

# **ROLE OF BLACK MONEY IN DEGRADING A NATION'S ECONOMY –CHALLENGES AND REMEDIES**

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## **ABSTRACT**

Black Money is the untaxed money on which the defaulters wilfully don't pay tax and try to hide it from the government or the Income Tax authorities. It is mainly done through evading taxes. Tax Evasion and Avoidance have been one of the hot topics of taxation law as they play an important role in the generation of black money in any nation. Tax Evasion is illegal and mainly consists of deliberate failure on part of an individual to pay the taxes. This not only deprives the government of the money that it should have received in form of a tax but also proves to be a blockade to the development of the country. The money that is not given to the tax officials may be used for illegal activities that are problematic for society and the nation at large. Tax Avoidance, on the other hand, refers to taking advantage of the existing loopholes in the taxing system and is not completely illegal. It doesn't have the same repercussions that tax evasion has. The author has tried to figure out the reasons of generation of black money in an economy like India and proposed remedies or solutions for stopping it from going out of the country. The literature review is a perusal of write-ups of authors who have expressed their views profoundly and the research methodology is doctrinal in nature including the principles of applied research.

**Keywords** - Tax Evasion, Tax Avoidance, Illegal, Economy, Profoundly

## INTRODUCTION

The founding fathers of the Indian Constitution wanted to make India a self-dependent nation where every citizen will have some rights and duties to perform. The concept of rights was introduced to give a kick-start to the positive thought process of the citizens where they can achieve their goals by utilising these rights in a comprehensive manner<sup>i</sup>. The idea of adding duties, including Fundamental Duties, was to promote the spirit of patriotism in minds of the citizens. One of such duties is 'collection of taxes by the Government' as per Article 265 of the Indian Constitution<sup>ii</sup>. The idea of collecting taxes was introduced to ensure the development of the nation as the money collected in form of taxes can be used in building infrastructure. The Parliament of India came up with a law named 'Income Tax Act' in 1961 regulating the mode of collecting taxes depicting the rights and duties of the citizens on a large scale. Apart from this, there are many people in India who don't pay their tax and evade them on a large scale. This creates problems for the government as well as the nation as the exchequer of the government is affected because the money that should have paid in form of tax has not been paid ultimately reducing the chances of infrastructural development. Tax Evasion is deliberate non-payment of taxes that should have been paid to the government. This money that is not paid is often stashed in tax havens like Swiss bank, etc. where the rates of taxes are very low. Tax Evasion is illegal and invites penalty as the person concerned is directly cheating the government as well as the nation.

Tax Avoidance, on the other hand is the taking advantage of the loopholes present in the Taxing system of a nation. It is a method to reduce or minimise your tax burden and an individual can escape his liability if he succeeds in furnishing details about his savings. Tax deductions, credits are some of the examples. It is not that detrimental to a nation as tax evasion is, however it reduces the revenues of the government ultimately affecting public expenditure. Needless to emphasise the fact that any kind of tax-theft is detrimental to the growth of the nation as it not only devoid a nation from all the benefits and infrastructural development but also hampers the growth of citizens who are honest tax payers. The chain of events including money laundering, *hawala* transactions, etc. make way for the defaulters to misuse the currency and ultimately cheat the government. This flow of black money in any economy creates problem for the currency as well as the economy of any nation which ultimately leads to inflation and other economic problems creating burden on the citizens and the government.

## REASONS OF BLACK MONEY GENERATION IN AN ECONOMY

There are many reasons of black money generation in an economy and more often than not, it is the human desire or excessive greed for money. This is perhaps, the biggest reason of evading taxes. For e.g. if a businessman shows inaccurate or false profit to the Income –tax department having bogus receipts, he saves his money that should have been given in form of tax, ultimately cheating the government. Apart from this, corrupt officials and fragile tax policies of the nation make it hard for the government to get all money in its exchequer that should have been given by the tax payers.

### *Extremely weak policies of the government*

The fragile policies of the government and weak legal framework develops a sense of ‘doing anything and getting away with it’ in the minds of people. They know that the current policies are not so potent to make them liable in a court of law or even if they are, have some lacunas. The poor execution machinery of the government abets the defaulters to commit tax fraud. Their insincerity towards the nation’s economic growth by not paying taxes plays an important role in raising inflation in the nation and putting tax burdens on other honest taxpayers of the nation.

