CHAPTER THREE

UNACCOUNTED MONEY AND BLACK ECONOMY

CHAPTER THREE

UNACCOUNTED MONEY AND BLACK ECONOMY

3.1 INTRODUCTION:

The Income-tax Act promulgated in the year 1961 is but a logical rearrangement and regrouping of the Income-tax Act of 1922 that was originally enacted by the Britishers without taking into account the social conditions in India and, therefore, it has a British orientation and is alien in the Indian social context. Because the spiritual and cultural background of the Indian society differs vastly from that of the British society, particularly in the matters of:

(a) making gifts and providing public charities out of religious considerations and not necessarily with the motive of tax evasion and tax avoidance;

(b) paying dutiful regards to the needs and welfare of one's kith and kin, things which make the Indian psyche less individualistic and more socialistic by the strength of society's moral traditions and religious sanctions, rather than through the force of tax laws and democratized civic sense.

Indian taxpayers, with this psychological set-up see not much wrong in evading tax burden because the tax laws do not take into consideration the special characteristics of the Indian society. Obviously, copying of the British income-tax Act is one of the reasons of multiple problems of the Indian tax system.

3.2 EMERGENCE OF UNACCOUNTED MONEY:

The phenomenon of unaccounted money has its origin in tax-evasion and tax-avoidance. Tax evasion is concerned with anti-social activities like smuggling, foreign-exchange rackets, under-invoicing and over-invoicing from legal channels, etc.

A nation's economy is generally composed of two types of activities, legal and illegal. Legal economy is composed of those economic activities that are conducted in the open and within the legally-established framework. The activities conducted in violation of the existing economic laws and regulations compose an illegal economy. Such illegal activities, which generate unaccounted/black money are often concealed from the tax and other enforcement agencies.

The basic question is why do some individuals choose to engage in illegal economic activities despite the fact that they are liable to be punished? Sociology, psychology, anthropology and Economics all offer certain well-meaning explanations.

Sociologists explain the incidence of illegal economy in terms of society's weak commitment to obey the nation's laws and regulations. If a society does not impose heavy social sanctions against the individual law-breakers, the collective commitment to obey the laws becomes weak. Psychologists are of the opinion that some individuals engage in illegal economic activities because they are 'deviant' and 'abnormal' Anthropologists explain the incidence of illegal activities in terms of the society's culture, customs, religion and other inherited values. Thus, the economic approach has been widely and more plausibly used in explaining such human behaviour. Economists say that individuals indulging in such activities do it through a rational decision-making process. An individual will do such activities which will be most profitable to him; he will act to maximize his self-interest and will engage in an illegal activity, such as tax evasion, if his gains (through not paying taxes) are higher than the costs (the probability of getting caught, punished, etc.).

On the whole, some of the reasons for the emergence of unaccounted money in India are contained in the Report prepared by the National Institute of Public Finance and Policy (NIPFP), which indicates that the probability of getting caught for undertaking an illegal economic activity is very low. Even though a person is detected of tax-evasion, the chances of his getting convinced and penalized are around 15 percent. Again, the chances that he will receive stiff punishment are very low. The saddest thing is that such persons indulging in illegal activities come to enjoy social prestige and status.

The main factors giving rise to unaccounted money can be divided under the heads of tax-evasion, politics and public sector. A brief explanation of each of these follows.

1. Tax Evasion:

Tax evasion in India is the single-most important factor in the generation of unaccounted money and its emergence is concerned with anti-social activities like smuggling, foreign-exchange rackets, under-invoicing and over-invoicing from illegal channels, etc.

Prof.Nicholas Kaldor, in his 'Report on Indian Tax Reform' (1956), had estimated the magnitude of the tax-evaded income for the year 1953-54 at around Rs.600-800 crores. According to Dr.V.K.R.V.Rao, during the year 1970, the amount of the tax evaded income from smuggling alone was around Rs.400 crores. The Direct Taxes Enquiry Committee (1971) estimated that Rs.811 crores of the taxable income escaped payment of income-tax during 1961-62 while the corresponding estimates for the years 1965-66 and 1968-69 were placed at Rs.1,000 crores and Rs.1,400 crores, respectively. Shri.D.K.Ranganekar, a member of the same Committee, while dissenting with the majority report, estimated the tax evasion figures at much higher levels of Rs.2,365 crores.

