A STUDY OF ISSUES AND CHALLENGES OF TACKLING BLACK MONEY MENACE IN INDIA

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ABSTRACT

The problem of black money has transcended borders and become a global dilemma. The countries across the Globe are making a concerted effort to deal with this menace. Over the past several decades, the Indian economy is facing a growing challenge with respect to black money generation and accumulation (which is hampering the government's revenue generation from taxation). There are various estimates of black money in India and various assumptions and presumptions have been made but no exact and reliable data is available. Several estimates have been floated, often without adequate factual basis on the magnitude of black money generated in the country and the unaccounted wealth stashed aboard. Secondly, a presumption has been created that the Government's response to address this issue has been piecemeal and inadequate. This research seeks to dispel some of these views around and put forth the various concerns in a perspective. But contrary to the misconception, India is not left behind. Recently, India has taken a proactive approach and various studies have been conducted by Government of India to deal with the matter. The issue of unaccounted monies stacked abroad has been in limelight and further these studies have revealed some astounding facts. Thus, this conceptual study has been undertaken keeping in mind the objectives of (i) examining the government's efforts in crusade against black money and (ii)suggesting an appropriate legislative & institutional framework to tackle the issue. The study will be carried out by examining the published reports of Government of India and other stakeholders and aims at reflecting upon the strategies and policies being pursued and implemented in the view of recent initiatives. The paper is expected to contribute to the ongoing debate on the issue of black money and help develop a broad consensus regarding the future course of action to address it.

Keywords: Black money, black money generation, black money accumulation, unaccounted monies

I. INTRODUCTION

As such there is no uniform definition of black money in the literature or in any theory of economics, in fact there are black money is known by several other similar connotations such as unaccounted money, dirty money, underground wealth, black wealth, shadow economy, underground or unofficial economy.But all these terms in vogue , generally refer to any income on which the taxes imposed by government or public authorities have not been paid. As per the definition given in the white paper of Ministry of finance published in 2012, Black money can be termed as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.

In its 1985 Report on Aspects of Black Money, the National Institute of Public Finance and Policy defined Black income as the

"the aggregates of incomes which are taxable but not reported to the tax authorities'. Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives."

Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:

- To evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- To evade payment of other statutory contributions;
- To evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or
- To evade compliance with other laws and administrative procedures.

After aggregating the different components of 'black' income the study quantified the extent of 'black' money for different years as shown in Table 1.

Table 1 NIPFP Estimate of Black Money in India 1975-1983

Year	**Estimate for Black Money (` in crores)**	**Percent of GDP**
1975-76	9,958 to 11,870	15 to 18
1980-81	20,362 to 23,678	18 to 21
1983-84	31,584 to 36,784	19 to 21
2012	>10,00,000	10

Source: National Institute for Public Finance and Policy

A Business Standard report in January, 2013 estimated it at 30 percent of GDP, or INR 28 lakh crore. A report by NIPFP in December 2012, estimated black money at above INR 10 lakh crore or 10 percent of the GDP..About a third of India's black money transactions are believed to be in Real Estate, followed by Manufacturing, and purchase of Jewellery and Consumer Goods.

The IT department detected undisclosed income worth INR 10,791.6 crore in search operations during FY14, and found unreported income of INR 90,390.7 crore in survey operations, the total figure of INR 1,01,181 crore from search and survey being more than double the figure arrived at in FY13. Seizure of Jewellery, fixed deposits and cash during the search operations was about INR 808 crore as the IT department executed 4,503 warrants and launched searches on 569 entities during this period. The number of search warrants in FY13 stood at 3,889.

1. **Objectives of the Study:**

This conceptual study has been undertaken keeping in mind the objectives of :

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i. Analysing the methods responsible for generating black money in India
ii. Examining the government's efforts in crusade against black money and
iii. Suggesting an appropriate legislative & institutional framework to tackle the issue.

