

The background of indian's black money



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1. 0 INTRODUCTION

To start with, there are two ways of earning money, one is with legal ways and other through illegal ways. Money earned through legal way is called white money while money earned through illegal way is called black money. We have to pay taxes to the government for all the money we earn. The money on which we pay tax, we refer it as white money and the money which we hide from the government is referred as black money. Black money is cancer to the economic growth of nation . Illiteracy, poverty, disproportionate religious belief are the key factors from which India acquired this abridge economy. Since 1991, India adopted liberal and democratic ways to ensure its economic growth. With the help of this, it was able to revolutionize itself from a rustic to an industry based economy. Regardless of this achievement, it became the one of the top countries having black money.

DEFINITION

Black money is defined as follows:

“ Unaccounted-for and untaxed cash generated by dealings in a black economy, black market or organized crime.” (Karhad, 2012).

It may be also defined as:

“ Income from illegal activities that is not reported to the government for tax purposes”. (Karhad, 2012)

2.0 What the statistics say:

Indian funds account to 0.14 percent of wealth deposited in foreign banks. It ranks 55th globally(www.thehindu.com/business/Economy/article3539521.ece)

Till 2011, the total value of currency in Swiss bank was 1.53 trillion Swiss francs , From which 2.18 billion Swiss francs (Rs. 12,700 Crore) belonged to Indian individuals(www.thehindu.com/business/Economy/article3539521.ece)

Most of the money belonged to fiduciaries. Fiduciaries are basically wealth fund managers who manage the money of Indian individuals through numbered accounts. (www.thehindu.com/business/Economy/article3539521.ece)

Indian funds in Swiss banks rose to Rs. 3500 Crore last year.(www.thehindu.com/business/Economy/article3539521.ece)

3.0 How is black money made?

It is elementary to know how black money is made, to perceive its affects on the economy.

Money laundering, anti-social activities, tax quibble, unrecorded income and taking advantage of liberal and democratic system of the government, are the main reasons which leads to its creation. Flexibility due to opening up of economy has lead to transfer of money among different borders. “ Hawala” is on of the method used for transferring of money. It accounts for 75% of the black money generated in India. Another method is to deposit this money

in foreign banks. It adversely affects the value of rupee as compared to other foreign currencies.

4. 0 What lead to its creation?

4. 1 Dominance of privilege system

Due to presence of various quotas and licenses, the black money in India keeps on increasing.

4. 2 Incompetent administration of tax legislation

The tax legislation of India which includes tax duty, stamp duty is substantially weak.

4. 3 Allowance from political parties

Big political parties have a liability to support anti-social activities through black money. Huge corporate societies are providing ruling political parties with sole intention to make profit (Lekhi, 2003, 193).

4. 4 Repercussion of Second World War

Many Indian industries got involved in money laundering during the era of Second World War. Black money was being generated through transfer of illegal goods and basic supplies.

4. 5 Agronomical Income

One of the factors in adding up to black money was the unwillingness to add tax on agricultural earnings. Big corporate houses have started investing in farming and agricultural activities to earn money as government don't have any tax on agriculture.

4. 6 Privatization

With many sectors being privatized , government as well private sector gets a chance to launder money, manipulate the data. Most of black money scams which emerged in India were all due to private sector involvement .

4. 7 Conventions in Metropolitan Real Estates

It is an upcoming methodology used by private sector as well as government to launder money. Devaluation is the process used in it to show less value for the property or building or land.

4. 8 Allowance system

According to Karhad (2012), During early establishment in india, the tax rates were adversely high.. Tax rate were as high as 97. 50%. This lead to to high accumulation of black money as the people would try to deceive by not paying the taxes.

4. 9 Colossal Tax rate

A honest tax payer even can't pay a proper tax due to confound nature of the tax system in India. This compels the individuals to evade tax to avoid long complicated procedures involved in paying tax. People manipulate their funds to show low income so that they have to pay less tax.

4. 10 Compensation

Compensation or bribe may be called as the main source of black money. People use bribe as a means to get their work done at a faster rate. Whether it may be for their own benefit or others benefit.

4. 11 Constitutional Advocacy

The main political reason is dominance of power. People have a tendency to misuse their power. If they can't do the work legally they try to restore illegal means, either by bribing or manipulation of data.

4. 12 Other Factors

Smuggling, anti-social activities, bribery, dowry, obscuration of money earned by artist or professionals, all this leads to accumulation of black money. This leads to formation of a parallel government (Lekhi, 2003, 194).

5. 0 Impact on Indian Economy:

The main impact of black money on Indian economy is the formation of parallel economy. One is the legal and accounted economy while another is the unaccounted economy. It causes instability among the people as well as economy.

5. 1 Country's Commercial Enlargement

Country's growth gets cease due to lack of capital. The basic source for capital is tax. Private sector companies get affected because the government can't help them financially, because even they don't have sufficient funds. Accountability increases as the government has to take loan from foreign countries or world banks.

5. 2 Increase of Escalation

Lack of tax payment leads to rise in inflation, as the government doesn't have money to import products. They increase the prices of basic commodities like petrol, food.

5. 3 Increase of exploitation in society

It increases the corruption in society. People use wrong means to get their work done. While the honest and hard working people gets exploited as they have to follow all the procedures which is time consuming.

5. 4 Effects on Income allotment system

It increases the gap between the poorer and the richer. Acquiring money through illegal ways and hiding it from government causes a deformity of income among the society.

5. 5 Ill legal alteration of funds from India to other countries

Using different mediums, money is transferred across the borders. Exchange administration is hampered due to this illegal transfer.(Dhar, 2003, 721).