The rates of taxation, the slabs and the frequency of change in tax-rates directly affect savings and investments, financial liquidity and also impair future projections. Tax rates in India have persistently been alarmingly high and have attracted severe criticism from various quarters; in fact, high tax-rates are said to be, among others, a major contributor for generating unaccounted money. The comments of various experts on the subject are equally eloquent:

> "A high tax rate could be a deterring factor, because, after all, the accounts have to be merged with that of the parent company and profitability is a concern".
>
> Alok Mahajan, Consultant
> to foreign investors

> "Tax is a major element influencing investment decisions, so any reduction does make investment that much more attractive".
>
> \- Vikram Talwar, Senior Vice-President
> & Country Manager, Bank of America

T.N.Pandey, former Chairman of the Central Board of Direct Taxes, feels that "bringing down the corporate tax might lead to a drop in collections", but he points out that the government can make up the shortfall since companies will be claiming lower depreciation and will have higher taxable profits. Naturally, lower tax rates could result in better compliance, especially from smaller companies and the overall collections from the corporate sector might not suffer.

The following Table compares corporate tax rate structures in various countries.

Table 3.1

Corporate Tax Rates in various countries

Country		Country	
Venezuela	15	Sweden	30
Brazil	30	Peru	35
Mexico	35	**India**	**51.75**
Malaysia	35	Pakistan	40-50
Indonesia	15-35	Taiwan	25
United Kingdom	35	Thailand	35
U.S.A.	34	Philippines	35
		Argentina	36

In addition, in the labour market, activities such as hiring workers, minors below minimum wages, denying the payment of overtime, etc., create unaccounted money. Further, market regulations such as price controls (on cement, sugar, etc.), rationing, forced sale of commodities by producers to the government, etc., encourage both producers and consumers to indulge into unaccounted transactions, ultimately creating a black market. Regulations in domestic financial markets like ceiling on interest rate, credit controls and those on foreign financial markets like fixing foreign exchange rates, all create a large amount of unaccounted money through over-invoicing of imports and under-invoicing of exports. Regulation of rents and laws preventing eviction of tenants create unlawful incomes, which are not reported to the government. Similarly, prohibition of production and distribution of certain items and provision of certain services by private individuals involve large sums which go unreported and constitute unaccounted money source for their proponents.

2. <u>Political Factors</u>:

Under political factors, we would include elective political process, leniency in dealing with offenders, corrupt government machinery and collusion between government officials and businessmen, land-owners and criminal elements.

In India, most public officers are elective where candidates have to contest elections at regular intervals. For such expensive elections, political parties and candidates themselves extract lakhs of rupees from business firms with a promise to allow them to earn an equivalent or even more funds from promised licenses, grant of quotas and an assurance that they would 'look the other way' from shady and illegal business practices. After contributing huge amounts to the election funds, the public officials and businessmen obtain a licence, so to say, to engage in illegal economic activities which create unaccounted money. Many times, governmental officials in law enforcement agencies join hands with tax-evading businessmen, land-owners and smugglers for mutual benefits.

What is necessary here is the creation of an atmosphere in which the offenders and corrupt officials should feel that they cannot escape punishment.

3. Public Sector:

The growth of public sector, established for achieving the goals of socialistic pattern of society, has become a big source of unaccounted money generation. Contracts are awarded to those parties who have contributed to campaign funds. Various devices such as escalating costs, use of inferior and cheaper material than contracted, underpaying labour and preparing phony payrolls in public sector projects are used to generate the unaccounted money.

Accounting systems are also responsible for the generation of black money, as is evident from the British Paints Case cited below.