II. RESEARCH METHODOLOGY

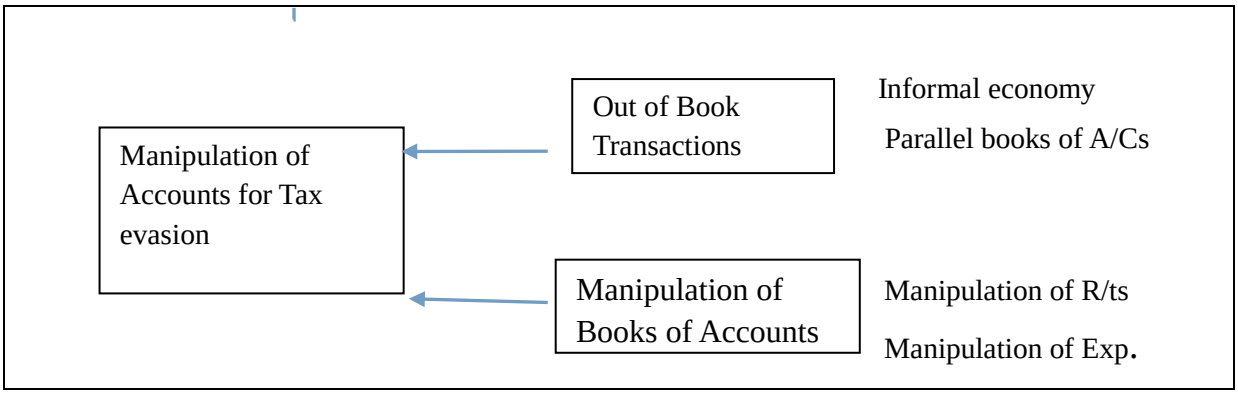
The study will be carried out by examining the published reports of Government of India and other stakeholders and aims at reflecting upon the strategies and policies being pursued and implemented in the view of recent initiatives. Many Government institutes have been asked to examine the issue of black money viz,(i)National Institute of Public Finance and Policy (NIPFP); ii) National Institute of Financial Management (NIFM); and iii) National Council of Applied Economic Research (NCAER) - to name a few. These institutes are required to submit their reports from time to time and the reports published by these institutes have been taken as the basis of conducting this research. Other white papers and Research papers on Black money have also been used as references for the purpose of conducting the study.

III. FINDINGS

Methods of Black Money Generation in India

Black money generation in India primarily takes place through two sources. The first source includes those activities which are not permitted by the law, such as crime, drug trade, terrorism and corruption. The second is through a legally permissible activity but not accounted for and/or reported to public authorities which may result in tax evasion. Tax evasion involves misreporting or non-reporting of the transactions in the books of account. The manipulation of financial statements results in the generation of unaccounted income that amounts to black money. Different kinds of manipulations of financial statements resulting in tax evasion and the generation of black money, and the likely sectors impacted, are summarized in the table below.

Table 2 Methods of Generating Black Money in India



Source:"White paper on Black Money", Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, May 2012

Manipulation of Financial Statements can take place through two different methods:

Out of Book Transactions: One of the most widely adopted methods of tax evasion, generally prevalent among the small shops, unskilled or semi-skilled service providers, etc. Transactions that may result in taxation of receipts or income are not entered in the books of account by the taxpayer who either does not maintain books of account or maintains two sets or records partial receipts only. This method is a likely source of generation of black money across Real Estate, Hotels, Consumer Markets, Retailers, Betting, etc.

Manipulation of Books of Account: In case of mandatory requirement to maintain books of accounts by taxpayers under different laws, manipulation of the books of accounts such as suppression or inflation of sales/receipts, manipulation of expenditure, capital, etc, is done to evade taxes. This method is a likely source of generation of black money across Real Estate, Hotels, Retailers and Consumer Markets.

Key sectors Impacted

Real Estate: The Real Estate sector in India constitutes for about 11 % of the GDP15 of Indian Economy, as these transactions involve high transaction value. In the year 2012-13, Real Estate sector has been considered as the highest parking space for black money. Due to rising prices of Real Estate, the taxes applicable on Real Estate transactions in the form of stamp duty and capital gains tax may result into tax evasion through under-reporting of transaction price. This leads to both generation and absorption of black money. The buyer has the option of using his black money by paying cash in addition to the documented sale consideration. This also leads to generation of black money in the hands of the recipient.