### *Corrupt system*

The den of corruption has played a role in laying down the foundation of black money in India. The corrupt system of any nation encourages people to stash their money abroad which should have been given to the tax authorities in firm of Income Tax. By the time agencies start probing the details of the defaulters, they already have left the country. The cases of *Nirav Modi*, *Mehul Chowksi*, *Vijay Mallaya*, etc. have disclosed the proximity between the defaulters and the bank officials<sup>iii</sup>. It is to be noted that this closeness helps them in getting loans at cheap rates from the banks or even converting black money into white. This nexus of corrupt officials and the tax defaulters proves to be harmful for the nation as it eats into the money that should have been deposited with the government in form of taxes. When this money goes out of the nation in form of black money, it is widely used in illegal transactions, known as *hawala* transactions.

### ***Money Laundering***

The money that is 'earned' by refraining from paying taxes is often converted into white money by investment or other means. Through this process, black money gets converted into white. The mixing of untaxed money with the money that was earned through proper and justified means i.e. white money, the defaulters cunningly escape their liability. However, this process is detrimental for the nation's growth. It not only creates the sense of insecurity amongst the tax payers as they think that the government may impose more tax on them due to default of others but also devoid the government from getting money which it should have obtained. Money Laundering is a serious offence and efforts should be made to prosecute people who are involved in it, timely and in a justified manner.

### **IMPACT OF BLACK MONEY GENERATION ON AN ECONOMY**

The generation of black money in any economy, be it developed, developing or underdeveloped is very bad. It has more harmful effects in a developing economy and worst in underdeveloped. The taxing system takes a hit and makes it difficult for the economy to thrive. There is a parallel economy which is catastrophic for the original one. Let us try to understand the impact of black money generation in an economy.

#### ***Policies of the government and difficulty in implementing them***

Every nation does its best to make fruitful and practically implementable policies for its citizens and for this, the governments need funds. The Indian government allocates budgets for implementing its beneficial schemes like free vaccination in India, *AYUSHMAN Bharat Yojana*, etc. and for doing all these things, it needs money. Not only the Central government, but the State governments also need money in form of taxes to formulate and implement policies for benefiting the people at large. However, here comes the draconian role of black money generation. Tax defaulters cheat the government/s by not giving them adequate share or in other words, reduce the share of the government. This is problematic as it ties the hand of the government/s and ultimately sometimes, leaves it short of sufficient budgets. A nation's policy becomes vulnerable to the orders of international community, if large amount of money is sent out to tax havens. This creates a gap in the economy of a nation. India could have been

an \$8 – trillion economy, the second largest in the world and its Per Capita Income could have been seven times larger, if it had timely stopped the generation of black money in its economy<sup>iv</sup>.

### ***Price Rise***

Black money plays an important role in increasing the prices of commodities that are used on a daily basis. The influx of unmeasured black money is responsible for the divide between the rich and the marginalised section of a society. The government through its institutions, Reserve Bank of India in India's case, owing to the demands of the society, has to ensure that there is flow of liquidity in the market. Inflation is due to the economic loss faced by the government because of the black money generation and its stashing in tax havens.

### ***Parallel Economy***

Parallel economy means running of an economy which is not authorised or authentic and is against the principles of law, and more importantly, detrimental for the main or the original economy of a nation. It is created when a nation generates huge amount of black money in its economy leading to the degradation of the economy, ultimately giving rise to price rise, unemployment, excessive taxation, etc. The black money, so generated in an economy compels the government to increase taxes on individuals which creates frustration in their minds. Taxes are supposed to be obtained legitimately, sufficiently and not arbitrarily.

### ***Nation's respect in International scenario***

Nations like New Zealand, Denmark, Finland, Iceland, etc. have almost no corruption and have no black money as well<sup>v</sup>. They are respected in the whole world. Every company wants to invest in these countries. They have good economy which is fruitful for the citizens. No company wants to invest money in a nation which is corrupt, has high tax rates, is having black money in its economy, etc. Nations having huge amount of black money or cases of tax evasion or avoidance generally fail to meet the criteria of getting loans from the International Monetary Fund, World Bank, etc. The respect of every nation depends on the kind of economy it has and it should ensure that it is saved from the menace of tax evasion or the generation of black money. In order to convert an economy from developing to developed, it is necessary that people pay taxes regularly and with transparency which will automatically raise the reputation of the nation in the world.