(In the Supreme Court of India) Dec. 13, 1990

Commissioner of Income-tax
v.
British Paints India Limited

> Valuation of stock - principle - at-cost or market value, whichever is lower - assessee valuing stock only at actual cost of raw materials and not taking into account overhead charges - not correct mode of valuation - assessing officer entitled to add overhead charges.

The respondent, a company engaged in the manufacture and sale of paints, as a consistent practice, valued its goods-in-process and finished-products exclusively at-cost of raw materials totally excluding overhead expenditure. The justification for the practice, according to the respondent, was that the goods being paints had limited storage life and, if not quickly disposed of, were liable to lose their market value. For the assessment years 1963-64 and 1964-65, the Income-tax Officer held that there was no justification to recognize a practice of valuing stock otherwise than in accordance with the well organized principle of accounting which required the stock to be valued at cost (viz. raw material plus expenditure) or market price, whichever was lower. He, therefore, calculated the value of the opening and closing stocks by adding the overhead expenditure. The Appellate Assistant Commissioner confirmed that order. On appeal, the Appellate Tribunal held that there was no evidence to show that the goods in stock deteriorated in value and that there was no justification for excluding the overhead expenditure in valuing the stock; and, if it was in the interest of the business to value stock solely with reference to the cost of raw materials and without including overhead expenditure, such valuation was not appropriate to the computation of income chargeable under the Income-tax Act. The High Court, on a reference, reversed the decision of the Tribunal holding that, having regard to the consistent practice of the respondent, the Tribunal was not justified in rejecting the respondent's method of valuation of its stock-in-trade. On appeal to the Supreme Court:

"<u>HELD</u>, reversing the decision of the High Court, that even if the assessee had adopted a regular system of accounting, it was the duty of the Assessing Officer under section 145 of the Income-tax Act, 1961, to consider whether the correct profits and gains could be deduced from then accounts so maintained. If he was of the opinion that the correct profits could not be deducted from the accounts, he was obliged to have recourse to the proviso to section 145 of the Income-tax Act, 1961,

... ...;

Section 145 confers sufficient power upon the Assessing Officer - nay, it imposes a duty upon him - to make such computation in such manner as he determines for deducing the correct profits and gains. This means that where accounts are prepared without disclosing the real cost of the stock-in-trade, albeit on sound expert advice in the interest of efficient administration of the business, it is the duty of the Assessing Officer to determine taxable income by making such computation as he thinks fit.

What is the profit of a trade or business is a question of fact and it must be ascertained, as all facts must be ascertained, with reference to the relevant evidence, and not on doctrines or theories.

3.3 EMERGENCE OF BLACK ECONOMY:

There is evidence of increasing concern about the growth of the black economy. The black economy includes all those areas of legal activity from which tax is properly due but from which it is not collected because the income in question is not declared. By the nature of the phenomenon itself, it is hard to find evidence on the extent of the black economy.

It is sometimes suggested that trends in the black economy can be inferred from movements in the use of notes and coins in payments, but the problem of estimating demand for money functions has already produced one of the largest and least conclusive literatures in Economics and the notion that this can be done with sufficient accuracy to enable trends in the black economy to be inferred from the residual is unfounded.

Several researchers have claimed to have detected a glimpse of the hidden economy in the national accounts by comparing income- and expenditure-based estimates of national product. While at first sight, this seems promising, more careful considerations of how black economy transactions are recorded, if at all, suggests that some would be recorded as income only, others as expenditure only, and some as neither, depending on the precise measurement techniques employed.

A different approach that may be adopted is by examining the income and expenditure records of households that spent significantly more than they claimed to earn. The painstaking micro-economic research seems to be much more likely to identify the black economy than generalizations based on broad aggregates, but it suffers from the difficulty that people engaged in large-scale tax fraud are unlikely to participate voluntarily in surveys of their income and expenditure, whatever guarantees of confidentiality they may be given.

