CHASING BLACK MONEY IN INDIA

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The paper gives a history of the various measures taken by the Government of India to mop up black money since 1946 such as demonetisation, voluntary disclosure schemes, and bearer bonds. Certain other measures have also been taken in the various central budgets particularly since 1974 to check tax evasion and avoidance and generation of black money. Because of failure of earlier amnesty schemes and improper implementation of budgetary measures, three more amnesty schemes were launched in 1991. These had no more than a marginal impact on the problem of black money. On the other hand they discriminate against honest tax payers, reward tax evaders and black money operators with various concessions and immunities and, in the process, demoralise the taxation authorities. More importantly, they do little to curb generation of black money; in fact, to the extent black money sooner or later gets adequately rewarded, they encourage generation of and transactions in black money. It is a case of living with the devil. Recent liberalisation policies which are trying to reduce controls, licences, and bureaucracy may reduce to some extent corruption, hush money, and bribing prevalent in many important Government departments. But, Government cannot function without levying some taxes and duties and their avoidance and evasion cause generation of black money. In the circumstance, there appears to be no alternative to direct action against black money holder through presumptive tax and raids.

The Indian economy has a dual nature. There is a formal and an informal but legal economy, functioning on the basis of the official monetary system involving open transactions financed through identifiable sources of funds and operating in conformity with government rules and regulations. Side by side, an informal and illegal economy exists which operates outside the legal economy and the government's monetary, banking, and fiscal system. It involves a range of undisclosed deals and transactions. The money generated out of these clandestine and undisclosed deals and income is called black money. One may make a further distinction. The income which is legitimate but not disclosed in order to evade tax may be termed as 'grey money', while income earned in the illegal informal economy and which, of course is not disclosed, as pure 'black money'. In this paper, we have used the term 'black money' in the wider sense including both grey and black money, the common element being undisclosed income.

The illegal economy grows mainly due to (i) tax laws and (ii) restrictions on and regulation of certain activities of economic agents. Of course, even if there were no such restrictions and regulations, tax laws would create an illegal economy with prospective taxpayers evading payment of taxes. In recent times, large-scale evasion of income, excise, and sales taxes has created a large volume of black money which is circulating in an ever expanding illegal informal economy. Evasion of income tax may create an illegal informal market in services. Similarly, evasion of excise, sales tax, and custom duties are likely to create an illegal informal market in commodities. An illegal informal market in commodities is also created as a result of price control and other restrictions. Black money is generated in this illegal informal market and the unaccounted incomes therefrom, in turn, are used for further transactions in the illegal informal market.

Illegal informal market and black money are naturally connected. An illegal informal market may develop, besides through evasion and avoidance of tax laws and other regulations, out of scarcity, shortage, hoarding, illegal production, illegitimate speculation, smuggling, and so on. As the illegal informal market proliferates, the volume of black money in the economy expands. But this remains largely outside the network of the tax authority. Black money, in a broader sense, denotes unaccounted currency which is either hoarded or is in circulation in clandestine dealings, as well as its investment in gold, jewellery, precious stones, land, buildings and investments made secretly over and above the reported income.

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By its very nature, it is difficult to quantify tax evasion. An estimate was made in 1956 by Nicholas Kaldor. According to him, the income-tax loss through tax evasion was of the order of Rs 200 to Rs 300 crore in 1953-54. As against this, the Central Board of Revenue, as it then was, expressed the opinion that tax evaded in the year 1953-54 could not have exceeded Rs 20-30 crore. The Direct Taxes Administration Enquiry Committee (1958-59) also considered the extent of tax evasion in the country and observed that the quantum of tax evasion, though undoubtedly high, was not of the magnitude indicated by Kaldor. On the basis of some data for 1961-62 obtained from the Directorate of Inspection (Research, Statistics and Publications), adopting the Kaldor method with suitable modifications, the Direct Taxes Enquiry Committee (1971) concluded that the assessable non-salary income and the actually assessed non-salary income for the financial year 1961-62 were Rs 2,686 crore and Rs 1,875 crore respectively so that the income which escaped tax for that year would be of the order of Rs 811 crore. A comparable estimate of assessable non-salary income for the financial year 1965-66 was Rs 4,027 crore and, assuming that the evasion was at the same rate as in 1961-62, the Committee estimated evaded income for 1965-66 at Rs 1,216 crore. The Committee expressed some reservations on these estimates and, after making rough adjustments on the basis of information available, income on which tax was evaded was estimated at around Rs 700 crore and Rs 1,000 crore for the years 1961-62 and 1965-66, respectively. Further, on the basis of increase in national income from 1961-62 to 1968-69, tax-evaded income for 1968-69 was estimated at about Rs 1,400 crore. Assuming that rate of tax evasion would be at least one-third of the tax-evaded income, income-tax evaded during 1968-69 was estimated at Rs 470 crore [Wanchoo, 1971, paras 2.15-2.18]. According to the estimate of National Institute of Public Finance and Policy, tax evaded income, in 1980-81, ranged between Rs 4,839 crore and Rs 9,813 crore [Acharya *et. al.*, 1986, p. 133]. Income tax evasion may be taken at around one-third of the tax evaded income.

