



ISSN 2394-5303

printingTM AREA

Issue-41, Vol-01,
May-2018

International Multilingual Research Journal

Editor

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(ECO)

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Black Money - Estimate and Problem in measure

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1) Introduction:-

Black money is a big threat to economy. It runs parallel to the legitimate sector. This concept is variously referred to as 'black economy' 'unaccounted economy' 'illegal economy' or 'unsanctioned economy'. Existence of black money in economy creates hurdle to fulfill the long term objectives of planning to establish a socialist pattern of society.

In the socialist pattern is expected full employment removal of disparities of income and wealth, the removal of poverty, the attainment of self reliance and provision of equality of opportunity. So black money's existence in economy threatens to the socialist pattern, which is main objective of planning. The main purpose of planning was to subordinate the capitalists, benefit and creating opportunity to bring development for social welfare. In the socialist economy is main purpose to establish a democratic socialist society. But Black money makes a big hurdle to establish a social order based on equality and justice for all more especially for the downtrodden.

After Independent, India adopted mixed economy. The concept of the mixed economy envisaged the co-existence of a public sector and a private sector. Both sectors were expected to promote investment and output. The criterion in the public sector was social gain, so this sector concentrated itself to create economic infrastructure in the form of roads, railways, irrigations and hydroelectric works etc.

Public sector is concentrated on the development of heavy basic and defensive industries and done the provision of better education and health facilities. The rest of the economy is left to be developed by the private sector.

With the expansion of economic activity in the post independence period, the magnitude of the black sector has been grown. Black sector started to play a dominant role in molding state policies. This sector made effect in the structure and composition of output. Black money created parallel economy and centralized power in the hands of some people.

It is said that, in the world, India is the most corrupt country. The corruption creates black money, it means that parallel economy. It has been done by the dishonest persons, scandalous politicians, corrupt administrative staffs and businessmen. This parallel economy makes a threaten to the official economy.

Black money creates disparities, under employment, corruption, monopoly etc. These virtues are against of social economy.

Downtrodden is deprived getting equal opportunity to live and of education. It is exploited by the black money. In the Indian economy black money's role is very powerful and it makes effect on social structure and objectives of planning. So it is very important to study of the black money.

In this paper the estimation of black money is studied. There is not any accurate methodology to account the black money. There are many loopholes in the system of administration, so estimating black money is very difficult. Many economist studied and estimated the black money. But there is a big different in the estimation of black money.

In this paper, estimation of black money is taken into consideration.

2) Definition of Black money:-

(I) "The extent of which estimates of national income and output are biased

downwards because of deliberate, false reporting of incomes, output and transaction for reasons of tax evasion. Flouting of other economic control and related motives".
NIPFP

(II) Total taxable income - Tax assessed income = Black income.

3) Size of the black money:-

"Size of the black money is depend upon the magnitude of the tax evasion". More tax evasion creates more black money. Kaldor described this concept as follows:-

"The difference between the estimated income above the exemption limit and the actual income assessed to tax measures is the size of black income".

4) Estimates of Black money in India:-

Several attempts has been made to estimate black money in India. In the estimation of black money is existed markable differences. These differences are found by using different methodology to measure black money.

Generally two methodology are used to estimate black money.

(I) Kaldor's approach:-

In the Kaldor's approach non salary income which is above the exemption limit is taken into consideration to measure black money.

(II) Edgar L. Feige's approach:-

Feige methodology assumes that the ratio of total transactions to total income is relatively stable. So legal and illegal both transactions are calculated. The official GNP measures only the legal economic activity. If proportional relationship exists between transaction and income, then significant increase in this ratio would be due to the expansion of black money.

(I) Kaldor's estimate:-

Kaldor estimated black money in his report on Indian tax reform on 1954. in his study he didn't take into consideration wages and salaries. He thought that this income could not

be evaded tax. Self employed income, profit, interest and rent were taken into account to estimate black money. He counted non salary income above the exemption limit. To calculate black money he measured difference between the estimated non-salary income above the exemption limit and the actual non-salary income which assessed to tax.

This estimation of black money.

(Rs in crores)

Year	GNP (at market price)	Black money	Percentage to GNP
1953-54	9993	600	6.0

According to Kaldor in 1953-54 black money in economy was 6 percent of GNP.

