

Black Money

There is no official definition of Black Money in economics. There are various terms such as black incomes, parallel economy, illegal economy, and irregular economy are being used. The simplest way to understand Black Money is the money that is hidden from the tax authorities.

- Black Money has been an old problem in India, but it has become a threat post-liberalization. Unlawful activities such as corruption, complex procedural regulations, and implementation structures have increased the Black Money economy.
- Black Money is hidden from the government, and it is not shown in the Indian GDP, national income, etc.

How Black Money is Formed?

There are three ways in which Black Money can be generated namely- Illegitimate activities, Tax Evasion, and Tax Avoidance.

- **Illegitimate Activities-** the illegal activities through which Black Money can be generated are- Crime, Smuggling, Corruption, Complex procedural regulations, Non-compliance with tax requirements, Money laundering, etc.
- **Tax Evasion-** here, an entity doesn't pay taxes that are due to the government.
- **Tax Avoidance-** here, an entity takes advantage of existing loopholes in the system to prevent tax paying, which is not illegal either.

Sources of Black Money

Below, we have mentioned some of the main sources of Black Money in India.

- The price of real estate has been increasing over the years. The builders undervalue the transaction cost and take money in cash which generates Black Money.
- There are many Self-Help Groups that don't show the sources of their funds clearly or the donations they have received.
- [NGOs](#) receiving their funds from foreign sources rarely file their annual reports with the government. Loopholes in laws allow these NGOs to the mobilization of Black Money.
- Traders or sellers who don't give bills create Black Money as well.
- Investing in gold or jewelry is another source for generating Black Money.
- **Tax havens:** There are small countries known as Tax havens where people don't have to pay taxes. Big companies take advantage of this and transfer their profits to shell companies located in those countries. With this, they can avoid tax liabilities by a big margin.
- **Hawala:** hawala is a method of transferring money from one place to another without using banks. It operates without any paperwork.

Effects of Black Money

There are severe consequences of Black Money on the economy of a country. Below we have mentioned some of them.

- Black Money affects the financial system of a country. The central bank can't control the Money Supply in the economy, which leads to higher inflation. As a result, the value of currency decreases.
- Black Money is used for illegal activities such as narcotics, drug dealing, and other illegal activities.
- Government loses a significant amount in the form of taxes.
- Black Money also results in an increase in real estate prices and affects the credibility of a country in a negative way.

Government Measures to Curb Black Money Generation

The government has taken actions to restrict the generation and flow of Black Money. They are mentioned below.

- Tax Reforms- tax base has been increased, and the rates have been decreased. A deduction of tax at the source is being made.
- Demonetisation of Rs.500 and Rs. 1000 was done in 2016 to make the Black Money useless.
- Institutional measures like CBDT, Central Board of Excise and Customs, Directorate of Revenue Intelligence (DRI), CBI, Financial Intelligence Unit, NIA, and Police authorities.
- Encouraging a cashless economy in which initiatives like UPI, Jan Dham Accounts, and RuPay Cards are promoted.
- Electoral Reforms are also expected to curb Black Money because in elections, black money is used.

Legislative Framework to Curb Black Money

- Prevention of Corruption Act, 1988
- Benami Transactions Prohibition Act, 1988
- Prevention of Money Laundering Act, 2002
- The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015
- Lokpal and Lokayukta Act
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What is Money Laundering?

Money Laundering is one of the most popular and common ways to convert Black Money into white money. People with Black Money have to be careful about the way they spend it. With the help of Money Laundering, they can convert it into white money.

In the method of money laundering, people separate the Black Money from its source and mix it with white money. After that, they send it back to the source. Another popular way is people send Black Money to a tax haven to avoid paying taxes in India.

