

An the present rule  
[1998-99] the tax



**ASSIGN  
BUSTER**

An unrealistic and disproportionate increase in taxes and duties compel some people to evade tax and accumulate black money. As per the present rule [1998-99] the tax free income limit is fixed at Rs.

25, 000/-. It is a known fact that no one can run his family smoothly in this age of inflation within this limit of Rs. 25, 000/-. A mason, a carpenter, a plumber, a painter earns about Rs.

200/- to Rs. 250/- per day in a city. The yearly income of these people ranges between Rs. 60, 000/- to Rs.

75, 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 50% to 70% 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. 2.

Different Rates of Excise Duty: The Government has fixed different rates of excise duty.

On the basis of the quality, the products [such as paints, pipes, textiles, electric wires, etc.] are classified into different grades, and tax duties are levied on the basis of the classification made by the manufacturer.

Manufacturers, sometimes downgrade a product to pay lower rates of excise, which will help generate black money. 3. Price-control Policy of Government:

The Government often regulates the prices of some commodities [such as sugar, cement, steel, paper, vanaspati, automobile tyres, fertilizers, etc.] by following what is known as “ price-control policy”.

Since this policy is comparatively rigid it does not take into account the ups and downs in the market due to the interplay of demand and supply. The private manufacturer and merchants take undue advantage of this policy and resort to hoarding, fraud, artificial scarcity, etc., which will result in black money. 4.

Inflation: Inflationary situation is said to be one of the causes of black money. In this situation, the prices of certain commodities [like petrol] go up and moneyed people start spending their unaccounted money. They may also divert resources from production to speculation. This will cause inflation. 5.

Quota System and Scarcity: The Government has fixed quota for import, export and foreign exchange. This quota system is misused to make black money. When there arises a scarcity of essential goods people are compelled to pay more for them than the controlled prices. This gives scope for black money. For example, people are paying now more money than what is fixed as its price for kerosene oil due to its scarcity. The extra payment made by the customer will add to the black money. 6.

Elections in a Democratic System: Elections are a part of the democratic process. Electioneering has become a costly affair today. Hence the candidates contesting for elections are bound to spend more than what is legally permissible for them. These elections are generally financed by the black money holders. There is an unholy alliance between the political parties and the business tycoons. These business oriented black money holders expect political patronage and economic concessions. They obtain

such concessions from the political leaders by paying them heavy donations through black money. The concessions will help them to generate more and more black money.

7. Real Estate Transactions: 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. The Effects of Black Money: Generalisation of black money in society will have adverse economic as well as social consequences. Black money damans the economic mental programmes and plans. Due to tax evasion the exchequer loses huge amount of money which could have been used for developmental activities.

It adds to inflation and the government loses its control over the economy. It contributes to economic instability. The social consequences of black money are also severe. It increases social inequality, creates frustrations among honest people, increases crimes like smuggling, bribery, etc. The government may not get enough revenue to undertake social service programmes for the uplift of the poor and downtrodden.

It leads to shifts in income and wealth. It is assumed that black money is mostly transferred from low income groups to the relatively large income groups. It appears that there would be a net loss of money to the poorer sections through black money. Needless to say it contributes to unemployment and poverty.