On indirect tax front, the State Governments levy Value Added Tax (VAT) at varying rates and Stamp duty @ 5% or more whereas the Central Government levies Service tax in the range of 3-5% Service tax. The incidence of multiple taxation provides the incentive to under report/under value the transactions. The cash generated is also absorbed by various avenues. Generally, the sub-contractors are usually hired for the job of painting or civil construction, etc. and are generally not registered with the Service tax or VAT Department. Therefore, the Real Estate seller finds it easier to dispense its black money in paying such sub-contractors in cash.Between January and June 2012, 30 percent of total transactions in the property sector in the country were executed using black money, according to consultancy firm Liases Foras. 80 Real Estate players were identified with INR 2,250 crore of unaccounted money in FY10, compared to 123 Real Estate groups with INR 1,950 crore of black money in FY09.

Jewellery: India is one of the leading gold markets in the world and holds over 18,000 tonnes of above ground gold stocks, worth about 2/3rd of India's current GDP and represents 11 percent of global stock. Therefore, Bullion and Jewellery becomes a large segment for generation of black money. The black money holders invest in bullion and Jewellery to protect the value of their black money from inflationary depreciation. Cash sales in the gold and Jewellery trade gives the buyer an option to convert black money into gold and Jewellery, while it gives the trader the option of keeping his unaccounted wealth in the form of stock, not disclosed in the books or valued at less than market price.Nearly 70-80 % of the transactions involving Jewellery are made using cash (black money). Apart from unreported cash transactions that lead to black money, jewellers (specifically small jeweller) often sell ornaments that are made using adulterated gold. This practice also contributes to black money, as the jeweller typically does not report the full profit made by selling ornaments at premium rates

(when they were made using adulterated gold, which is cheaper).Undisclosed sale of gold, silver etc. results in escapement of applicable tax liabilities. Tax authorities have estimated purchases of gold bullion and Jewellery as the second-largest parking space for black money, next to Real Estate22. Currently, import of gold and silver attracts a customs duty at the rate of 10%. This sector is also subject to Excise duty and VAT liability payable at the time of their sales. In order to escape payment of customs duty at time of import, smuggling of gold, silver, etc. takes place that again requires payment in cash, which in turn is generated through the channels of unaccounted transactions.

Consumer Goods: The Fast Moving Consumer Goods (FMCG) sector deals in a variety of products, such as soft drinks, toiletries, toys, processed food and other consumable items. In general, these goods are sold over the counter to the ultimate consumers. This sector primarily attracts Excise duty at the time of their manufacture and VAT in the event of their subsequent sales at regular intervals. According to FICCI's study, counterfeit brands in India have resulted in a loss of over INR 16,546 Crores to the Exchequer in 2012-13. FMCG sector is most vulnerable to these counterfeiters, as the buyers are generally average household consumers, who are ignorant of such malpractices. These counterfeiters merely copy the packaging style of a renowned brand to increase the sale of their products. Since, these products are fake in nature, the counterfeiters do not register themselves under any of the tax laws. Even though these counterfeit products are merely copies of a branded product, its industry requires manpower, machinery and capital to manufacture these products along with other auxiliary services, such as transporters, job workers for packaging, etc. Since, the industry is not registered; it results in tax evasion of Excise Duty on manufacture and job work, Service tax on services such as transporters, VAT on sale of products.