## CONCLUSION AND SUGGESTIONS

After going through the above mentioned points, we can come to the conclusion that tax evasion, especially, is very harmful for an economy, though tax avoidance is also but up to some extent, and therefore, sincere, prolific and implementable steps must be taken for avoiding tax evasion and avoidance. These steps can help the government to stop the generation of black money and nab the accused who have defaulted in paying taxes to the government. Some of them can be mentioned here:

**1) Treaties** – The nations should enter in agreements or treaties with each other making the tax defaulters liable for committing crime. For e.g. India enters in an agreement with Switzerland asking it for disclosing the names of the citizens of India who have stashed their untaxed money in Swiss bank. This will create transparency and ultimately help the Indian government to take effective and timely steps against the tax defaulters and compel them to bring the money back in India which can be utilised for public benefit.

**2) Tax rates and their applicability** – Tax rates in any nation decides its economic system. The governments should define and implement tax rates in a manner which is suitable for every section of the society. If possible, the tax rates should be kept low so that the citizens don't find it inconvenient to pay taxes. However, it doesn't mean that this should be made an excuse, but proper and planned tax rates instead of high and arbitrary ones will encourage people to pay their taxes timely and transparently.

**3) Transfer pricing laws and their implementation** – When two companies exchange their products or transfer them under a common system, we say that they are following the principle of transfer pricing. The companies tend to shift their turn over or profits to nations having low tax rates. It is important for the government to take control in its own hand for deciding the tax rates under this scheme.

**4) Proper implementation of tax laws of India** – The Indian government has come up with some recent laws on black money and tax evasion like Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 and Fugitive Economic Offenders Act, 2018. Apart from these two laws, Goods and Services Tax Act was passed in 2017 as well. It is necessary to properly implement these laws and make the corrupt officials liable for being

indulged in any kind of tax fraud. It must be ensured through a transparent judicial process that they are punished. The formulation of laws, are not sufficient, it is necessary that they are implemented in a manner which is fruitful for the nation at large.

5) **Role of authorities** – Various authorities and officials like Income Tax officers, Central Board of Direct Taxes (CBDT), Enforcement Directorate (ED) etc. should come forward and educate people on taxes by telling them the importance of paying taxes timely and ensuring them that the money given by them in form of taxes will not be misused. A proper channel of regular conversation should be made citing the value of taxes and its role in making a nation self-dependent and developed.

6) **Strong and prolific laws** – It's necessary to come up with laws having strong provisions related to tax evasion and the generation of black money in India. The government of India has passed the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act in 2015 which provides for strict action on defaulters who do not disclose income in relation to foreign income and assets<sup>vi</sup>. It is reported that the Indians have stashed away black money in tax havens and this law will be a game-changer in upcoming days.

If we manage to follow these principles, it is sure that India will be able to stop the generation of black money in its economy or able to bring down the cases of tax evasion and avoidance. It is high time when the government and the citizens join hands to overcome this problem as it is proving to be a menace for the whole nation and affecting the living standards of people in India. The generation of black money in India is giving rise to various problems and terrorism is one of them. The money generated through hawala transaction is used in illegal activities making the nation vulnerable to terrorist attacks. The sooner we take sincere steps to regulate the generation of black money and it's going out of the nation, the better it is.

We should not forget the words of Benjamin Franklin – *“In this world, nothing can be said to be certain, except death and taxes”*.

## ENDNOTES

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<sup>i</sup> Part III of the Indian Constitution talks about Fundamental Rights.

<sup>ii</sup> INDIA CONST. art. 265

<sup>iii</sup> Neeraj Chauhan, *PNB finds 54 officials at fault in Nirav Modi scam*, TIMESOFINDIA.INDIATIMES.COM,( Jan.1, 2023, 9:50 PM), <https://timesofindia.indiatimes.com/business/india-business/pnb-finds-54-officials-at-fault-in-nirav-modi-scam/articleshow/64770875.cms>

<sup>iv</sup> Arun Kumar, (2022, April 11),*The cost of the black economy*, THEHINDU.COM, (JAN.2, 2023, 12:45 PM), <https://www.thehindu.com/opinion/lead/the-cost-of-the-black-economy/article2373664.ece>

<sup>v</sup> *These are the world's least and most corrupt countries*, WEFORUM.ORG (Feb.9, 2019) <https://www.weforum.org/agenda/2019/02/least-corrupt-countries-transparency-international-2018/>

<sup>vi</sup> CA. KAMAL GARG, GUIDE TO INTERNATIONAL TAXATION 714 (Bharat Law House Pvt. Ltd. 2019)

