

# **Role of Black Money, Its Implications, and Impact on the Indian Economic System**

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## **ABSTRACT**

**This research paper delves into the pervasive issue of black money in India, analyzing its origins, channels, and the various ways it undermines the economic framework. It explores the socio-economic, political, and financial ramifications of black money and evaluates government policies and international cooperation in tackling the problem. The paper also provides recommendations for a comprehensive strategy to curb black money and ensure transparency in the economic system. The Indian government has launched various initiatives to combat black money, such as demonetization, voluntary disclosure schemes, and enacting stringent laws like the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, which targets holders of undeclared foreign assets with strict penalties and prosecution. Despite these efforts, the challenge remains substantial, as the persistence of black money continues to undermine inclusive growth, probity in public life, and the realization of India's economic potential.**

**Keywords: Black Money, Indian Economy, Corruption, Tax Evasion, Money Laundering, Demonetization, Parallel Economy**

## **INTRODUCTION**

The modern world has come up with a name black money after the money that is not accounted and this is the case of this country or other countries of the authorities, so there is no legal tax on the authorities. This dangerous, unregistered, unpredictable hoarding in any form is called the country's shadow economy or parallel economy. Black money can also be described as a legal form or production of illegal goods or services, as it is not found on the official list of the country's Gross Domestic Product (GDP) because it has not been found by the relevant authorities or is not included in the list protected by the manufacturer.

Their scale shows India as one tenth of the wealthiest people in India. It is compiled on the basis of amount of white money that can be invested and does not feature the personal assets fixed as well as mobile<sup>1</sup>. It is just marveling how India may feature in this list of the richest people of the world when this amount of black money is also included to make this list of the rich people of the world. This is ironical considering the fact that it is happening in a nation where more than 50 per cent of the population live below the poverty line (BPL). In India the issue of the black money is very old in the Indian economic scenario.

It is revenue that is not reported on tax purposes and many of the times this clandestine income is earned either by doing unlawful actions or by good ways but concealed to the authorities so that they cannot be missed in tax collection<sup>2</sup>. The term refers to domestic and offshore assets on which taxes are not paid. The proliferation of black money results in a parallel economy that operates outside the official financial system, distorting economic planning, undermining institutions, and eroding public trust.

## **LITERATURE REVIEW**

White Paper on Black Money analyzed, which was edited by CA Lalit Mohan Aggarwal (2012) that violation of laws by the central and state govt. contributes to a crime which forms the black money in the economy of India. Arpit Guru and ShrutiKahanijow (2010) conducted a research on whether black is the money income or not<sup>3</sup>. The necessity to amend in DTAA & ITEA explores the extent to which black money is permeated to all parts of India as well as how it is constantly being swept to the exteriors in large numbers. They also learned how the black money had brought threats to our economy and in which aspects the black money is consumed.

## **Goals Of The Study**

1. To understand current situation of black money in INDIA.
2. To learn the principal cause of generation of black money.
3. With a view of examining effects of black money on economy of India.

### **Historical Perspective**

The problem of black money in India dates back to the post-independence era, gaining prominence in the 1960s and 1970s when income tax rates were extremely high. Such conditions offered a motivation to tax evasion and development of an underground economy. With time the prevalence of black money increased to cover nearly all spheres of economy. There was liberalization and globalization during the 1980s and the 1990s, and it was accompanied by new sources of wealth generating possibilities, as well as more advanced means of laundering money and avoiding taxes. Liberalization contributed to the modernization of the economy, but it also opened the front to illegal movement of money, such as parking the money in tax havens.

### **Sources and Causes of Black Money**

Black money in India is attributed to different flaws in the socio-economic and administrative aspects. Tax evasion is another primary factor and is encouraged by complex tax regulations and loopholes that encourage concealing. Corruption in the government offices also adds to this problem where there is corruption through bribery, kickbacks, and favoritism in procurement and approval<sup>4</sup>. The situation with unaccounted cash flows is caused by high transaction values within the sphere of real property that are frequently accompanied by undervaluation of transactions in official sources. Shell companies and benami transaction can be misused to easily launder and conceal money. Regulatory activity is complicated by poorly controlled investment vehicles and international tax havens, as well. In industries such as mining, liquor, infrastructure and pharmaceuticals, there is a lot of black money through fabricated accounting and bloated procurement.