Due to a chain of illegal transactions, the entire industry functions on black money. There is infusion, generation, investment and distribution of black money. Further, these counterfeiters are generally small manufacturers but are large in numbers. Hence, putting an end to such a practice again becomes a challenge for the Tax Departments and Government. Further, due to the region specific distribution of products, their existence also doesn't get highlighted at a larger scale, which again creates hindrance in their identification. FMCG sector largely functions with the unorganized sectors that are primarily dealing in cash such as grocery stores. Further, their customers are also large household consumers. Therefore, it is implied that the transactions with the end customers would be in cash, most of which would get unaccounted. This practice results in reduction in collection of duty and generation of black money. Further, the end customers are household consumers, who are not required to get registered under any of the tax laws or maintain any documentation for their purchases. Hence, cross-verification to confirm whether the entire sales have been booked becomes practically impossible. Purchase of consumer packed goods and consumer durables from the unorganized retail channels and small consumer goods shops, without a proper bill results in the generation of black money in the industry. About 80% of grocery transactions involve black money. This is due to the large amount of cash transactions which are not reported by owners due to the unorganized nature of the industry. In the absence of a bill, no local VAT is raised on the goods, and the transaction disappears from any accounting book.E-Commerce transactions are also becoming an important source of black money generation with the growth of online retailers in India. The Cash on Delivery payment option on the online transaction is fuelling the consumption of black money. About 50% of

e-commerce sales could be in black. This is because of the cash-on-delivery facility that is being offered on online shopping. Overall, about half (or nearly US$5-6 billion i.e. INR 300 – 350 billion) of the Indian consumer market revenue is unreported.

Hotels & Hospitality: The incidence of tax evasion in small and mid-sized hotels and restaurants/banquets is large. These institutions convince the customers to pay a part amount of the bill by way of cash, to save the applicable service and other related taxes on the transaction, thereby making some or whole of the transaction black income for them and untraceable for the tax authorities. Restaurant sector / outdoor catering service providers for marriage, parties primarily deal with preparation and serving of food as per the orders received from customers. These services / sector generally attract both VAT and Service tax.The customers are large in number and not registered under any law, being the general consumer. Lot of dealings are in cash. Therefore, provision of food and services without raising any invoice or accounting in the books is a common practice. In this way, the black money is easily utilised escaping the tax net.

Betting: Betting in sports is illegal in the country, and hence, creates a wide scope for black money generation. In India, only betting on horse racing, lotteries conducted by state governments and casinos in certain states are permissible.According to 2012 FICCI and KPMG report, betting in India is a INR3,00,000 crore market and if taxed at a rate of 20 percent, the exchequer can earn revenue of INR12,000 crore to INR19,000 crore every year Table 3.

Table 3 Estimated Betting Market in India

Betting market in India	Possible rate of tax	Possible revenue to the Government
INR3,00,000 crore	20% of the profits	INR12,000 crore to INR19,000 crore

Source: KPMG report on "Online Gaming: A Gamble or a Sure Bet", June, 2012

Cricket betting is widespread in the country and the government is losing a huge amount of tax revenue through money lost into the illegal gambling black-market. As there are no legitimate means on placing bets, hence, people resort to illegal channels such as bookies/bookmaker that facilitate gambling by setting odds, accepting and placing bets and paying out winnings on behalf of other people. The Indian Premier League (IPL) has been marred by betting and spot fixing scandals and involvement of huge amount of black money. As per news reports, some of the players are paid more than the payment slabs prescribed by the Board of Control for Cricket in India (BCCI), with certain amount paid through legitimate means and some in black. During the IPL 2013 season, in a sport fixing scam, several cricketers were arrested for accepting money from bookies to throw away matches.

Financial Market Transactions

Financial market transactions also involve black money. Black money generation can take place in Initial public offers (IPOs) through manipulations such as rigging of markets by market operators that can generate illegal money for the promoters or operators. This may involve use of shell companies and offshore companies or

investors in foreign tax jurisdictions who invest in shares offered by the IPO and through manipulated trading escalate their price artificially, only to offload them later at the cost of ordinary investors.

Non-profit Sector and Education

Misuse of the tax incentives available for indulging in charitable activities, and manipulations through entities claimed to be constituted for non-profit motive is among the sources of generation of black money in the non-profit sector. The Indian education system generates about INR 48,400 crore of black money every year. The major source of unaccounted money is the capitation fee used for getting admission to UG, PG, medical, engineering and other professional courses. IT authorities detected INR 288 crore of black money with educational institutes in FY10, a growth of 550 percent from FY09.

