



Book review

Black Money and Tax Evasion in India: Magnitude, Problems and Policy Measures

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Black money and tax evasion are eating into the social and moral fabric of Indian society. They are undermining the socio-economic objectives of India's Five Year Plans. They are responsible for conspicuous and wasteful consumption, reduced savings, and increasing gap between the rich and the poor. Black money in social, economic and political space of the country has a debilitating effect on the institutions of governance and conduct of public policy in the country. Governance failure adversely affects the interests of vulnerable and disadvantaged sections of society. The success of an inclusive growth strategy critically hinges on the capacity of society to root out the evil of corruption and black money from its very foundations.

The effects of tax evasion, resulting in black money, on an economy are indeed disastrous. Tax evasion leads to the creation of black money which in turn is a menace to the economy in its own way. Tax evasion and black money encourage concentration of economic power in the hands of undesirable groups in the country.

Black money may be generated through the crude approach of not declaring or reporting the income or the activities leading to it. This is the likely approach in all cases of criminal, illegal, and impermissible activities. The same approach of not declaring or reporting activities and the income generated therefrom may also be followed in cases of failure to comply with regulatory obligations or tax evasion on income from legitimate activities. However, complete evasion or non-compliance may make such incomes vulnerable to detection by authorities and lead to adverse consequences for the generator.

As an alternative, a safer approach for generation of black money is often preferred, involving manipulation of financial records and accounting. Thus, the best way of classifying and understanding the various ways and means adopted by taxpayers for the generation of black money would be the *financial statement approach*. It elaborates different means by which the accounts prepared for reporting and presenting before the authorities are manipulated to misrepresent income, thereby generating income that amounts to black money.

With liberalisation of restrictions on cross-border flow of goods and services and

relaxation of foreign exchange control, new opportunities have opened up for tax evasion through tax havens, misuse of transfer pricing, and other sophisticated methods. Globalisation has reduced the cost of these sophisticated methods thereby facilitating generation of black money and its transfer across the border. These changes require new strategies to curb black money. The fight against generation and accumulation of black money is far more complex and prolonged, requiring stronger intervention of the state. It needs a robust legal framework, commensurate administrative set up, and a very strong resolve to fight the menace.

In recent years, the issue of corruption and black money has come in the forefront after a series of financial scandals. Generation of black money—and its stashing abroad in tax havens and offshore financial centres—has dominated discussions and debate in public fora during the recent past. Members of Parliament, the Supreme Court of India and the public at large have unequivocally expressed concern on the issue, particularly after some reports suggested enormous estimates of such unaccounted wealth being held abroad.

After uproar in Parliament, Government of India came out with a *White Paper* on Black Money in May 2012. The *White Paper* presented the different facets of black money and its complex relationship with policy and administrative regime in the country. It also reflected upon the policy options and strategies that the Government had been pursuing to address the issue of black money and corruption in public life.

To meet the deadline set by the Honourable Supreme Court for the previous Government, the new Government of Prime Minister Narendra Modi constituted a Special Investigation Team (SIT), soon after assuming office on May 26, 2014. Headed by Justice M.B. Shah, a former judge of the Supreme Court, SIT was notified on May 27, 2014 to look into the issue of black money.

The book under review explains the various facets and dimensions of black money and tax evasion and their complex relationship with the policy and administrative regime in the country. It describes the factors which lead to the generation of black money, and records various estimates of black money and tax evasion. It also presents the measures/strategies that the Government of India has been pursuing to tackle this issue, especially recent initiatives and developments. The work, using simple and non-technical language, is descriptive in nature and designed for a cross section of readers for easy understanding of this rather complex branch of fiscal economics.

According to the author, a multi-pronged strategy is required to deal with the issue of generation of black money and its illicit transfer outside the country, and for bringing it back to India. The factors leading to generation of black money in India—along with the various measures attempted to counter it—make it clear that there is no single remedy to curb, control, and finally prevent the generation of black money. In fact, a

comprehensive mix of well-defined strategies is needed by the Central and State Governments and put into practice by all their agencies in a co-ordinated manner.

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