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AN ISSUE OF BLACK MONEY AND CORRUPTION – INDIAN CONTEXT

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ABSTRACT

Following a series of scandalous financial operations, the problem of black money and corruption has recently risen to the fore. The generation of black money and its storage in tax havens has recently dominated public debate and discussion. Everyone is concerned about the situation, especially after the publishing of a few expert analyses estimating enormous sums of unexplained property in other countries. After a tumultuous session in Parliament, the Indian government has been pursuing new policies and principles on the topic of black money and corruption in public life, forming a number of committees and teams to investigate the issue. The different aspects and dimensions of black money, tax evasion, and their vital interaction with Indian policy and administration are explained in this study. An attempt has also been made to analyse the factors that lead to the development of black money and tax evasion, as well as the government's strategies for combating the problem.

KEYWORDS: Black money, Tax evasion, Unaccounted wealth, Corruption, Scandalous activities.

1. INTRODUCTION:

Black money and tax evasion are eroding the social and moral underpinning of the Indian economy, weakening socio-economic goals and causing blatant and extravagant consumerism. Black money and tax evasion encourage the concentration of economic power in the hands of the country's undesirable groups. With the removal of restrictions and the relaxation of foreign exchange controls, new avenues for tax evasion have opened up; globalisation has reduced the cost of these sophisticated tactics, facilitating the fabrication of black money. It's probable that the Indian-created dirty money is being funnelled back to India (Ministry of Finance, May 2012, Para 2.8.5). Both the Central and State Governments can work together to address the issue of black money generation and illicit transfer outside the country using a multi-pronged strategy.

2. REVIEW OF LITERATURE:

The review of literature is an important part of research process. A researcher will be aware of the limitations of previous work and may be able to assist in the extension of a current study as a result of this. It also aids in the rationalisation of the study's findings when compared to earlier findings. Many empirical investigations have been prompted by black money and tax evasion. This section is a brief review of the literature.

Controlling black money in India is a difficult undertaking, according to Vijay Kumar Singh (2009) in his research "Controlling Money Laundering in India-Problems and Perspectives." This is due to inadequate execution of laws, which increases sophisticated crime in the economy and hence creates black money.

“The Parallel Economy in India: Causes, Impacts, and Government Initiatives,” by Sukanta Sarkar (2010), was the subject of a research. The political system, he believes, is the primary cause of black money production and tax evasion in India. The government in this country has been more concerned with forming committees than with putting them in place. He came to the conclusion that robust rules are needed to combat black money and tax evasion in the country.

CA The “White Paper on Black Money,” published by Lalit Mohan Agarwal (2012), observed that violations of laws enacted by the Central and State Governments breed criminal activity, which leads to the development of black money in the Indian economy. Mr. Nishant Ravindra Ghuge and Dr. Vivek Vasantrao Katfare (2016) found that India's tax structure trails behind almost every indicator in their paper "A Comparative Study of the Tax Structure of India in Relation to Other Countries." The government's detailed reviews and actions can aid in the tax structure's simplification.

In a working paper published in 2016, the Tax Research Team argued in favour of demonetization and examined the impact on the Indian economy. This research examines the impact of such a change on credit availability, consumption, activity levels, and government finances.

In his study “Tax Reforms in India: A Study of Their Impact on Government Revenue,” Dr. Devarajappa S. (2017) suggested that the Indians must be aware of the taxation rules and laws in order to create an environment in which they will pay their due taxes and not evade them, thereby feeling proud of themselves for fulfilling their obligation to pay them.

3. OBJECTIVES OF THE STUDY:

1. To study the various aspects of black money and tax evasion.

2. To study the current status of black money and tax evasion in India.

4. BLACK MONEY AND TAX EVASION – CONCEPTUAL SETTINGS:

In general, the term "Black Money" refers to money obtained by unlawful means and kept hidden and unaccounted for. Underground economy, parallel economy, shadow economy, unofficial economy, unaccounted economy, and other terms have been used to describe it. As a result, black money is neither reported to the government when it is created nor disclosed at any point throughout its possession. Black money can be created by illegal drug trafficking, terrorism, corruption, or legitimate failure to pay taxes to the government, all of which result in the creation of unaccounted wealth. Land and real estate transactions, bullion and jeweller trades, sophisticated financial market transactions, philanthropic operations, the informal sector and cash economy, self-employed professions, foreign commerce, and transfer pricing are some of the sectors and activities that generate black money.