(II) Wanchoo Committee's estimate :-

Direct taxes enquiry committee headed by Wanchoo adopted Kaldor's methodology with some suitable modification to estimate black money . Committee's estimation is as follow.

(Rs. in crores)

Year	GNP (at market price)	Black money	Percentage to GNP
1961-62	15879	700	4.4
1965-66	23948	1000	4.2
1968-69	33024	1400	4.2

Wanchoo committee's estimation of black money was low than Kaldor. One of the committee's members Rangnekar didn't agree with the estimation of black money with committee. Therefore he critised on the estimation that the black money was under estimated. So he estimated black money.

(III) Rangnekar's estimate:-

(Rs in crores)

Year	GNP (at market price)	Black money	Percentage to GNP
1961-62	15879	1150	7.2
1965-66	23948	2350	8.8
1968-69	33024	3080	8.6

Rangnekar's estimation was double than Wanchoo committee.

(IV) Chopra's estimate:-

Chopra accepted a slightly modified

methodology of the Direct Taxes Enquiry Committee.

He measure black money of 17 years i.e. 1960-61 to 1976-77. To estimate black money he took into consideration some assumption as follow.

(I) Tax evasion:-

Tax evasion is not found only in non salary income but it also exists salary income, which is given by the private sector as additional benefit, especially business ' executives.

(II) Other taxes is not taken into account :-

The study only calculates evasion of tax which is subject of income tax. But this study is not think about tax evasion which may be due to

(a) Non payment or under payment of excise duty.

(b) Sales tax

(c) Customs duties

(d) Substituting non agricultural income

(III) Efficiency:-

The efficiency of the tax administration remains unchanged.

(IV) The ratio of non salary income above the exemption limit to total non salary income has remained the same.

(V) The ratio of non salary income to total income accruing from various sectors of the economy remains the same.

(VI) Unaccounted income generation in the agricultural sector has not been taken into account.

Chopar's estimation of black money.

Year	GNP (at market price)	Black money	Percentage to GNP
1960-61	14946	916	6.1
1961-62	15879	716	4.5
1962-63	16991	837	4.9
1963-64	19544	1452	7.4
1964-65	22897	1564	6.8
1965-66	23948	1439	6.4
1966-67	27461	1685	6.1
1967-68	32036	1816	5.7
1968-69	33024	1318	4.0
1969-70	36580	2714	7.4
1970-71	40177	2012	5.1
1971-72	43256	1342	3.2
1972-73	47750	1795	3.8
1973-74	58863	4757	8.1
1974-75	69755	8611	12.3
1975-76	72698	7292	10.0
1976-77	76947	8098	10.5

प्रादेशिक प्रशिक्षण
केन्द्र
महाराष्ट्र

5) NIPFP study:-

National Institute of Public Finance and Policy conducted a study under Dr.A.S.Acharya, Dr. Raja Chelliah was the supervisor of the study. This study defines black money as "aggregate of incomes which are taxable but are not reported to tax authorities".

To estimate of black money the study excludes income generated through smuggling, black market transaction, acceptance of bribes kick-backs etc. The study restricts itself to six areas:-

(I) Factor income:-

The study estimates 10 percent the GDP figures have to be revised upwards on account of under reporting of output or sales or over reporting of the costs or misclassification of personal expenses.

(II) Sale of assets:-

The study assumes that in real estate transactions the black white ratio is 40:60. It means that registered value of real estate is only 60 percent of the true value.

(III) Fixed capital formation in the public sector:-

The study assumes 10 to 15 percent of the cost of construction to be siphoned off as black money. The study considers that a 5 percent leakage is found to investment in plant and machinery by administration dept. and no leakage is found to investment in plant and machinery by dept. enterprises.

(IV) Private sector:-

The study assumes a leakage of 10-15 percent in private sector in form of kick-backs given by suppliers and contractors.

(V) Exports and black money:-

In traditional exports 10 percent leakage is found.

(VI) Over invoicing and licenses:-

There is 10 percent leakage in relation to imported machinery and purchased in domestic market by private sector. Licenses are sold away at 25 percent premium.

Assumption of the NIPFP : Estimate :-

(I) The study is confined itself by legal activities, In the study illegal activities i.e. smuggling, black marketing and kick-backs are excluded.