5. 6 Embodiment of corollary economy

The money generated through ill legal activity , 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 no transaction record of black money in the market. Thus, two different economies one is accountable and other is not accountable. Now a day's plenty of case of black money has come into account. 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.

5. 7 Impact on India's notoriety in the world

This Black money and corruptions put a very impression in India reputation on the world. Many big businessmen in world are pulling their hand back

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from India. They are not interested in to do business with India due to this corruption. It's also effect on Indian economy. In corruption perceptions index (CPI) India is ranked 87 numbers out of 178 countries. Due these big scams like 2G scam, common wealth game scam(Dr. Roshan Kumar M. Bhigania, [May 2012])

6. 0 Measures taken by government to check black money

Various measures are taken by government to track black money and to avoid dominance of parallel economy, some of which are listed below

6. 1 Analyzing Tax Equivocation

Evasion of tax has been the root cause for generation of black money. Thus, the government has taken lot of primitive measures to keep a check on direct as well as indirect tax(Charlie, 2010).

6. 2 Degradation of Tax Progression

Till early 90's the tax rate was very high(50%) while the corporate tax rate was low . now this tax rates has been reduced to 30% for individuals while 35% for corporate sector.

6. 3 Interpretation of tax laws and conducts

If tax procedures are complex, then it will be beneficial for tax evaders. To avoid misinterpretations, government is trying to simplify tax reduction.

6. 4 Tax Reconnaissance

Tax authorities have right to conduct raid on person suspected to have black money Various penalties and prosecutions are conducted if found guilty.

6. 5 Tax on bank withdrawals

From 2005-06, government has introduced tax on withdrawals for individual accounts and corporate accounts. Its keep a check on the transactions on that particular account. (TR Jain, Mukesh Trehan , 2009)

6. 6 Demonetization

In 1946, The tax enquiry committee noticed that the process of demonetization was not successful. The amount of notes which were demonetized accounted for Rs 1254. 56 crores while the demonetized notes in august 1981 accounted for Rs. 125 crores. So we can say that demonetization was a primitive method adapted by government. (Lekhi, 2003, 195).

6. 7 Autonomous Feedback schemes

This scheme which was introduced in 1951 was mainly aimed towards obtaining income tax and not wealth tax. According to income declared by declarant, 30% would be charged as income tax money(Highlights of Union Budgets, 1997).

Measures taken by individuals to check black money

Various individuals had a lot of contribution from time to time to check black money and to stop it, some of them are listed below:

Kaldor's Estimate

In early 1995, an income taxation committee was formed under the guidance of Prof. Nicholas Kaldor . The committee was dedicated towards finding out annual income for individuals which included 1) wages and salaries 2) rent, interest, profit 3) self-business. Based on the rough calculations an <https://assignbuster.com/the-background-of-indians-black-money/>

estimation of black money was predicted which accounted to Rs. 750 crores for the year 1961-65(Datt and Sundharam, 2004, 378–379).

Rangnekar's Estimate

D. K. Rangnekar as a member of the Wanchoo Committee submitted his report in 1982 (India Today, 2005). Most of the dtec estimates were proven wrong by rangnekar. He estimated the worth total unpaid tax for the year 1961-65 accounted for Rs. 2300 crores (Datt and Sundharam, 2004, 378).

The National Institute of Public Finance and Policy

The estimated amount of black money in 1985 accounted for Rs. 1, 00, 000 crores.

It accounted for 20 percent of the total India's annual income(The Hindustan Times, January 20, 1997).

8. 0 Global effect of black money:

Developed as well as developing countries both are affected by black money and parallel economy. Not much initiatives are taken worldwide to cut dominance of black money.

8. 1 Parallel Economy Estimates in Developed Countries due to black money

Country Parallel Economy (as % of GDP)

Greece, Italy, Spain, Portugal and Belgium- 24–30%

Sweden, Norway, Denmark, Ireland, France, The

Netherlands, Germany and Great Britain- 13–23%

Japan, USA, Austria and Switzerland- 8â€ 10%

([http://www.crisil.](http://www.crisil.com/youngthoughtleader/winners/topic4_Jyoti_Agarwal_IIm_CAL)

[com/youngthoughtleader/winners/topic4_Jyoti_Agarwal_IIm_CAL](http://www.crisil.com/youngthoughtleader/winners/topic4_Jyoti_Agarwal_IIm_CAL). PDF)

8. 2 Estimates of Parallel Economy in Developing Countries due to black money Period: 1990â€ 93 Country Parallel Economy (as % of GDP)

Nigeria and Egypt- 68â€ 76%

Tunisia and Morocco - 39â€ 49%

Guatemala, Mexico, Peru and Panama - 40â€ 60%

Chile, Costa Rica, Venezuela, Brazil, Paraguay & Colombia - 25â€ 35%

Thailand- 70%

Philippines, Sriâ€ Lanka, Malaysia & South Korea- 38â€ 50%

Hong Kong & Singapore - 13%

[http://www.crisil.](http://www.crisil.com/youngthoughtleader/winners/topic4_Jyoti_Agarwal_IIm_CAL)

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Concluding Observation

Indian as well as the World economy has a new threat called parallel economy created by black money. Government as well various individuals played their part in stopping the dominance of parallel economy, but they were not that successful. The factors which are responsible for its existence are way stronger and deeper. Since 50 years, Indian economy has drastically

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changed but it also lead to birth of some unwanted elements. Various disciplinary measures are being implemented to stop this crisis. Not only India other part of the world are also being affected by this same crisis. If firm measures are not restored it will affect more in the mere future.