### **Mechanisms of Circulation and Storage**

Once generated, black money is either hoarded as cash or laundered through complex layers of transactions. Hawala networks enable the anonymous and illegal transfer of funds across borders. Investments in gold and luxury goods also serve as convenient ways to store unaccounted wealth<sup>5</sup>. The use of cryptocurrencies has added a new challenge, as these digital assets are decentralized and difficult to trace. Investments in foreign real estate and offshore companies further facilitate the transfer and storage of illicit wealth. High-value art, antiques, and collectibles are also increasingly used as assets for storing black money. In recent years, trade-based money laundering, involving over or under invoicing of exports and imports, has emerged as a sophisticated means to shift money illegally.

### **Corrupt practices into which corrupt men at every level indulge**

This is because of a number of reasons that make the black money to be generated in a country. The creation of black money is carried out through corruption activities by politicians and bureaucrats, as well as other civil servants at high and low levels. Black money transactions are actually carried out in the market as the phenomenon of parallel economy is set up<sup>6</sup>. And in the majority of the cases only a minimum of such transactions are netted and the majority of the producers of black money remain unknown to the government. The second explanation as to why such transactions are clandestine is because the law enforcers are not only the hand in gloves with the perpetrators of the activity but they are also the beneficiaries of the black money too. In fact, this is a phenomenon in which individuals from all fields of life, such as large business concerns, high ranking politicians, high ranking bureaucrats, high ranking government officials, and more create low government employees, including large contractors, class IV employees. Recently there is also a scam which comes into picture regarding fake certificates among OBCs and SCs to be able to get a place in Delhi University. It is also said that such bribe certificates cost Rs.3 - Rs.5 lakh to get hold of the same.

### **Complicated tax system and tax officers corruption**

To this already burning fire is the tax structure and tax officials who are corrupt in nature and thus leading to the generation of black money in the country. The frank and fair minded people who otherwise are ready to pay the tax charges are frightened to pay the tax before the daunting forms and returns and the procedures of paying the tax. However, only a few real government employees are forced to pay the taxes, whose compensations are borne by the government estimates<sup>7</sup>. The tax that one is supposed to pay is hindered by complicated and cumbersome procedures and guidelines to an extent of even being not comprehensible to the average wage potentials. There are no motivations intended to pump up the morale of the upright payers. The honest taxpayer laments after realizing that his/ her hard earned revenue is looted by the wicked individuals in the government. The money sent by the government to do the developmental works is sucked up half way by the rogue officials until it eventually reaches the recipients.

### **The black money hoarders have a safe haven in foreign banks**

The foreign banks and especially in the Swiss Banks that do not share the details of the individuals depositing their earnings they have proved to be an alternative to the citizens who also fail to pay their taxes. There are varying accounts on the subject of quantity (how much) of black money being stashed in Swiss Banks. The black money hidden in the Swiss banks lies between 50-75 lakh crores of rupees as is asserted by Baba Ramdev as part of his agitation against the black money<sup>8</sup>. Even assuming that the allegation is half true at best then too the amount stashed in the Swiss banks is so massive as to make our own economy rather potent in case the amount so stashed manages to find its way back to India and is poured in the treasury coffers. The Swiss Banks have in one report agreed that the Indians are right

on top of the pile of the individuals who deposit money in the Swiss banks. The black money stashed away in Swiss banks is a great controversy when mentioned in general elections 2009 by the BJP prime ministerial contestant Mr. L. K. Advani. He had cited a Global Financial Integrity Survey conducted in 2006 which approximated that developing countries had lost between Rs. 43-Rs. 51 lakh crores in a five year period created by the outflow of foreign exchange in such countries including India<sup>9</sup>.