IV. PRESENT FRAMEWORK TO TACKLE BLACK MONEY

The White Paper, Ministry of Finance, 2012 describes the framework that the Government of India has employed to tackle black money as listed below. It is a five pronged strategy which involves:

(i) Joining the global crusade against black money,

(ii) Creating an appropriate legislative framework,

(iii) Setting up institutions for dealing with illicit money,

(iv) Developing systems for implementation, and

(v) Imparting skills to personnel for effective action.

The Government has also stressed the need for any long term strategy to be based on public acceptance, political consensus and the commitment to implement it. The proposed strategy to curb black money generation from legitimate activities is based on four pillars:

• Reducing disincentives against voluntary compliance – this involve measures like rationalization of tax rates and reducing transaction costs by provision of electronic and internet-based services to pay tax.

• Reforms in sectors vulnerable to generation of black money – the present government has introduced various policy initiatives to prevent black money generation in certain vulnerable sectors of the economy such as Real estate & jewellery.

• Creation of effective credible deterrence –policies should create enough disincentives for black money generation for instance, the introduction of the Goods and Service Tax (GST) will be an important step in this process.

• Supportive measures – some of the measures followed include creating public awareness and public support, enhancing the accountability of auditors and participating in international efforts.

V. PRESENT ADMINISTRATIVE SYSTEM OF GOVERNMENT TO TACKLE BLACK MONEY TRANSACTIONS

With black money generation rampant across various sectors of the economy, the government has set up various

administrative agencies to tackle its generation, the principal agencies being the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC).

Central Board of Direct Taxes: The CBDT and the I-T Department use tools of scrutiny assessment and information-based investigations for detecting tax evasion.

The Investigation Wing of the I-T Department carries out surveys to collect evidence of tax evasion. The department receives data relating to cash transactions in bank accounts, registered immovable property below the circle rate, and capital market transactions in the form of Annual Information Returns (AIR), which is analyzed to identify cases of tax evasion. An Integrated Taxpayer Data Management System (ITDMS) is used for analyzing data gathered from AIRs, permanent account number (PAN) database, I-T Department (ITD) applications, to unearth illegal transactions.

Central Board of Excise and Customs: CBEC, including Commissionerates of Customs, Central Excise and Service Tax; Directorate of Revenue Intelligence (DRI); Directorate General of Central Excise Intelligence (DGCEI), etc., are all engaged in the administration of matters relating to Customs, Central Excise, Service Tax.DGCEI is responsible for detecting cases of evasion of Central Excise and Service Tax. The Directorate develops intelligence, especially in new areas of tax evasion through its intelligence network across the country and disseminates information in this respect by issuing Modus Operandi Circulars and Alert Circulars to apprise field formations of the latest trends in duty evasion. Wherever necessary, DGCEI on its own, or in coordination with field formations, organizes operations to unearth evasion of Central Excise Duty and Service Tax. DRI is responsible for handling matters relating to violations of customs laws and anti-narcotics law. Other regulatory agencies undertaking supervision include the Directorate of Enforcement (ED); Financial Intelligence Unit (FIU-IND); Economic Offences Wing of the State Police, Central Bureau of Investigation (CBI), Serious Frauds Investigation Office (SFIO), and Narcotics Control Bureau (NCB). Additionally, there are co-ordinating agencies such as the Central Economic Intelligence Bureau (CEIB), National Investigation Agency (NIA), and the High Level Committee (HLC), which also play an important role in fighting the menace of black money. Central Vigilance Commission (CVC) is the principal Central Government anti-corruption watchdog; with anti-corruption units of the Central Bureau of Investigation (CBI) as its principal implementing arm. The Comptroller and Auditor General of India (CAG) also provides oversight for the Central Government and central PSUs, while the State Auditor General (AG) oversees the state government and its organizations. CAG established by the Constitution of India under Chapter V, audits all receipts and expenditure of the central and state governments, including those of bodies and authorities substantially financed by the government. Of late, the role of CAG has come in the limelight as a result of its audit reports on the 2010 Commonwealth Games and allocation of licenses for 2G telecom spectrum and coal mining blocks.