Tax authorities have the great advantage that, unlike academic researchers, they can compel people to have their income surveyed. By far the most substantial study of the black economy is the American Taxpayer Compliance Measurement Programme (IRS, 1979). This computes the additional income recorded and tax assessed, when households were subjected to detailed audit of their affairs and uses statistical techniques to estimate the total income and revenue which would be obtained if the whole population could be subjected to infinitely detailed scrutiny. The Internal Revenue Service concludes that between 91 and 94 percent of income from legal sources is reported to it.

These indications that the black economy may be quite small may come as a surprise that all cash transactions are outside the formal economy is as fallacious as the belief that all cheque transactions are reported to the tax authorities. The existence of small amounts of economic activity on which the marginal rate of tax is zero, much of which would simply not be undertaken at all if it were confined to the formal economy, may reduce the disincentive effects of taxation. When this achieves proportions that encourage large-scale fraud or lead to a cumulative collapse of the moral force of the tax system, our reactions should be rather different; but there is nothing more likely to encourage such fraud and such collapse than the wide circulation of exaggerated, and unfounded, reports of the extent of 'black' activities.

Poor people who engage in the black economy are illegally evading tax. Richer people diminish their tax liability by legal tax avoidance. Like the black economy, tax avoidance has come under increasing scrutiny. But as Kaldor has put it, "the existence of widespread tax avoidance is evidence that the system, not the taxpayer, stands in need of radical reform" (Kaldor, 1970). Tax avoidance cannot be defeated by appeals to the conscience of the taxpayers. The annual accretion of new provisions to deal with recently discovered avoidance devices is inevitably ineffective also; the Revenue puts itself in the position of men who go to shut the stable-door every time they see a horse bolting.

contd.

3.4 AN INTERNATIONAL PERSPECTIVE:

The serious concern for black economy prevails all over the world. This can be substantiated from the estimated magnitude of black economy as a proportion of GNP in select countries from 1970 to 1982.

Table 3.2

Percentage of black economy as a proportion of GNP

Country	Percentage
Australia	11
Austria	8
Belgium	10-14
Canada	5-20
Denmark	5-8
Finland	7
France	8
Germany	5-7
India	**9-49**
Ireland	6
Italy	10-15
Japan	3
Norway	2-5
Spain	5
Sweden	3-12
Switzerland	4
United Kingdom	2-6
United States	5-21
USSR	10

Source: Vito Tanzi, "The Underground Economy, in: 'Finance & Development', **20**(4), December 1983, p.13.

3.4.1 Black Economy in the U.S.A.:

Illegal activities such as bootlegging, theft and counter-feiting of ratio coupons of essential commodities during the period of price-controls and rationing, falsifying records, tie-in sales, short-weighting, traffic in narcotics, tax-evasion are in existence in the United States of America since 1930s, which have given birth to the black economy in that country.

In 1970, the government expenditure was increased to a great extent which resulted into high tax rates for people. The high inflation during the 1979-81 decline in real income in addition to higher marginal tax rates are the main factors for the emergence of black economy in the USA. The political and economic corruption including tax-evasion by the highest elected officials like the President and the Vice-President also angered American taxpayers.

American income-tax base is seriously eroded so much so that the taxpayers are making the use of such tax loopholes. In such circumstances, people are ashamed of paying too much taxes, if its a sign of stupidity.

Such tax evasion by people is resorted to for protesting the unpopular policies of the government, such as war, waste in government expenditure and in defence expenditure, etc.

The IRS (Internal Revenue Service) has estimated the magnitude of black income at 4.0 to 5.7 percent of the total output during 1950-1981.

3.4.2 Black Economy in European Countries:

Besides illegal activities like tax evasion, corruption under- and over-invoicing, the most important cause of black income in Italy is the large magnitude of unrecorded employment or irregular labour employed in small-scale industries. Such industries include all jobs, outside the social security system on which social security taxes are not paid.

Gutmann's method of estimating the black economy through the C/D ratio approach gives the figure of about 26 percent of the GNP. In 1978, the estimate has been about 30 percent. Italy has the highest magnitude of the black economy in the Western Europe.