#### **In election campaigns a lot of black money is distributed**

We also have a load to contribute on the generation of black money through our parliamentary system through elections. Election campaigns are conducted in a way congressional or assembled by candidates, or even local organizations that create black money during elections. A 2006 survey by the Mumbai-based Centre to monitor the Indian economy (CMI) shows that each parliamentary election generates \$11,313,310 million in black money<sup>10</sup>. It's a spectacular and shocking figure, and the Black Money created in this way will be a few of Lupien if we include elections to the state and coalition legislative meetings and local organizations.

#### **Financial companies and chit funds that black money launder**

Another source of generation of black money is money laundering financial companies as well as chit funds. Cases have been realized that a number of financial firms have been operating and may still be operating without paying dime incorporate tax on transactions that are not presented before the government. It is no secret that there may be some unregulated chit funds, led by people of urban and urban colonies and even villagers. The business activities of non-banking finance companies (NBFCs) were out of control and the government had to have its own laws in 1997, but that was not covered<sup>11</sup>. Another department in the office of the Reserve Bank of India was opened in March 1997 to comply with the laws of the law. As a result, hundreds of NBFCs, unable to maintain their pace with government rules and regulations, were unable to maintain their pace.

#### **Black money is created by the ill-minded charitable trusts and societies**

The rogue charitable trusts and societies with organizations such as religion bodies waste the funds of the organizations which it manages and runs and comes up with black money. The second half of the former was revealed when the rupee was opened in the bar and more rupees were opened in the form of gems and other valuables in the form of diamonds. There has been a lot of controversy about the money you can find at the Satya Sai Baba Ashram in Pattaparsi, Belia money, or money not considered. Only actual investigations on the issue on the part of the government can determine the truth of this issue. This is one of the instances that came to the fore and many more are likely to continue to carry on this business of conducting fraud because such institutions were left unscathed to present records of their earnings and spendings. The fear is that the religious, social and the educational trusts all over the country are producing so much black money.

#### **An excellent source of Black money market is Hawala business**

Hawaii Transaction Method of Cash takes one of the top slots for creating and consuming black money. Hawara rackets are often blown up by police, and Hawara's activities continue. Remittance transactions via Hawaii route are considered to be South Asia's largest financial trading system. Hawara transactions are good within national and international borders, money transfer is a non-institutionalized channel and therefore not registered and no black money is registered. People working at Hawaii have developed their own code to run this black business. These tax-free rackets have been discovered several times in Maharashtra and Gujarat. This is two of the richest states in India. Hawaii's daily work is aimed at conducting transactions in Forex, with the government aiming to withdraw taxes that would have expired to the state Department of Treasury.

#### **Property-buy-in, jewellery, luxury automobiles, rare artistic works, etc**

Investments in land, gems, diamonds, expensive and rare paintings, expensive cars, rare artworks, etc. are other sources traded for black money. It turns out that when authorities cracked in Mumbai a few years ago, an auditor advised clients to hide their black money in an unusual way. One of the business men was found out to have spent 4,50,000 in a painting. The police managed to track down close to one crore of rupees worth of the paintings bought by the builders in the local art galleries in the city of Mumbai through the undisclosed money in their hands. The history of the stock scams which have happened in the past have proved that it is the brokers, banks, industrial houses which all have joined hands to ensure that the stock markets go. Roopal ben Panchal is a Gujarat woman and is said to have created 10, 669 fake accounts a few years back. Earlier the Reserve bank of India had already cautioned the banks regarding the transaction related to black-money laundering taking place and had desired that the banks should take into account any type of suspicious banking transactions through another circular dated December 2, 2005.

