

Black Money and Tax Evasion in India: Causes and Remedies

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Abstract: In the present scenario, Black money and Tax Evasion both are the serious problems of Indian Economy. It is a very common phenomenon. Tax evasion and tax evasion can seriously affect the entire system of the economy. Black money and tax evasion both are the reason for the high inflation in Indian economy. They both cause the prices of commodities to increase beyond level. The government of India has taken many remedial measures and corrective action to control the black money and tax evasion. In this paper we focus on causes of black money and tax evasion in India. This study also focuses on the impact of black money and tax evasion on Indian economy, remedial measures and corrective actions taken by Government to control black money and tax evasion.

Keywords: Black Money, Tax Evasion, Government, Indian Economy.

1. Introduction

In India, most of the people do not pay their taxes regularly. Due to the loopholes in the Indian tax system, most of the people take undue advantage by avoiding tax payments. The amount of money which could have been used for overall development of the country is used for anti-social activities which give rise to black money and other social evils. Tax evasion is the illegal practice of not paying taxes, by not reporting income, reporting expenses not legally allowed, or by not paying taxes owed. It is the deliberate, misrepresentation or concealment of the true state of their affairs to the tax authorities to reduce their tax liability or to avoid the tax liability by declaring less incomes, profits or gains than actually what they earned or overstating their expenses. Thus the amount which would have been used for economic and social development is used for anti-social activities. Tax evasion reduces government's revenue and income flow of the country. Tax evasion is a violation of the law: When the taxpayer refrains from reporting income from labour or capital which is in principle taxable, he engages in an illegal activity that makes him liable to administrative or legal action from the authorities. In evading taxes, he worries about the possibility of his actions being detected.

"Black money" refers to black turnover, that is, when the turnover is not reported to tax authorities for purposes of tax evasion, or because the transaction in question is illegal. The concept of black income is not unambiguous. We can define

three different connotations on the basis of which we can say that money is black money:-

- Income which is illegal;
- Income which evades tax;
- Income which escapes inclusion in national income estimates.

In the present time, black money is one of the major issues in the development of our country. Black money is nothing but the unaccounted money which is circulated in our country. Black money is main cause of big loss in tax revenue of the government. It is a money which is generated by secret activities and the government had not known about this money and this money is not accounted for tax purpose or white money is that money which is shown with relevant account and tax that are paid.

2. Objectives of the Study

There are some basic objectives for this study which are as follows:-

1. To study the causes of generation of black money in the hands of people.
2. To study the causes and different methods of tax evasion.
3. To study the impact of tax evasion and black money in India.
4. To find out the remedial actions taken by Government to control black money and tax evasion.

3. Literature Review

Dr. Devarajappa (2017) studied the impact of tax evasion on the revenue of the Indian government and the extent of tax evasion in India. He found that during 2008-2009, there was the highest recorded of taxes evaded and during 2002-2003 had the least recorded amount of tax evaded.

Lalit Wadhwa and Virender Pal (2012) said that high high tax rates and inefficient tax authorities are the main causes of tax evasion. They tried to find the relationship between tax authorities and tax evasion. They concluded that simplification of tax laws and removable of loopholes in law is the way to reduce the amount of money evaded.

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(2016) reveals that tax structure of India almost lags behind all the major indicators. It further reveals that detailed reviews and measures from the government can improve the tax structure further.

CA Lalit Mohan Agarwal edited “White Paper on Black Money” (2012) the criminal activities are mostly caused by the violation and breach of laws made by the Central and State Governments which, in turn, give rise to the initiation of black money in Indian economy.

Sukanta Sarkar conducted a study on “The Parallel Economy in India: Causes, Impacts and Government Initiatives” in 2010. He blames the political system of India as the main reason behind generation of black money and tax evasion. He says that the Government of India focuses only on establishing committees rather than implementing it. He concludes with the fact that laws should be effective enough to curb black money and tax evasion.

V. Kalpana., (2016), “Tax Evasion - A major threat to economic development and growth - causes and remedies ,this review paper focused on highlighting the causes and ill effects of tax evasion in the overall development of the Indian economy. Low tax morale, low quality of services in return for taxes and low transparency and accountability of public institutions have led to high tax evasion in our country.

M Chandrappa., (2016), “Tax Evasion and Black Money in India: Causes and Remedies” this study stated that, Tax Evasion occurs when individuals deliberately fail to comply with their tax obligation. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses. This study covers the number of factors responsive for tax evasion and examining the possible remedies to reduce the problem of tax evasion.

