

## **Black Money in india : An Overview**

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### ***Abstract***

*Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner. This could be for two possible reasons. The first is that the money may have been generated through illegitimate activities like crime, drug trade, terrorism, and corruption etc. The second reason is that the wealth may have been generated and accumulated by failing to pay the taxes. It is not only detrimental to the economic progress of the country but also harmful for the society at large. This paper seeks to investigate the two main causes i.e. tax evasion and corruption in tax system. In order to understand the opinion of tax professionals in this regard, a sample survey of 250 Chartered Accountants practising in Punjab (India) has been conducted. They have pointed out that multiple taxes, high tax rates, corruption, social acceptance of tax evasion, low probability of detection and low tax morality are the main causes leading to generation of black money. Further, they have opined that excessive discretionary powers available with tax officials, lack of integrity on the part of tax officials, lack of awareness among the taxpayers and time consuming judicial process are the factors which lead to corruption. They have given many suggestions for curbing tax evasion & corruption checking problem of black money.*

### **Introduction**

Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner. This could be for two possible reasons. The first is that the money may have been generated through illegitimate activities like crime, drug trade, terrorism, and corruption etc. The second reason is that the wealth may have been generated and accumulated by failing to pay the taxes.

There are no reliable estimates of black money generation or accumulation, among the estimates made so far, there is no uniformity,

Unanimity or consensus about the best methodology or approach to be used for this purpose. In February 2012, the director of the Central Bureau of Investigation said that Indians have \$500 billion of illegal funds in foreign tax havens, more than any other country. According to White Paper on Black Money in India report, published in May 2012, Swiss National Bank estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were CHF 1.95 billion (INR 9,295 crore, US\$ 2.1 billion).

### **Objectives of the study**

The present study has been carried out with the following main objectives:

- To identify the reasons of tax evasion and corruption i.e main reasons of black money
- To suggest measures for improving tax compliance or checking black money

### **Research Methodology**

The universe of present study comprised of tax professionals i.e. Chartered Accountants practising in Punjab (India). A sample of 250 respondents has been taken by selecting 50 respondents from Patiala ( $L_1$ ), Chandigarh ( $L_2$ ), Ludhiana ( $L_3$ ), Jalandhar ( $L_4$ ) and Amritsar ( $L_5$ ) each. The primary data has been collected with the help of a well structured questionnaire from January 2009 to July 2009. Chi-square test and percentage has been used for analyzing the data.

### **Opinion regarding tax evasion in India**

With a view to understand the perception of tax professional on the issue of tax evasion the respondents were asked to express their view on a five point scale (ranging from strongly agree to strongly disagree) with regard to the statement 'tax evasion is very high in India'. Their responses have been presented in Table1.

**TABLE 1**  
**OPINIONS OF TAX PROFESSIONALS REGARDING TAX EVASION IN INDIA**

<b>Opinion/ Location</b>	<b>L<sub>1</sub></b>	<b>L<sub>2</sub></b>	<b>L<sub>3</sub></b>	<b>L<sub>4</sub></b>	<b>L<sub>5</sub></b>	<b>Total</b>
Strongly agree	21 (42)	12 (24)	20 (40)	15 (30)	15 (30)	83 (33.2)
Agree	28 (56)	36 (72)	26 (52)	35 (70)	29 (58)	154 (61.6)
Neither agree nor disagree	1 (2)	0 (0)	3 (6)	0 (0)	2 (4)	6 (2.4)
Disagree	0 (0)	2 (4)	1 (2)	0 (0)	4 (8)	7 (2.8)
<b>N</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>250</b> <b>(100)</b>

Chi-Square value = 19.6, d. f. =12 not significant at 5 per cent level of significance

Note:

1. N in this table and all the tables to follow represents total number of respondents
2. Figures in parentheses in this table and all the tables to follow represent percentages while figures without parentheses represent simple frequencies.

Table 1 reveals that vast majority of the respondents (94.8%) have agreed or strongly agreed with the statement 'tax evasion is very high in India'. It is followed by the respondents who have disagreed with this statement (2.8%) and have neither agreed nor disagreed (2.4 %). Location- wise analysis shows that majority of the respondents from location L<sub>4</sub> (100%), L<sub>1</sub> (98%), L<sub>2</sub> (96%), L<sub>3</sub> (92%) and L<sub>5</sub> (88%) have agreed or strongly agreed with this opinion. Further, Chi-square test at 5 per cent level of significance reveals that no significant opinion differences exist among the respondents from various locations with regard to tax evasion in India.