#### **Black money was also used on donations to educational institutions**

Another fact of creating black money and black money is to go to a large amount of donations to maintain entry into universities and large schools and universities. Will these donations be received and paid in the form of a check? Will sufficient income keep the transaction? If they are in place, are there any transactions from the institution's books in the

official books? The answer to all these questions is a very big no. This has nothing to do with the fact that most of these privatized institutions have bureaucrats or that politicians and industrialists work with law enforcement, or even with this black money they have accumulated. The giving and taking of examination papers and assistance in the examination centres comes up in the activities of the black money to make it pass in an unfair manner or some of them break their grooves to take their positions as the topmost in the examination. It is not only related to the transaction of black money but it is even becoming the mockery of our educational system and test.

#### **Granting of licences, contracts to Indian firms and foreign firms**

Big contractors, massive industrial houses, bureaucrats and politicians all are into very heavy dealings and when it comes to giving licences and making contracts even with the foreign firms, underhand dealings are also indulged in. The transaction takes place in the event of strict broker fees. What it does is all of these transactions of people who don't go through normal banks. A few scams such as Bofors, 2G scams, Commonwealth Games Scam, and The Adarash Society Scam. Such scams may be in plenty which never pass the finishing line in the getting started process. Cases of finding hard cash in assets belonging to politicians like Sukhram and others had occurred in some of the times.

#### **The Mauritius Route will utilize the black money use**

Some people, anyone who believes that Mauritius residents will start a Mauritius paper company signed it 20 years ago with the help of a gap set up in Double Tax Avoidance (DTAC). These companies were in fake Mauritius companies at the time. These companies then invested in India. Therefore, they did not pay the tax contract to the mask of a double tax avoidance agreement between India and India's Mauritius.

#### **Reduction in state income, operation of parallel economy in the country**

It significantly affects the economy by making the government lose many revenues because of the circulation of the black money. Some of the black money that lays across the economy would have found a way to enter the hands of the government in the form of taxes. The existence of black money is very high within the country, so countries should act as black money in parallel economies. According to certain estimates, there is a lot of black money circulating in the country.

#### **Black money and corruption boils into a vicious factor**

Given that the majority of the activities that people engage in under the guise of the black money are illegal, which also promotes the current high level of corruption. The point to discuss on why the money is paid as a bribe in the first place is not important since all of them remains unaccounted thus adding more to the black money in the society. This vicious cycle which results in black money due to corruption and results in corruption due to black money will never stop. and it is only when the government takes some stringent measures to stop this malaise that this practice will end.

#### **Real capita income and national income of country is influenced by the black money**

The actual per capital income of the citizens and national national income are reflected in government books, indicating that they are low themselves due to the lack of black money admissions spread across the country. If there are regions where black money is prevalent in the economy, then the actual income of all people and national income of the country will increase with humble levels. To give examples through the income earned by our country's immigration work, they will help to improve the standard of living of the people they deserve, but as long as the transaction is in Hawara, income is not included in the country's tax laws. And that's why they can't count as national income and professional directors.

#### **Black money leads to deterioration of quality of goods and services to the people**

When you already have bribes that are to be paid with regard to the black money to the manufacturers of goods and those who present the same services then it only becomes natural that they will give others the effect that the quality of goods and services provided would be given to those that give bribes and to the simple people they have to endure the same situation and the service and quality would not be given in the same way to everyone. In a simple and practical example, just assume that you have something to be done in office, then your job will be completed as early as possible when you offer bribes to the people to handle your job. And yet another individual who does not give bribes to the officials will have to wait days, weeks, or even months in order to acquire the same sort of job.

#### **The black money causes increase in taxation and inflation**

To balance the budget, the people pay taxes to government so as to generate revenue to finance its spending. It will be only natural that where, the black money running through the economy returns to the treasury of the government, more money would remain in its own docket against its own expenses and hence the tax burden to the people could also be reduced. Similarly, the inflation gets exhausted in surplus of money chasing after inadequate commodities in the market. The hyped money that is being counted in the market is driven by the amount that is not counted in the market and the amount of actual money that is circulating in the market also increases even more as matched with the amount of goods that is being produced in the country which in turn leads to even higher rates of inflation.

