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## CAUSES AND REMEDIES OF BLACK MONEY – A STUDY

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### ABSTRACT

*In India, Black Money refers to funds earned on the black market, on which income and other taxes have not been paid or which is the proceeds of criminal activity such as bribery, kickbacks and corruption. The total amount of black money deposited in foreign banks by Indians is unknown. Some reports claim a total of US\$1.06 trillion is held illegally in Switzerland. Other reports, including those reported by the Swiss Bankers Association and the Government of Switzerland, claim these reports are false and fabricated, and the total amount held in all Swiss bank accounts by citizens of India is about US\$2 billion.*

**INDEX TERMS-** E-Commerce , Consumer Behavior , technology.

### INTRODUCTION :

In February 2012, the director of India's Central Bureau of Investigation said that Indians have US\$500 billion of

illegal funds in foreign tax havens, more than any other country. In March 2012, the government of India clarified in its parliament that the CBI director's statement on \$500 billion of illegal money was an estimate based on a statement made to India's Supreme Court in July 2011.

In a televised address on 8 November 2016 by Indian Prime Minister Narendra Modi, it was announced that banknotes of 500 and 1000 would cease to be legal tender from midnight. Automatic teller machines at some places were closed on 9 and 10 November. Government organisations have brought out new notes. The Govt of India had accepted the proposal of RBI in bringing out 2000 banknotes and a new version of the 500. The old notes are being removed from circulation.

### OBJECTIVES OF THE STUDY

In this paper following are the objectives which taken for the study

- 1.To study the concept of Black Money.
- 2.To study the sources/causes of Black Money.
- 3.To suggest the remedies to control the Black Money.

### What is Black Money/Concept of Black Money?

Black money is money which is earned through any illegal activity controlled by country regulations. A black money proceeds is usually received in cash from underground economic activity and, as such, is not taxed. Recipients of black money must hide it, spend it only in the underground economy, or attempt to give it the appearance of legitimacy through money laundering.

### Sources / Causes of Black Money -

Possible sources of black money include drug trafficking, weapons trading, terrorism, and prostitution, selling counterfeit or stolen goods and selling pirated versions of copyrighted items such as software and musical recordings. Black Money is also



the name of a television series hosted by Lowell Bergman that explores the secret world of bribery in international business. There are several factors that have led to the emergence and the spread of black money. We describe the main factors under following categories:

#### **A.Shortages during War:**

During the Second World War period, many in the Indian industry found the situation ripe for black marketing. Supplies of industrial goods from the traditional suppliers of the West were cut off. Huge profits were made in respect of goods that were in short supply. These circumstances and the psychology formed the backdrop of what followed subsequently.

#### **B.Several Controls:**

The control regulation of the economy was of course desirable for planned use of scarce resources. But the controls were excessive and inadequately implemented. 'The result was twofold. In the first place, there was corruption.

In the second place, these controls created shortages, which were often artificially created. The prices paid received on these controlled goods were much above the official prices. These excess prices, called 'premia' have swelled the black money.

#### **C.Faulty Taxation:**

Defects in the tax structure have also been responsible for the existence of black money to a large extent. Till recently the tax on income and on wealth was very high to invite evasion. The corporate tax rate too, was very high. In these circumstances, the temptation gain from tax evasion was substantial. Even in the case of indirect taxes, the situation is no better. The excise evasion is rampant in such sectors as copper, cotton fabrics and plastics.

#### **D.Large Public Expenditure:**

A factor of considerable importance has been the large increase in public expenditure, as pointed out in the Black Money Committee Report of the National Institute of Public Finance and Policy. This factor started fuelling the phenomenon of black money after the cautious budgetary position, prevalent during the early sixties, was given a go by. Ostensibly, this was done to promote such good causes as removal of poverty, subsidisation of the supplies for the needy, larger plans, etc. But the huge spending which these entailed have neither been efficiently administered nor properly targeted. The result has been large leakages into the stream of unaccounted income.

#### **E.Remedies or Measures to Control Black Money in India**

The menace of ever rising black money in Indian economy is very high. It is a well-known fact that tax evasion generates black money. It is estimated that the volume of black money in 1991 has crossed over Rs. 1,00,000 crores. At present this is estimated to be about 1 trillion USD. Such staggering extent of black money has activated a parallel economy in the country and it affects the vital sectors of the economy. The Government in the past has already tried certain measures with little success. If steps are not taken immediately to reduce the black money, it may ruin the entire economy of the country.