Tax evasion is an illegal attempt to decrease one's tax liability by underreporting or not stating taxable incomes, or hiding one's true financial situation from tax authorities. In a developing country like India, this is an issue. During the year 2008, global economic circumstances deteriorated dramatically, with several industrialised economies facing their steepest decline since the Second World War. The synchronised global downturn was compounded by the adverse shocks that spread throughout developing countries. Following the mounting difficulty among significant international financial institutions and the bankruptcy of Lehman Brothers, the global environment entered a crisis phase. The 2008 financial crisis, and the resulting need to protect revenues, emphasised the necessity for concerted worldwide measures to address the issues posed by tax haven-mediated arrangements for tax evasion. Various conventions, such as the United Nations Conventions against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Multilateral Agreements on Mutual Administrative Assistance in Tax Matters, United Nations Convention Against Corruption, United Nations Convention Against Transnational Organized Crime, International Convention for the Suppression of Terrorist Financing, Financial Act It will aid India in obtaining international cooperation in the tracking, seizure, freezing, and confiscation of criminal proceeds under a wide range of mutual legal assistance terms, even with nations with whom it does not have an agreement.

According to the National Institute of Public Finance and Policy (NIPFP), black money is the sum of taxable incomes that are not declared to authorities.

5. CAUSES AND CONSEQUENCES OF BLACK MONEY AND TAX EVASION:

5.1 Causes:

The factors responsible for the generation of black money are mainly either through illegal or legal activities.

5.1.1 Illegal Activities:

Smuggling of goods; forgery, embezzlement, counterfeit currency, and other financial frauds (i.e. Chit funds); production/trade of contraband goods (i.e. narcotics, illicit liquor, and arms); illegal mining and forest felling; and hoarding and black marketing of price-controlled materials are just a few examples of the criminal component of black money. These illicit behaviours represent a decline in social and moral values and are penalised under several federal and state laws, as well as the Prevention of Money Laundering Act of 2002's schedule.

5.1.2 Legal Activities:

Legally permitted business operations also generate a significant part of income that is not disclosed to governmental authorities in order to escape taxes. Too many procedural rules can create an incentive to hide one's true status, allowing one to remain outside of the reported and accounted portion of one's activity.

Increased globalisation and economic liberalisation have an impact on cross-border transactions, resulting in more sophisticated gadgets being developed to avoid paying taxes by avoiding different countries' tax legislation and using tax havens. Global commerce has escalated the misuse of transfer pricing, leading to estimates that developing countries like India are losing large resources as a result of transfer pricing manipulation.

High tax rates, a lack of respect for the government and its rules, mild penalties, and the nature of the economy are all reasons or causes of tax evasion. Tax evasion is frequently more appealing when tax rates are high. Tax evasion is more common in countries where citizens are generally dissatisfied with the government and its policies. Politicians' tax evasion sends the wrong message to the public about non-compliance with regulations and laws, and low penalties can occasionally encourage tax evasion. Typically, countries that have a poor implementation of regulations have a higher share of the unaccounted economy than those that have a good implementation and adequate deterrence. Underdeveloped countries' unique traits, such as high illiteracy, lack of accounting norms, limited commercialization, and a lack of administrative resources, encourage tax fraud and black money.

5.2 Consequences:

People have seen the link between tax evasion and black money, as well as how it distorts tax policy's redistributive role in India's Seventh Five-Year Plan. The distribution of income and wealth after taxation can be improved if the amount of black money production is reduced. Furthermore, reducing the extent of tax evasion can create a large amount of tax money, and more public spending will benefit the poorer members of society (Planning Commission, 1985-90). The ability of society to remove the ills of corruption and black money from its fundamental foundations is critical to the success of an inclusive growth plan. In every sector of the country's social, economic, and political environment, black money has a crippling effect on the country's governing institutions and the conduct of public policy. Failures in governance have a negative impact on the interests of the most vulnerable and disadvantaged members of society. Tax evasion and the resulting black money have had terrible consequences for the Indian economy. The following are some of the consequences/effects:

- Tax evasion, which results in black money, thwarts the government's efforts to mobilise resources. In the case of inelastic public expenditure, a lack of finances distorts the implementation of development objectives and leads the government to resort to deficit financing.