(II) The study choose lowest figure of the black money generation.

In asset sell, the study takes into account 40 percent leakage and in the construction sector 5 percent leakage.

(III) No leakage in defense equipment imports.

Estimation of black money.

(Rs in crores)

Suraj B. Gupta's estimate :

Year	GNP (at market price)	Black money	Percentage to GNP
1975-76	-	9958 to 11870	15 to 18
1980-81	12226	20362 to 23678	18 to 21
1983-84	185991	31584 to 36784	18 to 21

Gupta estimated black money for three years 1980-81, 1983-84 and 1987-88 Gupta assumes that -

(a) GDP is underestimated

(b) Corporate tax evasion to be at least 30 percent

Estimation -

(Rs in crores)

Year	GNP (at market price)	Black money	Percentage to GNP
1980-81	122226	50,977	41.7
1983-84	185991	85,208	45.8
1987-88	294408	149,297	50.7

Problems in measuring black money:-

(1) Big differences in measuring:-

There is not any sameness in accounting of black money. In the view of Kaldor black money is 6 percent and Gupta indicates 50 percent black money in Indian economy. In 1983-84 the black money's existence in economy was 18 to 21 percent in the view of NIPFP, simultaneously Gupta estimate black money 45.8 percent.

In 1976-77 Chopra estimated black money 10.5 percent and P. Gupta accounted

black money 39 percent to GDP.

So it is very hard to find out reliable figures of black money.

(2) Illegal activities don't take into account:-

In India there is a big existence of illegal activities i.e. smuggling black marketing, bribes, kick-backs etc. don't take into account to find out black money. So it is very difficult to find out reliable amount of black money.

(3) Assumption changes amount changes:-

Economist used different assumption to measure black money. If assumptions are changed result will be found different. In assets transaction existence of black money is assumed 40 percent, simultaneously some economist doesn't take it into account. So figure of black money doesn't get accurate.

(4) If assumption is wrong result will be wrong:-

In corporation sector assumption is taken into consideration that the leakage is 15 percent and some assumed 30 percent. Excluding income tax evasion of tax is 30 percent and some economists guess it 15 percent. So the amount of black money changed thoroughly.

(5) Big leakage is far away from the study:-

Gupta indicates that the major direct source of black income from smuggling is the evasion of customs duties and sales tax and black gain through associated hawala transactions. Black income is also generated by grossly under invoicing traditional exports and misinvoicing nontraditional exports.

In accounting black money only income tax is taken into account but three major taxes of states viz sales tax, state excise duty and entertainment tax are the principle source of tax evasion. But these taxes are not taken into account.

Conclusion:-

Black money has been growing in relative terms as a percentage of GNP.

Black money began to grow very fast. In 1975-76 it was less than 10 percent but in 1983-

84 estimated by NIPFP was 18 to 21 percent of GNP. In 1983-84 Dr. Suraj Gupta estimated 46 percent of GNP and it rose about 51 percent in 1987-88.

The rate of growth of black income generation is faster than the rate of growth of Gross National Product.

Higher rates of taxation motivated to businessmen and industrialist to go for massive tax evasion.

The political system doesn't work to curb the growth of unaccounted income.

Creation of black money is taken place at the political level. 2G spectrum scam, Commonwealth scam and Adarsh scam these scams are major in Indian economy. They created black money in economy. There is no wish of politician's to curb these scams.

Corporate sector is second sector which creates the black money in a big amount.

Construction sector is a big source of black money. This sector is protected by the govt. So rules and regulations are made fevorable to this sector.

Importance of the study of the Black money:-

Money is a capital and in India there is a big shortage of it. So Indian government creates many facilities and concession to the foreign investors. In India unemployment, poverty, optimum use of natural resources are issues to be solved. But scarcity of capital is a big hurdle to solve these problems.

India is the world's most corrupt country. In transparency India stood at 85 ranks among the world's country.

Swiss Banking Association report 2006 published details about bank deposits in the Swiss bank by nation India's deposited amount was \$1,456 billion.

This amount is about 13 times larger than the country's foreign debt. With this amount 45 crore poor people can get Rs.100,000 each.

France income tax authorities have