

A Conceptual Study on Black Money and Demonetization Policy

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Abstract - One of the most prevalent and recognized fact which exists in India is the subsisting shadow or parallel economy drawing its breath on black money transactions. The primary idea that drives this tainted economy is tax evasion discoloring our moral roots. In an attempt to cut these evil tendrils growing all over our society, the Government poisoned all hoarders of this unaccounted income with demonetization; paralyzing the entire economy. While Indian businesses constantly look for ingenious loopholes to escape this paralyzing situation, the Government continues to execute these infected minds dodging taxes. Undeclared wealth has become synonymous to an acceptable practice making it difficult to gauge the quantum of its existence in our society and having no qualms on our conscience. Hence in this study there is an attempt to highlight methods to curb black money and their hoarders as well measuring the effectiveness of demonetization to bring black money back into mainstream Economy.

Index Terms - Demonetization, Black money, Government, Business, Tax evasion.

INTRODUCTION

Recently the Indian economy experienced quakes of demonetization sending tremors all over the country and of a magnitude that aimed at tossing the entire shadow economy to rubble. Demonetization is a radical act of flaking a currency off its legal value turning them in to nothing more than fashioned pieces of paper that lay retired from their official status. 8th of November, 2016, a day that shall stay inked in the history for two powerful countries, while United States of America got its new President Mr. Donald Trump, India was stormed by a sudden financial surgical strike where the Prime Minister Mr. Narendra Modi plugged all black holes by a shocking announcement of abolishing circulation of all high

currency denomination including Rs.500 and Rs.1000 notes.

OBJECTIVES OF THE STUDY

1. To examine the key reasons that causes generation of black money.
2. To account the status of black money in India after demonetization.
3. To assess the success realized in battling black money by demonetization.
4. To understand if the mesh of demonetization would discontinue the practice of hoarding this unaccounted black money and block it from seeping back into our system.

SCOPE OF STUDY

Further studies could be conducted to understand various possibilities that could help curb black money that gets amassed in bullion metals and benaami properties.

LIMITATIONS OF THE STUDY

This study is restricted to the data available in public domain, major fencing for this study being the challenge in tracing backdoor arrangements done by black marketers.

RESEARCH METHODOLOGY

The data relies on secondary research which was conducted by referring media reports, RBI Articles & PTI reports on black money.

WHAT IS BLACK MONEY?

Black money is the income that has not been reported or disclosed to the authorities during its generation or in the process of its possession and ducks down its head to escape from the taxation decrees implemented by the country. This fouled income generates from indulging in prohibited undertakings like drug trade, bootlegging banned liquor, crime, gambling and money lending activities which are not licensed to name a few. Sometimes this parasitic income can also result from legal events; however this money is blemished since the motive of the perpetrator may simply involve not declaring the income to sidestep paying taxes to the ruling classes. This illicit income is then nurtured in a parallel economy that coexists in the country and reared on such proscribed transactions.

CAUSES OF BLACK MONEY

Some other causes that could be enlisted to understand the existence of black money are stated as follows:

1. Scarcity of essential goods like kerosene, cooking gas, sugar, etc results in the masses paying higher than the controlled price thus giving birth to black money.
2. Political funding especially in regards with elections promotes donations from corporates who prefer parting away with their unaccounted income by financing these political elites in power.
3. High rates imposed through stamp duties and the constant struggles to evade capital gain tax are some other major reasons that help the growth of this evil economy in the real estate front of the country.
4. Lack of training, inadequate power to tax enforcing authorities and ineffective enforcement of tax laws keeps this harmful economy untapped.
5. Sustained and rapid increase in prices creates heightened opportunities and incentives to earn this income. Inflation is a major composition in the DNA of black money.