### **Black money makes it hard to come up with the monetary and fiscal policy**

When the government is making its monetary and the fiscal policies, it is unable to consider the black money circulating in the economy in making those policies and therefore, the policies made by government, assuming that black money is not considered as such, cannot be realistic. These policies are hard to shape without the precise calculation of the black money and its introduction into accounting operations of the government.

### **Black money leads to more crime activities**

All the various types of criminal activity which is committed in the society are as a result of the dirty money in the market which involves corruption of all types within the society. The terrorist activities are enhanced by the black money to the extent of compromising the security of the nation as well. It is engaged in supplying the illegal weapon to the groups of unsocial elements. The criminal money is spent in enormous numbers in the clubs and hotels on any kind of criminal activities like drug dealing. Murders are also done, even on political revenge where this black money is transferred among the rich and individuals that employ these murderers to undertake such crimes. It is polluting to the economy and it is corrosive as well in additional ratio. And this the more when such excess money is black money. It is the excessive and the fancy and extravagant and wasteful expenditure of the black money live in India and it is the wasteful expenditure by virtue of which they party on their own social, political and even their religious fests which happens to be a social crime though, here the law does not come into consideration.

### **What We Can Do to Manage the Black Money**

Generally, the government has no other choice but to execute two courses to counteract the black money. The former is the whitewash the black money that is in existence by several ways. The second is to also institute proper measures against generating of black money. Therefore, two heads can be mentioned under which the control of the black money can be discussed.

### **Voluntary disclosure of income scheme (VDIS)**

In spite of the government making such previous moves like the introduction of the gold bonds schemes, but this was on a large scale when government established a Voluntary Disclosure of Income Scheme (VDIS) on June 18 1997 whereby the tax-defaulters were offered a chance to bear the disasure of their unassessed incomes at the prevailing tax rates by waiving all the major laws relating to the economic crimes by granting them the immunity between 01 July 1997. The then Finance minister, P. Chidambaram is quoted to have said that VDIS collections have been of about Rs.8,000 crores against a number of two lakhs at the time of cancellation of scheme on December 31,1997. Even the government can revamp such a scheme and issue guidelines, such that people who have been hiding black money can declare the scheme again. The same government should demonstrate its political desire to have a bill passed with stiff penalties to some individuals who had undisclosed income as at some specific date.

### **The method to retrieve money in the Swiss banks**

The same should be offered to the individuals stashing their money in the Swiss banks and offer them a once in a lifetime chance to pay the taxes in the Indian laws and ferry their money back in the Swiss banks to the Indian banks voluntarily. Meanwhile, a harsh penalty can be promised to the individuals who got black money in the Swiss banks after the date specified.

### **Impact on the Economy**

The impacts of the black money on the economy are numerous. The immediate impact is the loss of the tax base; leading to low earnings to the government and restriction of investment in key government services like education, health and infrastructure. This undermines the social growth and dependency on the state debt. Resources are also allocated towards the speculative and non-productive assets such as gold, real estates and minimizes productivity and innovations. The black money also increases the asset prices thus making the housing and basic commodities unaffordable. The bias of the competitive markets enables the unfair companies to prosper at the expense of the honest ones. Besides, black money increases fiscal deficit and macroeconomic instability. It also makes foreign direct investment undesirable as there would be corruption perception and risk of regulations.

### **Impact on Society and Governance**

The prevalence of black money comes with great implications to the society. It causes unfair distribution of wealth increasing the distance between the rich and the poor. Another very serious side-effect is the wearing down of moral and ethical standards because now people start to believe that it is normal and even required to be dishonest and corrupted to reach success. In its turn, it undermines the rule of law. Black money flourishes in political corruption mainly during elections when the unaccounted cash is spent on buying of votes, propaganda, and lobbying. This compromises the institutional integrity and democracy. Anti-poverty programs, which are worked out to make life more comfortable among the marginalized groups, fail because of misappropriation of funds and mismanagement which thrives on corruption. Governing and participation is reduced as the lack of trust between the state and the citizens expands.