### Reasons for tax evasion in India

237 respondents who have agreed or strongly agreed with the earlier statement (see Table 2) were further requested to identify the probable reasons for this. Their responses have been presented in Table2.

**TABLE 2**

**REASONS LISTED BY THE RESPONDENTS FOR TAX EVASION IN INDIA**

Reasons/ Location	L <sub>1</sub>	L <sub>2</sub>	L <sub>3</sub>	L <sub>4</sub>	L <sub>5</sub>	Total
High tax rates	30 (61)	38 (79)	25 (54)	30 (60)	34 (77)	157 (66)
If caught it could be managed	30 (61)	31 (65)	26 (57)	30 (60)	35 (80)	152 (64)
Social acceptance of tax evasion	23 (47)	30 (63)	31 (67)	19 (38)	24 (55)	127 (54)
Ineffective penalty & prosecution provisions	10 (20)	12 (25)	12 (26)	10 (20)	11 (25)	55 (23)
Inefficiency in income tax department	17 (35)	20 (42)	19 (41)	26 (52)	22 (50)	104 (44)
Tax payers` perception that govt. does not spend tax revenue prudently	18 (37)	9 (19)	20 (43)	14 (28)	16 (36)	77 (32)
Low probability of detection	25 (51)	26 (54)	23 (50)	22 (44)	20 (45)	116 (49)
Low tax morality	16 (33)	23 (48)	25 (54)	21 (42)	16 (36)	101 (43)
Multiple taxes	33 (67)	42 (88)	29 (63)	36 (72)	35 (80)	175 (74)
<b>N</b>	<b>49</b>	<b>48</b>	<b>46</b>	<b>50</b>	<b>44</b>	<b>237</b>

Note: Percentages are more than 100 because of multiple choices

Table 2 shows that majority of the respondents have identified ‘Multiple taxes’ (74%), ‘High tax rates’ (66%), ‘If caught it could be managed’ (64%), ‘Social acceptance of tax evasion’(54%) , ‘Low probability of detection’ (49%), ‘Inefficiency in income tax department’(44%) and ‘Low tax morality’(43%) as main reasons responsible for tax evasion in India. The reasons which have been given less weightage are ‘Ineffective penalty & prosecution provisions’ (23%) and ‘Tax payers` perception that govt. does not spend tax revenue prudently’ (32%). Location- wise analysis reveals that majority of the

respondents irrespective of their locations have identified three basic reasons i.e. 'Multiple taxes', 'If caught it could be managed' and 'High tax rates' responsible for tax evasion. Besides these, other important reason has been 'Social acceptance of tax evasion' as it has been pointed out by majority of the respondents from locations L<sub>3</sub> (67%), L<sub>2</sub> (63%) and L<sub>5</sub> (55%). It can also be observed that the respondents from locations L<sub>2</sub> (54%), L<sub>1</sub> (51%) and L<sub>3</sub> (50%) have identified 'Low probability of detection' as one of the reasons for tax evasion. 'Inefficiency in income tax department' has been identified as important reason only in two locations L<sub>4</sub> (52%) and L<sub>5</sub> (50%). 'Low tax morality' has been held as important cause of tax evasion only in one location L<sub>3</sub> (54%).

### **Corruption**

Corruption and taxation have always been associated in the history of mankind. It is the biggest block in the way of proper implementation of law, which leads to tax evasion. It erodes the confidence of public in tax system. In order to verify the perception held by the respondents, they were asked on a five point scale (ranging from strongly agree to strongly disagree) to comment on the statement 'Corruption is prevalent in the income tax system'. The responses so obtained have been presented in Table 3.

