many people tries to change their source of income from illegal to legal income by adopting many malpractices. Eg : Get to a jeweller. Give him the amount you want to convert into white as cash. He would give you a cheque back for the same amount less 4%. He would give you a purchase bill to show that you have sold jewellery to him. On the amount of the cheque when you file your returns you will have to pay capital gain tax. There you go , the money is white now..

HOW?? SOURCE OF INCOME IS SALE OF JEWELLERY. * Hawala :

It is very well known that the international smugglers or the traders in other illicit trade cannot complete their monetary transactions through any nationalized or other private legal banks in India. Also, the amount of money in which the drugs and other weapons are imported or exported is quite large, usually in billions. Since, these international traders deal with the <https://assignbuster.com/black-money-in-india-essay-sample/>

smugglers of various countries, they always need to convert their domestic money into the currency of the other country which is only possible through the central bank of the countries. But the central bank while financing such a huge transaction shall definitely ask for a proper report for the transaction. Hence, just like the black market, there is another illegal market dealing in such foreign currency conversions called the " Hawala market". In the hawala market, the foreign exchange rate of Indian rupee is 23 to 25% higher than the official market.

In other words, the Hawala market converts a dollar into the Indian rupee at 25% higher than the legal monetary market. I shall try to give you a complete picture of what happens in this market. Suppose any non-Indian carpenter, engineers is earning a good deal of foreign exchange money. They sell their foreign exchange earnings in the Hawala market in respect of some consideration. The same money is remitted to the international dealers in illicit trade. These foreign currencies are generally purchased by the big businessman who use this money to pay for officially under-invoiced import of industrial goods as this is considered to be lower than the custom duties of 80%. It is estimated that the foreign exchange market accounts for as much as \$4 billion flow of the foreign money.

* Through Real Estate:

Since the sale of property on lease hold is permitted by the government only at a payment of certain amount of premium to it, the lessee generally completes this transaction through the power of attorney so that they

escape from paying the premium which is fixed on the basis of the difference between the current market price and the price fixed by the government.

In case of freehold property or the property in which there is complete transfer of ownership at one go, the black income is generated through the sale of the property at the actual value but registering it at a lesser value than the sale value of that property. Thus, a vicious circle is established in the sale and purchase of different kinds of property. In other words, the pugree system is also another source of black income in the property business. It is both the outlet and the source of black income as there is net absorption of black income of the seller.

BENEFITS OF BRINGING BLACK MONEY IN INDIA.

- * India can increase its defence budget 18 times.
- * Tax Free budget for 50 years.
- * Concrete roads can be built all over India connecting every village with Delhi.
- * If this surplus amount is invested in earning interest, the amount of interest will be more than the annual budget of the Central government *
- With this amount the entire foreign debt can be repaid in 24 hours

HOW TO OVERCOME THIS PROBLEM

- * First, you need to be aware
- * Don't give BRIBES
- * Organize road shows & seminar
- * Establishment of anti corruption bodies
- * Stringent rules to curb all forms of corruption

- * Enhance the transparency in tax transactions
- * International cooperation

CONCLUSION

It is, therefore, no exaggeration to say that black-money is like a cancerous growth in the country's economy and if not checked in time it will surely lead to its ruination. Only strong will power of the govt. Can wither the roots of black money.