The newly formed government has also constituted a Special Investigation Team (SIT) for unearthing black money. In its efforts to track black money in the economy, the I-T department is gradually moving from regular search and survey operations to non-intrusive methods of data mining through electronic databases and information available through electronic portals of banking and other financial intermediaries. The department has also developed cyber forensics labs and various software tools for tracking black money.

Integrated Taxpayer Data Management System: The ITDMS is a data mining tool implemented by the I-T

department that is used for detection of potential cases of tax evasion. The tool assists in generating a 360-degree profile of the high net-worth assesses by compiling information from all internal and external data sources such as AIR, TDS, and the Central Information Branch.

It has an identity search tool, 'PrimeMatch' that can handle possible variations in identification parameters such as name, address and date of birth while dealing with large data volumes. In case of an individual, the family tree of the person is also created by relating the names and addresses, and also links the information to all the related entities in which a person being investigated has interest as a partner or director. The government has implemented the tool in all 20 Directorate General of Income Tax (Investigation).

VI. CONCLUSION

The existing legal and administrative framework to deal with black money has proved to be largely ineffective, resulting in significant amounts of illicit money not being reported, or even detected. Historically, polices that have been established to curb accrual of black money have not been enforced by the agencies. In addition, systems and processes in place have been circumvented, rendering them unproductive or even obsolete in most scenarios.Lack of effective data mining tools (used by the government) that can analyze possible cases of non-disclosure or tax evasion, is another factor acting as an impediment to reporting illegal money. For instance, the government does not have a robust database which contains information from all agencies and departments on monetary transactions and wealth generation.Further, a large part of the Indian economy is unorganized and involves heavy use of cash transactions, which do not leave audit trails. The efforts aimed at regulating and controlling cash transactions have been in vain, largely due to a significant segment of the population being poor and hence deal in cash, particularly in rural parts of the country. Non-usage of mainstream banking channels (credit and debit cards and other instruments) for transactions hinders the tracking of illegal money exchange. It has also been argued that auditors lack accountability when assessing income and reporting discrepancies. This effectively prevents the tracing of black money at source.

VII. SUGGESTIONS

Key suggestions which can be effective in detection of tax evasion and tackling of black money menace are:

Standardization of Data and Reporting Formats

The way data is captured and recorded today, across departments and across states is different. We need to define metadata standards for most of the common elements like entity, person, taxpayer, invoice etc. Also all the reporting formats should be common and standardized. This will go a long way in matching data from different sources, as most businesses operate across multiple geographies, and report to multiple departments. Also consumption data on various counts like raw material, labour cost, payments to service providers, electricity cost etc. can be used to understand the actual income and profitability of a business.

Electronic Book Keeping

All business activities of financial nature should be appropriately recorded and book keeping should be standardized across professions including service sectors like doctors, lawyers, etc. An environment should be developed in the country wherein various accounting software vendors like Tally, SAP, Oracle and other smaller players use these standards and get certified by some central authority. Also, there is a need to develop a low cost IT system which may be enabled through cloud computing for small businesses for use. This may be subsidized or enabled by government. Further to this, government should make enough provisions that all businesses must mandatorily use a certified software or online system for book keeping, and there should be enough controls in the systems that the reports and forms generated from these tools cannot be manually manipulated. All forms and reports which are required for compliance should get automatically generated by the accounting software without a need for any manual intervention.

Cross seeding of unique Identifiers like PAN, CIN, VAT number

Different revenue departments should use a common identifier for identifying an entity or taxpayer. Currently each department issues a separate unique identifier like PAN by Income Tax, VAT or Sales Tax registration number by Sales Tax department, CIN number by MCA. As of today there is no mechanism to link these. These numbers should be cross seeded across different departments so that they could link and aggregate the data and information.