- By distorting saving/investment patterns and the availability of resources for various sectors of the economy, tax evasion conflicts with the government's professed economic policies.

- Tax evasion jeopardises the fairness of the tax system. Taxpayers who willingly face a disproportionate tax burden are demoralised and enticed to join the tax evaders' camp.

- Tax evasion and the use of black money foster the concentration of economic power in the hands of unworthy groups in the country, endangering the economy.

- Tax evasion takes time and effort on the part of the tax administration to decipher the sophisticated manoeuvrings of tax evaders.

- Bribery, intimidation, blackmail, tampering with official records, presenting phoney documents, and other unsocial acts are all abuses that degrade social and moral norms and ultimately lead to tax evasion.

7. DEVICES ADOPTED TO EVADE TAXES:

7.1 Income-Tax:

Non-reporting, underreporting, and misreporting of income are all ways to avoid paying income taxes. Non-reporting or underreporting of taxable income, maintaining multiple sets of books of accounts, knavish changes in books of accounts, keeping transactions out of books, opening and operating bank accounts under assumed frames, doing business in the names of dummies, over-reporting expenses, and fragmenting income to reduce tax liability are some of the common methods used to combat tax evasion.

7.2 Excise Duties:

Evasion of excise duties usually takes place by adopting the malpractices like incorrect valuation of goods flouting the conditions subject to its exemption.

7.3 Value-Added Tax (VAT):

Because VAT accounts for a small percentage of overall tax revenue, the incentive for evasion is low; yet, despite the self-policing nature of VAT, there are chances for evasion and fraud. The use of fake invoices to claim tax credit, tax credit claims on purchases for personal use, over-reporting of sales of zero-rated goods, secret dealings with regard to receipt issuance, and the formation of fake companies selling receipts to traders to enable them to claim tax credit on inputs are all devices commonly used to defraud tax authorities under VAT. As a result, VAT is much like any other tax when it comes to evasion and fraud.

7.4 Customs Duties:

Customs duty evasion usually takes the form of invoice misclassification, document manipulation, and concealing of imported quantity.

8. CONCLUDING OBSERVATION:

Achieving an equal, transparent, and efficient economy necessitates the prevention and management of black money. Black money and tax evasion are two fiscal illnesses that are undermining socioeconomic goals by causing excessive consumption, reduced savings, and a widening gap between the rich and the poor. Despite the uproar in Parliament, the Government of India released a White Paper on Black Money in May 2012 (Ministry of Finance, 2012), which presented the various aspects of black money and their complex relationship with the country's policy and administrative regime, as well as the policy options and strategies that the Government has been employing to address the issue of black money. Globalization and the loosening of constraints on cross-border trade in products and services, as well as the easing of foreign exchange controls, have spurred new opportunities for tax evasion via tax havens, transfer pricing, and other sophisticated tactics. They've also lowered the cost of these advanced procedures, making it easier to generate black money and transmit it across borders. The fight against the generation and accumulation of black money, as well as the curbing of black money, is far more complex and time-consuming, necessitating new strategies and stronger state intervention, which, in turn, necessitates a robust legal framework, a co-extensive administrative setup, and a strong determination to combat the threat. Tax evasion can be stopped if the rules are properly implemented. Relaxation of tax regulations, simplicity of tax laws, elimination of flaws in the tax system, and correct processing of data provided could be the most effective strategy for improving Indian tax compliance. Educating the public about tax rules is critical because it creates an environment in which citizens can fulfil their responsibilities to the country. The Indian government has proposed a number of programmes aimed at bringing back black money, but the results have been disappointing. The DTC Bill, 2010, addresses the pressing need for tax legislation to be more effective in preventing tax evasion. Tax evasion and the creation of black money have had a significant impact on the country's social and economic system.

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