In other European countries, like France, there is evidence of tax evasion on a large scale. A high proportion of such undeclared income is siphoned abroad, mainly to Switzerland, for long term investment. The total amount of the black economy is considered to be about 20 percent of the GNP in France.

In Belgium, tax evasion and laundering of income to other European countries has resulted into a high figure of B.Fr.200 billion of black income. There, tax evasion is not considered a criminal offence and the tax evaders are mainly the self-employed people. Most part of the GNP is laundered to Switzerland through under-invoicing exports and over-invoicing imports and later, these funds are transferred back in the form of foreign investments. Thus, the black income is converted into white income.

In Holland also, the tax evasion and transferring of the net export earnings and savings to other European countries have given rise to black economy; which has reached a high figure of 22 percent. Actually, the high increase in the marginal tax rates has encouraged people in Holland to indulge in tax evasion. It is also due to the lack of effective tax enforcement by the tax collecting agencies that the tax compliance has diminished.

3.4.3 Indian Scenario:

In India, the NIPFP has classified black incomes into three categories as under:

1. Incomes which are illegal, i.e. incomes earned from sources such as smuggling, gambling, prostitution, unauthorized sale of permits, licences, from black marketing of products and services, which are legally required to be sold at controlled prices through specified channels;
2. Tax-evaded incomes; and

3. Incomes which escape inclusion in the national income estimates.

The NIPFP Study (referred to earlier) says that the tax laws are not the basic reason for the generation of black money but the factors above also are responsible for it. The Study further says that it has become quite common for illegal payments to be demanded in return for regular public services such as registration of a document, repair of a telephone, issue of a tax assessment order, admission of a student in an educational institution or decisions on postings and transfers in public services.

The Wanchoo Commitee has pointed out that since considerable discretionary powers lay in the hands of those who administer controls, there is a large scope for corruption, speed money for issuing licences and permits, hush-money for turning a blind eye to the violators of the controls.

There is no unanimity as to the reasons that generate black money; however, the major causes for this are said to be economic controls, government spending, its scale and accountability, level and structure of taxation, general laws and regulations, weak deterrence, political donations, low standards of public morality, respectability for black money holders in the public life, inflation, lack of adequate, qualified and motivated personnel to check proliferation of black money and no stigma for getting the government's patronage in securing licences, etc.

3.5 QUANTIFICATION OF UNACCOUNTED MONEY:

Different studies have tried to measure the quantum of unaccounted/black money. The estimates vary widely ffor certain reasons; firstly, they have used different definitions of the black money; secondly, they have used different methods like fiscal approach, monetary approach or physical approach; and thirdly, they all have used different time periods.

Actually, measuring the quantum of unaccounted money is rather a difficult and complex task for the following reasons:

1. Firstly, there are different definitions of black money and black money means different things to different writers. Consequently, it results into difference in the estimates of unaccounted money;
2. The transactions by which unaccounted money is obtained are hidden. Such activities are conducted in secrecy and these vary from one person to another, making the task of estimation more difficult;
3. The tax laws, regulations and controls on which the illegal transactions greatly depend change frequently, which adds to the difficulties in the process of estimation;

4. The factors such as levels of staffing, funding, efficiency of enforcing agencies, political party, its attitude towards illegal activities on which the extent of black money depends also change frequently;

5. It is difficult in real life to separate out the transactions conducted in black economy from those conducted in open economy. Therefore, it is difficult to measure this complex phenomenon.

Though some writers like Kabra are against the effort of measuring the black money, some feel it essential to measure it so as to take policy actions even though the actual task of estimation is very difficult one.

Three methods of measuring unaccounted money, namely, (1) Fiscal Approach (used by Nicholas Kaldor, the Wanchoom Committee, Chopra and the NIPFP); (20 Monetary Approach (used by Gupta and Gupta, Sandesara, Prasad); and (3) Physical Input Approach (used by Gupta and Mehta), have given various estimates of India's black/unaccounted money.