Book Keeping of public projects through a common central IT system

The government of any country is typically also the largest employer and procurer of goods and services. We need to ensure transparency in public procurement, and their execution. There is a need to develop a central book keeping system to record all financial activities for all public projects. All goods and services procured should be recorded on the central system and all invoices generated. Transaction level data recorded in this system would be very helpful to identify cases of tax evasion and generation of black money.

Dematerialization of land records and property (commercial/residential/others)

Property is one of the largest generator and consumer of black money in the country. The Finance Act, 2013 introduced withholding tax provisions (Section 194-1A) with respect to transfer of immovable property. The transferee is responsible to deduct 1% tax while making payment or while crediting the sum to the account of the transferor in the books of accounts. These provisions may generate some data on immovable property related transactions, however; the same may not be sufficient. All land records and property should be dematerialized in a similar way as company shares. The same system may also be used to record all buy-sell transactions. This would help clearly establish ownership of all real estate available in the country and if required this information can be subtly made public in the form of property index.

Centralize documentation generation and reporting for exports and imports including banking transactions

All export and import of goods and services involves cross border transactions and is often used as channel for moving black money out of the country. All documentation that is required should be generated/ reported at a central system including the transfer of money across banking channels. Appropriate codification of goods and services along with some intelligence can help identify fake/ dubious transactions.

Creating IT Infrastructure to track tax evasion

It is imperative that a platform is created to consolidate information pertaining to different streams of taxes i.e., Income tax, Service tax, Sales tax, Excise duty, etc., by using common means such as PAN of an assessee, etc. By using this platform as a tool, a tax officer can cross verify the information available with any other streams of tax. For e.g., identification of those assessees who are showing substantial service income in their income tax returns but are not registered with the Service tax department or are showing lesser service income in their Service tax returns. An example of successfully deploying IT infrastructure effectively is the State of Maharashtra. Due to improved IT infrastructure, the Maharashtra VAT department has been able to identify the dealers that merely existed on paper and were only issuing fictitious invoice (also known as Hawala Dealers). The customers were claiming credit on the strength of such fictitious invoice and utilised to discharge their tax dues. The State department cross verified the sales submitted by such Hawala Dealers against the corresponding information of purchases shown by the other dealers. This has been made possible due to recent development in IT Infrastructure by the Maharashtra VAT department. However, such facility is not available in all the States across India. Hence, there is an urgent need for implementation of such systems across all the States in India and the information is not only freely shared within the VAT departments but interchangeably with other departments such as Excise, Service tax etc. In this way, a works contractor, whose transaction is taxable under both the levies i.e., VAT and Service tax, can be tracked down without much difficulty.

Control on Cash Economy

Cash plays an important role in generation of black money. It has always been a facilitator of black money since transactions made in cash do not leave any audit trail. Most of the economically backward sections of the society deal in cash, particularly in the rural sector, and accordingly payments on account of labour wages or those made to rural artisans and institutions need to be made in cash. Further, the costs of transaction imposed by any regulations are likely to spread across the economy and affect both consumers and producers, thereby leading to resistance and lack of support for such a move. However, given the primary importance of cash in relation to both generation and use of black money, there is no alternative but to target cash transactions in a way that will not affect those complying with the law, while making it difficult for those intending to generate and utilise black money.It is necessary to limit high transaction and exempting those with a reasonable audit trail at either end of the transactions. Further, work needs to be done in this regard in future by way of legal curbs and regulations, that can restrict the generation and flow of black money within the economy. Another important measure in this regard could be the promotion of banking channels including use of credit and debit cards, since they leave adequate audit trails and hence disincentivise black money generation. With electronic transfer facilities being available to trade, one can foresee this as one of the major thrusts towards strengthening accountability and discouraging unaccounted activities. It is imperative that payment of wages and salaries in the private sector should also be through banking channels and should become cashless, in line with the government objective of financial inclusion. Government can also deliberate in providing tax incentives for use of credit/debit cards as practised in Republic of Korea.

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