ABSTRACT

Black money is one of the hot topics of discussion now a days in our country. The black economy represents not less than one fifth of the aggregate economic transactions. Black money results in the functioning of a parallel economy. In India, black money refers to funds transacted in the black market, on which income and other taxes have not been paid. It practices those activities which are contrary to the principles of economic policy pursued in an economy. Therefore it is called illegal economic operation. It is well-known that there is a large quantity of money, income and wealth which has been unaccounted in our tax system and therefore, has not suffered tax. Black money can also be termed as production of goods and services whether done legally or illegally but which is not taken into account for the official estimation of the country's Gross Domestic Product (GDP) because it is neither detected by the authorities nor is declared by its creators.

Keywords: Black money, parallel economy, income and wealth, tax system, GDP

INTRODUCTION

Black money in economic terms means ‘unrecorded gains’. Black money refers to funds earned on the black market, on which income and other taxes have not been paid. This underground, unrecorded and irregular hoarding of wealth in any form is what is said to be running a shadow economy or Black money in a country. In other words, it is income which has escaped taxation. Government does not know about this money. According to the Wanchoo Committee Report,

“Black money denotes not only unaccounted currency which is either hoarded or is in circulation outside disclosed trading channels but also its investment in gold, jewellery and even precious stones made secretly, and in land and buildings and business assets over and above the amounts shown in the books”

There is no reliable source for estimating the black economy generated in India or held outside. Raja Chelliah has estimated that black money is generated at the rate of 20 percent of the country’s GDP. National Institute for Public Finance and Policy which was commissioned by the UPA government estimated that there is a parallel Black economy functioning, though the size is nearly 75 percent of the 2013 GDP.

Foreign banks especially the Swiss Banks which do not disclose the particulars of the account holders have become a safe haven for the people who want to hide their income without paying the taxes. Indian people have deposited huge amount of black money in Swiss banks. The total black money of the people of all other countries is less than the black money deposited by Indians. As per the information provided by Swiss bank, India is on the top of the list of black money deposits in their banks. Here is the list of black money deposits by people of various countries.
India $1500 billions
Russia $470 billions
United Kingdom $390 billions
Ukraine $100 billions
China $96 billions

We can bring back the black money deposited in Swiss banks back to our country. So much can be done for the development of the country if we bring back the black money and use it for productive activities. If the total black money is brought back, India will be able to clear all the foreign debts within 24 hours. By using this black money Indian Government can maintain the country for another 30 years even if all the taxes are abolished. The major effects of black money are discussed below.

REASONS OF BLACK MONEY

There are several causes due to which the black money is created in a country. The political economy has a vital role in a democracy. The following are the most important reasons of black money in India.

Corruption is the main reason for black money in India. Black money is created by the corrupt practices indulged in by politicians, bureaucrats and other high and low level civil servants. Black money also arises from political activities such as elections where candidates spend well above the ceiling prescribed by the Election Commission. There is a growing tendency of funding of political parties with the help of black money.

Tax-laws in country are so complicated that a layman fails to understand it. Even honest assesses are unable to file correct returns. This encourages people to evade tax. The main cause of black-money is unrealistically high rates of taxes which strain human nature. India is termed today as one of "the highest taxed nations. Perhaps the most important reason for tax-evasion and black-money is the general deterioration in the moral and civic standards of our people. Demonstration effect that induces people to copy superior lifestyle is also responsible for creation of black money.

Government systems and procedures is the another cause of black-money. There are numerous controls, licenses and other governmental regulations. It is no exaggeration to say that the controls, licensing and permit system have made black money indispensable to businessmen. Large industrial houses, big contractors, bureaucrats and politicians all collude with one another in connection with big transactions. The various projects in public sector are monitored by the bureaucrats in government departments and public sector undertakings. Tenders are invited and are awarded by the bureaucracy in consultation with the political leaders and involve large scale black money in underhand dealings.

Investments in property, jewellery, diamonds, costly and rare paintings, luxury cars, rare pieces of art etc. are some of the other sources where black money is transacted. Another factor responsible for widespread growth of black money is urban real estate transactions. As we all know that no property can be purchased without making the payment in black money. Black money also arises from illegal activities like smuggling, drug-peddling and Government is still not in a position to control it.

Unscrupulous charitable trusts and societies including religious institutions manipulate the funds of the institutions and create black money. The heavy donations paid for admissions in institutions of higher learning and even large corporate schools and colleges are another big source of creation and circulating black money. Privatization has opened up a new area to the private sector as well as to ministers and bureaucrats for making black money. It is expected that many scams come to light for making black money through privatization.

CONCLUSION

Black money is a socio-economic evil. The existence of rapidly growing black money in our economy has grave and disastrous repercussions. In India amount of black money is
increasing continuously which badly impacts the economic growth of the nation. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc. The most important aspect is that the lessons of nationality and love for our nation must be taught to our children from their basic educational system. Many steps have been taken by the Government from time to time to check the generation of black money and tax evasion. The government should take appropriate measures to prevent the creation of black money.

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