1. Fiscal Approach:

This approach measures the difference between the national income which should have been reported for taxation and the income actually reported for taxation. This approach is used extensively in India as well as abroad.

Following are some estimates of black money which have been obtained by using the Fiscal Approach.

(a) Prof.Nicholas Kaldor:

Prof.Kaldor's estimate was arrived at by using the following procedure. The national income was divided into agricultural and non-agricultural incomes. The agricultural income was not taken into account, as it is exempt from tax. The non-agricultural income was again broken up into salary and non-salary incomes. Kaldor thought that salary income was fully reported for taxation; and hence, concentrated only on non-salary income, presuming it to be above the exemption limit for possible tax evasion.

Thus, the total assessable non-salary income was calculated and it was compared with the non-salary income actually reported for taxation. The difference between these two was thus regarded as black money. Then the total tax revenue lost by the government was calculated on the basis of such tax evaded income and the average tax rates in existence. Kaldor's finding can be seen in Table 3.3.

(b) The Wanchoo Committee:

The Wanchoo Committee used the method developed by Prof.Kaldor but with minor modifications. The Committee reduced the number of sources of income within the non-agricultural sector from nine to seven and it assigned different weights to them. The estimates can be seen in Table 3.3.

D.K.Ranganekar, a member of the Wanchoo Committee, stated that the tax-evaded income was much higher than was calculated earlier.

(c) Chopra's Estimates:

Chopra also used Kaldor's method, as modified by the Wanchoo Committee, but he assumed the ratio of tax evaded income in the assessable non-salary income observed in 1961-62 as constant and used it for estimating the tax evaded income for the years 1965-66 and 1968-69. Chopra's estimates are also given in Table 3.3.

These studies have made some arbitrary assumptions which make the estimates less reliable for the following reasons:

1. These studies depended upon the officially published data such as estimates of the sources of non-agricultural income and the assessable non-salary income. But such figures are under-estimated as these do not constitute the income from hidden activities in manufacturing, transport, etc. Therefore, the magnitude of tax evaded income is said to be higher than the estimates by different studies.

2. The studies have assumed that the salaried people fully report their earnings for taxation and the evasion is mainly confined to the non-salary income. But it is seen that there is tax-evasion among the salaried

people also through under-reporting of income and through exaggeration of expense accounts.

3. The weights assigned to various sectors for estimating non-salary income above the exemption limit seem arbitrary and different from one study to another.

4. The ratio of evaded income to non-salary assessable income, assumed as constant, by the Wanchoo Committee is not a realistic one. Again, the ratio of the sum of the assessed non-salary income in different years for the given year to the actually assessed non-salary income of the given year is assumed as constant by Chopra. But these assumptions are weak, because these ratios change in response to the changing tax laws and their enforcement.

5. These studies have not considered the inter-sectoral connection between the agricultural and non-agricultural income. Many individuals transfer part of their non-agricultural income to the agricultural sector as agricultural income is not taxable. If the agricultural sector was included in the estimation process, the magnitude of the tax-evaded income would be higher than the one arrived at by these studies.

(d) NIPFP's Estimates:

The NIPFP Report used the 'distribution of income among earners' as the basis for estimating the assessable income for tax and compared it with the income actually assessed for tax to arrive at the magnitude of the tax-evaded income The procedure was as follows:

i. An estimate of the gross personal income accuring to households is derived from the official data on national income accounts (National Accounts Statistics Data);

ii. The 1975-76 National Council of Applied Economic Research (NCAER) Survey on the distribution of personal income by households in India is used to develop distribution of income by earners;

iii. As the NCAER's estimates of total gross personal income (for 1975-76) fall below the corresponding estimates arrived at by using the NAS data; these are suitably adjusted upward to match the estimates of the NAS data;

iv. Such earner-wise distribution of income is appropriately adjusted for major exclusions, exemptions and deductions permitted under the income tax laws. Thus, the estimates of income assessable for tax are obtained;

v. This estimated income assessable for tax is then compared with the income actually assessed for tax for that year to calculate the tax evaded income;

vi. The estimates of tax-evaded income are adjusted to take into account the 'downward bias' in the NAS estimates on national income. The official GDP figures are adjusted upward by 10 percent.