**TABLE 3**

**OPINION OF RESPONDENTS REGARDING PREVALENT CORRUPTION IN THE TAX SYSTEM**

<b>Opinion/ Location</b>	<b>L<sub>1</sub></b>	<b>L<sub>2</sub></b>	<b>L<sub>3</sub></b>	<b>L<sub>4</sub></b>	<b>L<sub>5</sub></b>	<b>Total</b>
Strongly agree	20 (40)	5 (10)	10 (20)	21 (42)	12 (24)	68 (27.2)
Agree	28 (56)	32 (64)	38 (76)	26 (52)	33 (66)	157 (62.8)
Neither agree nor disagree	2 (4)	2 (4)	1 (2)	3 (6)	5 (10)	13 (5.2)
Disagree	0 (0)	11 (22)	1 (2)	0 (0)	0 (0)	12 (4.8)
<b>N</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>50</b> <b>(100)</b>	<b>250</b> <b>(100)</b>

Chi-Square Value = 58.767, d. f. =12, Significant at 5 per cent level of significance

Table 3 reveals that 90 per cent of the respondents have agreed or strongly agreed with the statement 'Corruption is prevalent in the income tax system'. Only 4.8 per cent have disagreed with this. However, 5.2 per cent have neither agreed nor disagreed with the given statement. Location-wise analysis indicates that a major proportion of the respondents irrespective of their locations i.e. L<sub>1</sub> & L<sub>3</sub> (96% each), L<sub>4</sub> (94%), L<sub>5</sub> (90%) and L<sub>2</sub> (74%) have agreed or strongly agreed with the given statement. None of the respondents from locations L<sub>1</sub>, L<sub>4</sub> and L<sub>5</sub> have disagreed with the statement. Surprisingly, 22 per cent of the respondents from location L<sub>2</sub> and 2 per cent from L<sub>3</sub> have disagreed with this statement. Further, Chi-square test at 5 per cent level of significance reveals that significant opinion differences exist among the respondents from various locations with regard to the statement 'Corruption is prevalent in the Indian Income Tax System'.

### Reasons for Corruption

225 respondents, who believed (have agreed or strongly agreed with the opinion) that corruption is prevalent in the income tax system, were further requested to point out various reasons for corruption. Their responses have been presented in Table 4.

**TABLE 4**

**REASONS LISTED BY THE RESPONDENTS FOR CORRUPTION**

Reasons /Location	L <sub>1</sub>	L <sub>2</sub>	L <sub>3</sub>	L <sub>4</sub>	L <sub>5</sub>	Total
Excessive discretionary powers available with income tax authorities	35 (73)	27 (73)	39 (81)	39 (83)	33 (73)	173 (77)
Lack of integrity on the part of income tax officials	20 (42)	28 (76)	30 (63)	36 (77)	23 (51)	137 (61)
Complicated documentation	11 (23)	5 (14)	15 (31)	17 (36)	7 (16)	55 (24)
Lot of harassment to tax payers	34 (71)	27 (73)	24 (50)	29 (62)	25 (56)	139 (62)
Time consuming & costly judicial process	26 (54)	20 (54)	26 (54)	15 (32)	31 (69)	118 (52)
Lack of awareness regarding rights available with taxpayers	20 (42)	27 (73)	31 (65)	25 (53)	21 (47)	124 (55)

Low pay of income tax employees	4 (8)	1 (3)	7 (15)	3 (6)	6 (13)	21 (9)
N	48	37	48	47	45	225

Note: Percentages are more than 100 because of multiple choices

Table 4 shows that majority of the respondents (77%) have specified 'Excessive discretionary powers available with income tax authorities' as the most significant reason for corruption. It is followed by the reasons such as 'Lot of harassment to tax payers' (62%), 'Lack of integrity on the part of tax officials' (61%), 'Lack of awareness regarding rights available with tax payers' (55%) and 'Time consuming and costly judicial process' (52%). A very low percentage of the respondents feel that 'Complicated documentation' (24%) and 'Low pay of income tax employees'(9%) have been responsible for it. Location-wise the analysis reveals that majority of the respondents irrespective of their location have pointed out that 'Excessive discretionary powers available with income tax authorities' and 'Lot of harassment to taxpayers' have been the significant reasons responsible for corruption . 'Lack of integrity on the part of income tax officials' has also been considered a significant cause by the respondents from all the locations except location L<sub>1</sub>. Even, 'Time consuming & costly judicial process' has been indicated as a significant reason for corruption by the respondents from all the locations except location L<sub>4</sub>. Further, the respondents from locations L<sub>2</sub> (73%), L<sub>3</sub> (65%) and L<sub>4</sub> (53%) have identified 'Lack of awareness regarding rights available with taxpayers' as a reason for corruption.