#### **The important remedial measures for controlling black money are given below:**

##### **1. Demonetization**

Demonetization of currency of high value say Rs.1,000 could help to unearth the black money to a large extent. However, in order to solve the problem arising on account of demonetization, proper steps should be taken. It is advocated for eroding a substantial part of black liquidity on the presumption that black income held in cash will not be presented for conversion.

In 1978, Government cancelled currency note of Rs.1,000 denomination. But again it brought out the currency note of Rs.1,000 denomination for circulation. Demonetization may succeed in reducing the quantum of black money but it cannot prevent the generation of black money altogether.

##### **2. Voluntary Disclosure Scheme**

The Government may adopt the policy that those who voluntarily disclose their black income of the past to the taxation authorities will not be punished and penalties may be waived or minimized. The following image

shows the amount of undisclosed income detected during the period 2006-2012. (Source: Whitepaper on Black Money, [www.finmin.nic.in](http://www.finmin.nic.in))

Undisclosed income detected during 2006-2012		
Financial Year	No. of Surveys Conducted	Undisclosed Income Detected (In ₹ Crore)
2006-07	6,207	2,612.77
2007-08	6,071	3,581.77
2008-09	5,777	3,059.89
2009-10	4,680	4,857.10
2010-11	3,911	5,894.44
2011-12	3,706	6,572.75

Undisclosed income detected during 2006-2012

### 3. 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.

### 4. Rationalization of Controls

Since ill-devised controls are major causes of black money, it is essential to rationalize the control system. Government has taken some steps in this direction by easing the licensing policy etc. But still there are many cumbersome rules and formalities and unnecessary control in many areas, which need to be effectively rationalized.

### 5. Taxation Reforms

India needs a rationalized tax structure. Prof. Kaldor, Wanchoo Committee and many others including the authors of the NIPFP Report have recommended a reduction in marginal tax rates, simplification of tax structure, taxation laws and improvements in tax administration.

### 6. Vigorous Prosecution

The Wanchoo Committee also recommended that the department should completely reorient itself to a more vigorous prosecution policy in order to instill a wholesome respect for the tax-laws in the minds of the taxpayers.

### 7. Special Bearer Bonds

In 1981 and 1991 the Government has introduced a scheme of Special Bearer Bonds to drag black money into the treasury's coffer. It is advocated to unearth black money. But it is to be modified suitably according to the prevailing economic conditions.

### 8. Rewards and Awards

In order to encourage the honest taxpayers and create a positive attitude in the minds of the people towards the payment of tax, this can be adopted. The income tax department has introduced a special award scheme for the first time in Tamil Nadu for the 1994-95 assessment year, to encourage and recognize prompt tax payers and also create greater awareness in the minds of taxpaying public. It is called as "Good Taxpayers Award"

Scheme. The various categories considered for the awarded scheme are: public and private sector companies, firms.

#### **The other qualifications considered for the purpose of the award are that**

- ✦ No penalty for concealment of income should have been levied,
- ✦ No prosecution for offenses under the Direct Taxes Act and related provision of IPC should have been launched,
- ✦ No search undertaken under the Direct Tax laws should have been conducted, and should have been co-operative with the department in the completion of assessments.
- ✦ The person concerned should not only pay the highest tax but should also file the returns in time,
- ✦ Prompt payment of taxes including self-assessment tax without default,

Besides the above, no official patronage or recognition or awards should be given to persons who have been penalized for keeping the black money or in whose case prosecution proceedings have been taken.

### **9. Publicity**

In view of the deterrent effect, the nature of all persons in whose cases penalties have been imposed for the concealment of income, wealth etc. should be published in the gazette as well as in the press, giving details of their names, addresses and the amount of penalties etc. If the assessee is a company or firm, the names of all the Directors of the Company or Partners of the firm should be published.

### **10. Arousing Public Conscience**

A special drive should be undertaken to arouse public conscience by enhancing the co-operation of the leaders in various walks of life.

### **11. Other Measures:**

- ✦ People should be educated with regard to real object of collections of taxes through press, radio, TV, and films.
- ✦ Steps should be taken to convince the taxpayers that the money collected through taxes is not spent wastefully but put to proper use.

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