The estimates of the Report for the years 1975-76 and

1980-81 can be seen from Table 3.3.

The Report also provides "global" estimates of the tax evaded income as shown in Table 3.3. Here, the report took into account those illegal activities, the income earned from which escapes both the tax and the national income accounting authorities.

The Report also has made serious efforts in developing estimates of India's black income and it can be interpreted with some degree of confidence.

2. Monetary Approach:

The monetary-approach provides estimates of the total size of the unreported economy rather than giving only the magnitude of the tax-evaded income.

Under this approach, the estimates of the total value of the monetized transactions conducted in the economy over a one-year period are obtained. The officially measured GNP for that period is subtracted to arrive at the quantum of black income.

There are two variants of the monetary approach - one is the Currency : Demand Deposit Ratio" (C/D Ratio) Method and the other is the "Transaction Method".

In the C/D Ratio method used for Sandesara, the changes in the ratio of currency in circulation to demand deposit with respect to some base period ratio are used to estimate the size of the black economy.

First, the C/D ratio for the base period is calculated. This ratio is compared with the C/D ratio for the year under study. If the latter ratio is higher, it indicates the existence of the excess currency - over and above what is required to carry out the monetary transactions in the official economy.

(a) Gupta and Gupta Estimates:

Gupta and Gupta used the transaction method, which is based on the Fisher's Quantity Theory of Money that assumes that there is a stable proportional relationship between the total volume of the monetized transactions conducted in the economy (by the existing stock of money) and the total level of the national income.

To estimate the black money for a particular year, the total volume of transactions conducted by that year's stock of money is calculated and divided by the base period ratio to obtain the total level of income generated (both official and unofficial). From this, the officially reported GNP is subtracted to obtain the magnitude of the unreported income.

(b) Prasad's Estimates:

Prasad has used a modified version of the transaction approach to estimate the unaccounted money in India.

3. Physical Approach:

The physical approach is based on the input-output technique. If the input is known, one can estimate the output produced. But if the total output poroduced and reported officially for the economy is less than the quantity of the output calculated to have been produced (using the total quantity of input), the discrepancy is known as the output produced in the black economy.

3.6 INDIA's BLACK ECONOMY:

Every study on estimating India's black money gives different magnitudes of the black money. The task of determining such estimates itself is very difficult. But after reviewing all the studies undertaken, the fiscal approach seems to be more reliable. The following points prove this:

1. The fiscal approach does not assume the non-existence of the tax evasion during the base period, but it is not so in case of other two approaches, i.e. monetary approach and physical approach. Therefore, these two approaches give highly susceptible estimates about the black income.
2. The black economy is composed of the illegal incomes such as: (a) income earned legally but on which taxes are evaded intentionally; (b) income earned illegally on which taxes are evaded as well, and (c) income

earned illegally but which falls below the taxable limit. Such income is not reported for the fear of getting caught and it escapes the tax liability. The fiscal approach, by providing estimates of the tax evaded income seems more appropriate for this purpose.

3. The various methods such as tax audit method, non-salary distribution of income method, the earner-wise distribution of income used in the fiscal approach make it possible to check the estimates against each other for accuracy and reliability. It is not possible in other methods or approaches.

4. The estimates of the tax evaded income can be used to examine the impact of the changes in the tax laws and the effectiveness of the tax enforcement authority and of other bodies responsible for implementing the economic controls and regulations. Thus, the estimates are more useful for policy analysis.

The estimates of the black income given by NIPFP are more plausible and closer to reality. Considering the estimates of Chopra, which are adjusted for some sources of illegal income, we can say that both his and the NIPFP Report's estimates are the same.

We can believe that the estimates of the black income in India is at around 20 per cent of the GDP.

The global estimate of the unaccounted income generated in India would reveal certain features regarding the sources which generate such income as shown in Table 3.3 below.

