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Tackling the Menace of Black Money

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Why in News

Recently, the **Union Minister of State for Finance** has stated in **Lok Sabha** that the **government's black money law** has helped detect several instances where Indians have been found stashing undisclosed income overseas.

Key Points

- **Black Money:**
 - There is **no official definition of black money in economic theory**, with several different terms such as parallel economy, black money, black incomes, unaccounted economy, illegal economy and irregular economy all being used more or less synonymously.
 - The simplest definition of black money could possibly be **money that is hidden from tax authorities**.
 - It can come from two broad categories:
 - **Illegal Activity:**

Money that is earned through illegal activity is obviously not reported to the tax authorities, and so is black.
 - **Legal but Unreported Activity:**

The second category comprises income from legal activity that is not reported to the tax authorities.

- **Impacts:**
 - **Loss of Revenue:**
 - Black money eats up a part of the tax and, thus, the **government's deficit increases.**
 - The government has to **balance this deficit by increasing taxes, decreasing subsidies and increasing borrowings.**
 - Borrowing leads to a further **increase in the government's debt due to interest burden.** If the government is unable to balance the deficit, it has to decrease spending, which affects development.
 - **Money Circulation:**
 - People generally tend to keep black money in the form of **gold, immovable property and other secret manners.**
 - Such money does not become part of the main economy and, therefore, remains generally out of circulation.
 - The black money keeps circulating among the wealthy and creates more opportunities for them.
 - **Higher Inflation:**
 - The infusion of **unaccounted black money** in the economy **leads to higher inflation**, which obviously hits the poor the most.
 - It also increases the disparity between the rich and the poor.

- **Government's Initiatives:**
 - **Legislative Action:**
 - **The Fugitive Economic Offenders Act, 2018**
 - **The Central Goods and Services Tax Act, 2017**
 - **The Benami Transactions (Prohibition) Amendment Act, 2016**
 - **The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015**
 - **Prevention of Money Laundering Act, 2002.**
 - **International Cooperation:**
 - **Double Taxation Avoidance Agreements (DTAAs):**
India is proactively engaging with foreign governments with a view to facilitate and enhance the exchange of information under Double Taxation Avoidance Agreements (DTAAs)/Tax Information Exchange Agreements (TIEAs)/Multilateral Conventions.
 - **Automatic Exchange of Information:**
 - **India has been a leading force** in the efforts to forge a **multilateral regime** for proactive sharing of **financial information** known as **Automatic Exchange of Information** which will greatly assist the global efforts to combat tax evasion.
 - The Automatic Exchange of Information based on Common Reporting Standard has commenced from 2017 enabling **India to receive financial account information of Indian residents in other countries.**
 - **Foreign Account Tax Compliance Act of USA:**
India has entered into an information sharing agreement with the USA under the act.

Way Forward

Since, black money menace is still untamed, therefore a lot more needs to be done to tackle it. Some of the strengthening steps that can be taken are:

- **Appropriate legislative framework related to:** Public Procurement, Prevention of Bribery of foreign officials, citizens grievance redressal, **whistleblower** protection, **UID Aadhar.**
- **Setting up and strengthening institutions dealing with illicit money:** Directorate of Criminal Investigation Cell for Exchange of Information, Income Tax Overseas Units- ITOUs at Mauritius and Singapore have been very useful, Strengthening the Foreign TAX, Tax Research and Investigation Division of the CBDT.
- **Electoral Reforms:** Elections are one of the biggest channels to utilize the black money. Appropriate reforms to reduce money power in elections.

- **Imparting skills to personnel for effective action:** Both domestic and international training pertaining to the concerned area. For instance, the **Financial Intelligence Unit-India** makes proactive efforts to regularly upgrade the skills of its employees by providing them opportunities for training on anti-money laundering, terrorist financing, and related economic issues.

Source: PIB