### **Measures for improving Tax Compliance**

The effectiveness of any law can be measured from its compliance. Surprisingly, 95 per cent of the respondents have pointed out that tax evasion is very high in India (see table 1). Further, 90 per cent of the respondents have pointed out that corruption is prevalent in the Indian tax system (see table 2). Both of these problems result in low tax compliance. Thus, there seems to be an urgent need to curb evasion & corruption in Income Tax System and increase tax compliance. Hence the respondents were asked to suggest measures for improvement in tax compliance. The responses obtained have been exhibited in Table 5.

**TABLE 5**  
**MEASURES SUGGESTED BY THE RESPONDENTS FOR IMPROVING TAX COMPLIANCE**

Measures/ Location	L <sub>1</sub>	L <sub>2</sub>	L <sub>3</sub>	L <sub>4</sub>	L <sub>5</sub>	Total
Reduction in tax rates	38 (76)	39 (78)	39 (78)	33 (66)	43 (86)	192 (77)
Simplification of tax law	31 (62)	39 (78)	37 (74)	34 (68)	29 (58)	170 (68)
Increase in publicity	18 (36)	33 (66)	23 (46)	20 (40)	12 (24)	106 (42)
Extensive use of TDS system	31 (62)	42 (84)	40 (80)	30 (60)	30 (60)	173 (69)
Implementation of voluntary disclosure scheme	14 (28)	13 (26)	20 (40)	17 (34)	19 (38)	83 (33)
Widening of Annual Information Return network	22 (44)	15 (30)	15 (30)	19 (38)	19 (38)	90 (36)
Proper utilization of information available under AIR	23 (46)	27 (54)	34 (68)	25 (50)	34 (68)	143 (57)
Intensive use of coercive recovery	2 (4)	6 (12)	6 (12)	6 (12)	4 (8)	24 (10)
<b>N</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>250</b>

Note: Percentages are more than 100 because of multiple choices

Table 5 shows that majority of the respondents (77%) have recommended 'Reduction in tax rates' for dealing with tax evasion. In addition to this, they have also recommended 'Extensive use of TDS system' (69%), 'Simplification of tax laws' (68%) and 'Proper utilization of information available under the Annual Information Return' (57%). The moderate proportion of the respondents has also suggested 'Increase in publicity' (42%), 'Widening of Annual Information Return network' (36%) and 'Implementation of voluntary disclosure scheme' (33%). However, a very low percentage of respondents (10%) has suggested 'Intensive use of coercive recovery' in this regard. Further, location-wise analysis indicates that majority of the respondents irrespective of their



locations have emphasized on three measures i.e. 'Reduction in tax rates', 'Simplifications of tax law' and 'Extensive use of TDS system' for improving tax compliance. Moreover, comparatively large number of the respondents from locations L<sub>5</sub> (86%) and L<sub>2</sub> (84%) have suggested for 'Reduction in tax rates' and 'Extensive use of TDS' respectively. Further, majority of the respondents from locations L<sub>3</sub> and L<sub>5</sub> (68% each) have suggested 'Proper utilization of information available under the Annual Information Return' in this respect. Similarly, 66 per cent of the respondents from location L<sub>2</sub> have also suggested 'Increase in publicity'.

### **Summary and suggestions**

The present study has investigated the opinion of tax professionals regarding tax evasion and corruption in the Indian Income Tax system, which are the. Tax professionals are of the opinion that tax evasion & corruption is prevalent in the Indian Income Tax System. They have pointed out that multiple taxes, high tax rates, corruption, social acceptance of tax evasion, low probability of detection and low tax morality are the main causes of tax evasion. Further, they have opined that excessive discretionary powers available with income tax officials, harassment to tax payers, lack of integrity on the part of income tax officials, lack of awareness among the taxpayers and time consuming judicial process are the factors which lead to corruption. They have suggested for rationalization of tax rates, simplification of tax laws, extensive use of TDS system and proper processing of information available under the Annual Information Return for increasing tax compliance. Thus there is a need for creating transparent, non discriminatory and taxpayer friendly administrative system for honest taxpayers. Further, there is a need to educate citizens about tax laws and create a culture whereby they pay due taxes and feel proud of discharging their duty to the fellow citizens.

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