Table 3.3

Global estimate of black income generated in India

Sr. No.	Particulars	1975-76	1980-81
		Rs.crores	Rs.crores
1.	From Gross Personal Income	3,741	9,813
2.	Under-reporting of output	3,318-4,978	5,713-8,750
3.	Under-registration of immovable properties	2,256	3,664
4.	Leakages from pulic sector investment	335-503	720-1,071
5.	Leakages from private corporate sector investments	169-253	217-325
6.	Under-invoicing of exports	139	235
7.	Total Black Income:	9,958-11,870	20,326-23,678
	GDP at Factor Cost (Current prices)	66,370	1,14,271
	Black money as percent of GDP	15-18	18-21

Source: "Aspects of Black Economy in India", A Study Conducted by National Institute of Public Finance & Policy, March 1986, p.431.

The estimates worked out from time to time over the period 1953-54 to 1983-84 by various experts are shown in Table 3.4 on the following page.

REFERENCES

1. Kulkarni, P.G., op.cit.
2. Chugh, R.L. and J.S.Uppal, op.cit.
3. Shobhana Subramaniam, "Receipe for Rejuvenation", in: The Economic Times', Bombay, 7.9.1992.

Table 3.4

Estimates of Black Income in India

(Rs.in crores)

Year	GNP at Mar.Price	Nicholas Kaldor[1]	Wanchoo Commi.[2]	D.K. Ranganekar	O.P. Chopra[3]	P.Gupta & S.Gupta[4]	NIPFP [5]
1953-54	9953	600 (6.0)	-	-	-	-	-
1960-61	14946	-	-	-	916 (6.1)	-	-
1961-62	15879	-	700 (4.4)	1150 (7.2)	716 (4.5)	-	-
1962-63	16991	-	-	-	837 (4.9)	-	-
1963-64	19544	-	-	-	1452 (7.4)	-	-
1964-65	22897	-	-	-	1564 (6.8)	-	-
1965-66	23948	-	1000 (4.2)	2350 (8.8)	1439 (6.4)	-	-
1966-67	27461	-	-	-	1685 (6.1)	-	-
1967-68	32036	-	-	-	1816 (5.7)	3034 (9.5)	-
1968-69	33024	-	1400 (4.2)	2833 (8.6)	1318 (4.0)	4505 (13.4)	-
1969-70	36580	-	-	3080 (8.4)	2714 (7.4)	5459 (14.9)	-
1970-71	40177	-	-	-	2062 (5.1)	8900 (22.2)	-
1971-72	43266	-	-	-	1392 (3.2)	12355(28.6)	-
1972-73	47750	-	-	-	1795 (3.8)	15195(31.8)	-
1973-74	58863	-	-	-	4757 (8.1)	15895(27.0)	-
1974-75	69755	-	-	-	8611 (12.3)	14518(20.8)	-
1975-76	72968	-	-	-	7292 (10.0)	18458(25.4)	-
1976-77	76937	-	-	-	8098 (10.5)	30015(39.0)	-
1977-78	80860	-	-	-	-	34335(39.5)	-
1978-79	-	-	-	-	-	46867(48.8)	-
1975-76	-	-	-	-	-	-	9958-11870(15-18)
1980-81	-	-	-	-	-	-	20362-23678(18-21)
1983-84	-	-	-	-	-	-	31584-36784(18-21)

Note: Figures in brackets indicate black income as percentage of GNP at market prices.

Sources: Compiled from: [1] Nicholas Kaldor, "Indian Tax Reform", [2] Direct Taxes Enquiry Committee (Wanchoo Committee), "Final Report", December, 1971; [3] O.P.Chopra, "Unaccounted Income : Some Estimates", EPW, Vol.XVII, Nos.17&18, Apr.24-May 1, 1982; [4] Poonam Gupta and Sanjeev Gupta : "Estimates of Unreported Economy in India", EPW, Vol.XVII, No.32, Jan.16, 1982, [5] NIPFP, "Aspects of Black Economy in India", March 1988.