Tarun, Jasmin, Sciences, & Sciences (2018) In this article “ A study on tax evasion in India” the authors links the act of tax evasion with an informal economy. The total difference between the amount that is supposed to be reported and the amount that is reported is the inequality in the income distribution. The main aim of this paper is to understand the link between tax revenue and tax evasion with the government revenue. The paper also tries to analyses the main principle of tax avoidance and various loopholes which are used by an individual or a corporate organization to reduce tax burden. The papers arrives at a conclusion stating that though there is a decrease in the governments revenue , there is still a large number of people who consider paying taxes a burden even though the payable amount is less. The reason for such a psychological constrain might either be due to high tax rates or due to the fact that the tax payers feel that the amount paid by them as that is not used in a justifiable manner by the government.

4. Causes of Generation of Black Money

Generating Black Money by Manipulation of Accounts
Manipulations of Accounts for Tax Evasion

- Out of Book Transactions

- Parallel Books of Accounts
- Manipulation of Books of Account
- Manipulation of Sales/Receipts
- Under-reporting of Production
- Manipulation of Expenses
- Other Manipulations of Accounts
- Manipulation by Way of International Transactions through Associate Enterprises
- Manipulation of Capital
- Manipulation of Closing Stock
- Manipulation of Capital Expenses

Generation of Black money in Some Vulnerable Sections of the Economy

- Land and Real Estate Transactions
- Bullion and Jewellery Transactions
- Financial Market Transactions
- Public Procurement
- Non-profit Sector
- Informal Sector and Cash Economy
- Trade-based Money Laundering (TBML)
- Tax Havens
- Offshore Financial Centers

5. Causes of Tax Evasion in India

- Level of Tax Rates
- Social psychology for taxpayer
- The complexity of the tax system
- Misuse or mismanagement of revenue from taxes
- Inequitable distribution of amenities
- Nature of the economy
- Complexity of Tax Laws
- Unwillingness of Taxpayers to Pay Taxes
- Corruption in Tax Administration
- Underground economy (black economy)
- Absence of spirit of civic responsibility
- The instability of tax legislation and the multiplicity of amendments
- Tax penalties
- Economic situation of the country
- Political corruption
- Economic conditions for the taxpayer
- Overstatement and abuse of concessions-exemptions, deductions and allowances
- Moral reasons for tax evasion
- Inaccuracy of the number of taxpayers
- Double taxation
- Taxpayer Education

6. Methods of Tax Evasion

- Declaring less incomes, profits or gains
- Over stated expenses
- Accepted Corruption
- Procurement of Materials without bill
- Loopholes in Indian tax system

- Dishonesty and Individual behavior
- Lack of knowledge
- Compliance Cost
- Lack of responsibility and integrity of tax officials
- Discretionary Powers of tax officials
- Income splitting
- Income or asset shifting
- Deferment of Tax Liability
- Sheltering of Income
- Conversion of taxable income into Capital
- Conversion of Capital Expenditure into Current expenses
- Dividend stripping
- Country of residence
- Double taxation
- Creating Legal entities
- Smuggling
- Submitting false tax returns
- Inaccurate financial statements
- Using fake documents to claim exemption
- Not reporting income
- Bribery
- Storing wealth outside the country.

7. Remedial Measures and Corrective Actions Taken By Indian Government to Control Tax Evasion

- Reduction in tax rates
- Minimization of controls and licenses
- Regulation of donations to political parties
- Creating Confidence among Small taxpayers
- Allowance of Certain Business Expenses
- Changes in Penal Provisions
- Vigorous Prosecution Policy
- Intelligence and Investigation
- Taxation of agricultural income
- Compulsory maintenance and audit of accounts
- Permanent Account Number
- Power of Survey
- Increasing Survey Operations
- Collection, Collation and Dissemination of Information
- Co-ordination between Banks, other offices and the Income tax department
- Changes in the form of income-tax return
- Reintroduction of expenditure tax
- Checking under-valuation of immovable Properties
- Tax treaties for exchange of information relating to tax

evasion

- Arousing social conscience against tax evasion
- Economic liberalization
- Reducing disincentives against voluntary compliance
- Reforms in vulnerable sectors of the economy
- Creating effective credible deterrence
- Supportive measures
- Amnesty
- International enforcement

Besides the above steps, Indian Government has developed some bodies to control tax evasion practices in India. These are as follows:-

- Central Board of Direct Taxes
- Enforcement Directorate
- Financial Intelligence Unit
- Central Board of Excise and Customs and Directorate of Revenue Intelligence
- Central Economic Intelligence Bureau

8. Conclusion

From the above description we can say that black money and tax evasion is a curse to our country and society both. Tax Evasion and Black Money both are complementary to each other. Even government had taken many actions and remedial measures to control black money and tax evasion, but yet they were not sufficient. People of the country should themselves motivate to control black money and tax evasion.

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