



Black Money

For Prelims: Meaning of terms: Tax Havens, Round tripping, Fugitive Economic Offender, Transfer Pricing, whistleblower, Effects of black money on economy, Sources of black money, Financial Intelligence Unit, Financial Action Task Force

For Mains: Tackling black money in India, Relevance of Panama and Paradise Paper Leaks.

Why in News

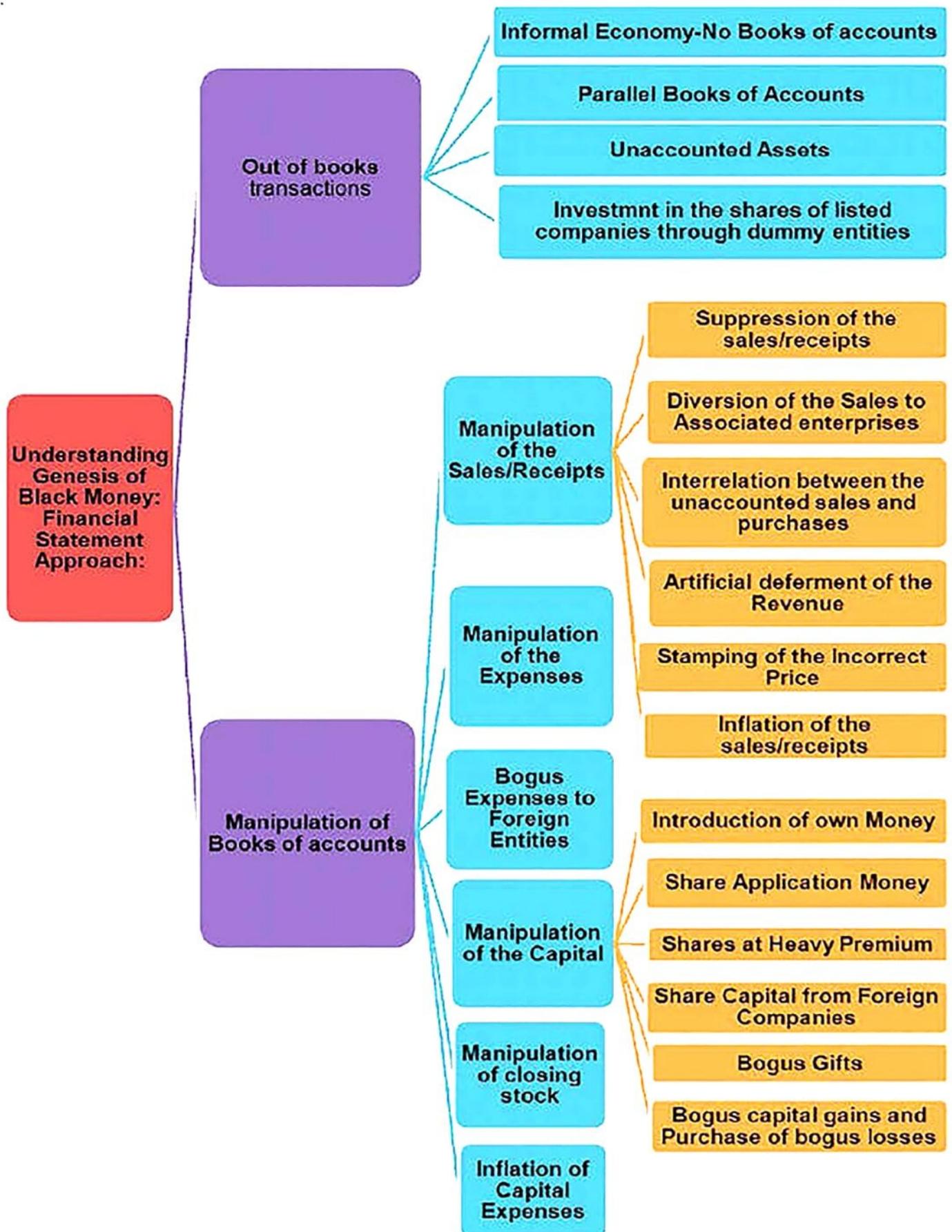
Recently, the government has said in the [Parliament](#) that **Rs 2,476 crore has been collected as tax and penalty** under the one-time three months compliance window during 2015.

- It has also been said that there is **no official estimation how much worth of black money is lying in foreign accounts** over the last five years.
- Total undisclosed credits amounting to Rs 20,353 crore have been detected with respect to 930 India linked entities in the [Panama and Paradise Paper Leaks](#).

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**.
 - According to a secret study commissioned by the **Finance Ministry** concluded in 2014 that about **90% of unaccounted wealth, or black money, was lying within India** and not outside.
- **Source of Black Money:**
 - 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**.

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Examples for Sources of Black Money

- **Multi-Level Marketing Scheme:**

- International debit or credit cards issued by offshore banks are used to create black money.
- **Disguised Ownership:**
 - Increasingly, criminals want to own legitimate businesses. It could be to **earn a return or to convert black money into white.**
- **Mixed Sales:**
 - Mixing **illicit money sources with legit ones** is a popular method because it's hard to detect, especially if there is a large cash component in the legal business.
- **Smurfing:**
 - This type of transaction is **usually done to evade notice** by authorities monitoring transactions above a certain threshold.
- **Trade Mispricing:**
 - Traditionally, goods exported and imported were **either priced lower or higher to enable money laundering.**
 - With current technology, the [Organization for Economic Cooperation and Development \(OECD\)](#) says it's easy to modify invoices or produce fictitious invoices.
- **Money Transfers To Benami Entities:**
 - In a Benami transaction, **a property is transferred or held by one person** and the consideration for such property is paid by another person for whose benefit such property is held.

- **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](#)
 - **Gold Amnesty scheme:** This is similar to the **Voluntary Income Disclosure scheme** to tap black money in income taxes.
 - **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.
- **Financial Action Task Force (FATF):**
 - India is a member of the [FATF](#).

Way Forward

- **Appropriate legislative framework related** to Public Procurement, Prevention of Bribery of foreign officials, citizens grievance redressal, [whistleblower](#) protection, [UID Aadhar](#) is needed.
- **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:** Appropriate reforms are **needed to reduce money power in elections**, since elections are one of the biggest channels to utilize the black money.
- **Training Personnel:** Both **domestic and international training to personnel for effective action** pertaining to the concerned area can also help.
 - 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.
- **Incentivising Bank Transactions:** To curb the menace of black money, industry body **Federation of Indian Chambers of Commerce and Industry** has suggested **incentivisation of transactions through banking channels** and a suitable framework for taxation of agricultural income.
 - Besides, it suggested **reforms in the real estate sector and creation of IT infrastructure to track tax evasion**.

[Source: IE](#)

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