DEMONETIZATION – IMPACT

Demonetization, Mr. Narendra Modi's master stroke was a lauded initiative to principally tackle black money, counterfeit currency and terror financing, however it sent shock waves throughout the country

disrupting the commercial ecosystem of a cash-centric economy. In his televised address, Mr. Modi stated that Rs. 500 and Rs. 1000 shall be ceased as legal tender validating this as a major means to curb the menace of black money and was hailed by the people all across the country even though it left them thwarted. The remedy followed for all those possessing these legal tenders were getting them exchanged over the counter in any bank branch and obtain value thereof, with parameters set on each transaction and the number of transactions that could be conducted in a week. The other tonic left for people to consume was depositing these stripped legal tenders in their respective bank accounts with a flexibility of the amount deposited remaining unquestioned about their sources of generation if they fell within the threshold of INR 2,50,000. Any amount deposited higher than the threshold limit would be subject to legal scrutiny. In order to craft stability in the country and to revive people from this sudden shock therapy the exchanges and deposits were endorsed for a period starting from 10th November, 2016 till the midnight of 31st December, 2016.

DEMONETIZATION – CONSEQUENCES

The consequences in reality are seldom premeditated and the country was soon squirmed in a situation that ranged from disruptive to fatal, resulting in chaos and fiscal unrest pan India. The appeal made to people to swallow these 50 hurtful days promised to deliver to the people the "India of their dream" which would be free from the web of this malicious underground economy. Gradually these challenges turned nightmarish for every sector since there were stringent limits set for the exchange of these ceased legal tenders and unavailability of adequate smaller denomination bills that further stalled daily activities throughout the nation.

The estimated black money in cash contributes only 1/20th portion of the black economy. The move of demonetization tricked the hoarders of black money in cash form but could not catch collars of hoarders of black wealth. A misconception often associated with black money, is concentrating only on the cash in circulation and not considering the refuge that this evil wealth takes in the form of foreign currency, immovable properties, gold, etc that continue to grow plump in the subset of the underground economy.

While this coop reflected a phenomenal double-digit growth in the tax collection figures, Union Finance Minister Mr. Arun Jaitley quoted an increase of 26.2 percent in central indirect tax collection and observed 14.4 percent collection against previous year growth rate of 8.3 percent in direct tax.

On the other hand, it diseased people and businesses coming from common walk of life. Standing in long ATM and Bank queues for getting the tender exchanged or withdrawn for meeting daily ends became a situation resembling the times of curfew where necessities were scraped to accommodate survival. Conversions or depositing would require filling a form and producing ID Proof that left the poor and illiterate classes disillusioned and the rural masses were whiplashed by the sudden withdrawal of these legal bills.

The loopholes in the system for tax collection and limited power that could be exercised to take action against the one fudging taxes has resulted in evolution of new techniques to hoard this demonic income. Incidents witnessed included people with lower incomes approached by the societal ills and striking barter deals to float their black money back in to the system and once again gaining a legitimate status. These barter deals were as simple as depositing money in an account that was below the threshold limit and would not attract attention of any authorities in return for an incentive that would be rewarded to such account holders by these social evils.

CONCLUSION & RECOMMENDATION

In times of today perhaps there are more black gold, black goods, elegant and decorated homes and undeclared wealth stored in the form of precious jewelry as compared to the black currency. Black money shall truly cease to exist when people are relieved from the burden of high direct taxes and abolishing controls and regulations that would boost the production of goods. Central Government's decision of demonetizing high value denomination was the first stepping stone in eradicating black money in India and the shadow economy received a blow that weakened its knees. The Government strives to bolster the faith of people by promising to weed out this social evil, not harassing the honest and innocent but sojourning the dishonest from going scot free. However a human mind can devise ways that are

beyond imagination to recover under circumstances when the survival is threatened and such is a fact that forms base for this cancerous parallel economy that keeps seeping back in to our legitimate system, once again becoming an indispensable part of our atmosphere and rendering all efforts of demonetization as a chapter that gets recorded in the history of our nation minus any permanent alterations to our legislations.

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