### **Empirical evidence and Case Studies**

Several instances have been brought out in India which are an example to the black money issue. Commonwealth Games scam, coal block allocation scam, and 2G spectrum scam were scams with huge sums of money being misappropriated and the people involved in the scam had to face severe consequences. Not only were these events devastating to the exchequer in terms of lost money, they all had negative impacts on the international reputation of India. Both investigative reporting and activism of the Right to Information (RTI) has been instrumental in naming such cases. The international nature of the issue is made clear by the Panama Papers and Paradise Papers leaks revealing the offshore wealth of a number of Indian prominent people. World bank figures show that illicit flows have remained high in India and this poses a reflection on the fact that this is a systemic problem.

### **Administrative Measure and Legislation**

Various efforts have been made to fight black money by the consecutive governments. The demonetization of 2016 was to wash out black money circulation in cash form and towards a direction of digital payment. Goods and Services Tax (GST) have simplified and eliminated the complexity of indirect taxation as well as the ability to cheat and give a chance to manipulate. Digital India and such projects as JAM (Jan Dhan, Aadhaar and Mobile) are directed at expanding financial inclusion and cash dependency. Analytics and AI have helped the Central Board of Direct Taxes (CBDT) in the surveillance and enforcement of taxes.

### **Global Collaboration and International Initiative**

India has been very keen to have international assistance so as to retrieve Black money hidden within the foreign countries. This sharing of banking and tax information with countries such as Switzerland have been made possible by bilateral agreements and multilateral arrangements through OECD. Nonetheless, there are still some difficulties in tracking and bringing back the foreign black money as there are problems of distorted legal grounds, bank secrecy laws, and long-term diplomatic pressure.

### **Challenges in Implementation**

Despite the creation of laws and institutions, several challenges persist. The enforcement of anti-black money measures is often weak due to bureaucratic inertia, lack of coordination among agencies, and political interference. The judicial process in India is notoriously slow, resulting in delays and reducing the deterrent value of punitive actions. Many powerful individuals and corporations manipulate legal loopholes and enjoy immunity through political patronage. Whistleblowers who expose corruption face threats and lack adequate protection. In the absence of strong institutional support, many disclosure schemes have failed to yield substantial results.

### **Technology as a Solution**

Technology can play a transformative role in the fight against black money. Big data analytics can help in identifying anomalies in income declarations and financial transactions. Blockchain technology can ensure transparency and traceability in financial records. The widespread use of digital payments and the Unified Payments Interface (UPI) has already helped reduce cash transactions. Artificial intelligence and machine learning models can be trained to detect patterns of tax evasion and corruption. E-governance programs have the capacity of lessening the presence of humans and changes the possibilities of acquaintance of bribery. Financial transactions could be made more accountable by using biometric verification tools such as Aadhaar.

### **Policy Recommendations**

It cannot be initiated and accomplished in a short term. It would need a multi-pronged course of action to tackle the problem of black money. Tax reforms in the first place should strive to simplify the system to make its burden on the taxpayers less heavy so that they choose of their own will voluntary tax compliance. Better auditing systems and electronic invoicing requirements should be more effective tracking. The judicial process must be accelerated of economic crimes with the introduction of special courts. Protection laws which offer protection to whistle blower should be implemented and supplemented with financial awards. Reforms which should be incorporated in the electoral process is state financing of elections and open statements of political donation. Surveillance and reporting mechanisms can consider being carried out as a public-private partnership. International cooperation must be enhanced by investment treaties, extradition, and tax well-known information sharing.

### **CONCLUSION**

To sum up, black money is a serious challenge to the Indian economy in the context of inequality, impairment of the institutions, and deprivation of the state of essential revenues. Although there have been a number of campaigns launched in order to solve the problem, voluminous, tech, citizen-based solution is what is needed in the long-term. In the face of black money, the political acumen to make substantial changes in deep structures, the technology to track down transactions and the social armory to promote probity is the way forward. India can tame the demon of black

money and head towards a more balanced and sustainable course of growth by strengthening the bond of transparency, accountability and good governance.

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