Though it is difficult to estimate the exact volume of black money, it is clear that the volume of black money and the proportion of national output entering into the illegal informal economy has tended to increase. This has several adverse effects.[1] Government controls and other economic measures including the credit policy of the Reserve Bank of India becomes ineffective owing to the ever expanding illegal informal market and a surge of black money. There is undesirable diversion of resources from essential and useful investment in the formal economy to non-essential investment and production in illegal informal economy. The generation of black money particularly from smuggling has an adverse effect on the external value of the Indian Rupee. The use of black money on conspicuous consumption creates social tensions between black money holders and honest taxpayers.

Hence, it is necessary to prevent illegitimate income generating activities and to stop generation of black money. In March 1970, the Government of India appointed a committee (Direct Taxes Enquiry Committee) whose very first term of reference was to (a) recommend concrete and effective measures (i) to unearth black money and prevent its proliferation through further evasion; (ii) to check avoidance of tax through various legal devices, including the formation of trusts; and (iii) to reduce tax arrears [Wanchoo, 1971, p. 1].

Direct Taxes Enquiry Committee (DTEC) suggested a number of measures to mop up black money as well as to check its generation. Some of the important suggestions made were demonetisation in the interim report and scaling down of the marginal rate of income tax in the final report. Voluntary disclosure scheme and issue of bearer bonds were considered but not favoured. However, M. P. Chitale, one of the Members of DTEC, suggested the issue of bearer bonds in his minute of dissent [Wanchoo, 1971, Pp. 209-230]. Various other measures have also been suggested from time to time. In this paper we will examine the steps taken by the Government of India to mop up black money (Table 1) as well as to check generation of black money through budgetary measures (Table 2).

TABLE 1. MEASURES TO MOP UP BLACK MONEY

Years	Measures Taken
1946	Demonetisation
1951	Voluntary Disclosure Scheme (VDS)
1965	i) VDS (60-40 Scheme)
	ii) VDS (Block Scheme)
1975	Voluntary Disclosure Scheme
1978	Demonetisation
1981	Special Bearer Bond
1985	VDS (Executive fiats)
1986	Indira Vikas Patra
1991	i) Voluntary Deposit Scheme of NHB
	ii) Foreign Exchange Remittance Scheme
	iii) India Development Bond of SBI
	iv) Liberalisation

TABLE 2. BUDGETARY MEASURES TO CHECK GENERATION OF BLACK MONEY

Central Budget year	Measures Taken/Suggested
1974-75	Reduction of marginal rate of Income Tax from 97.75 to 77 per cent
1976-77	Reduction of marginal rate of IT from 77 to 66 per cent
1981-82	Finance Minister's observation on menace of black money, viz. inflation in his Budget Speech
1984-85	i) Reduction of marginal rate of IT from 67.5 to 61.9 per cent
	ii) Audit of accounts of tax payers
	iii) Account payee cheque/draft in case of deposits/loans
1985-86	i) Reduction of effective marginal rate of tax from 61.9 to 50.0 per cent
	ii) Reform in personal Income Tax
	iii) Change in tax laws relating to penalties and association of persons
1987-88	Tax on hotel expenditure
1988-89	Assessment of income of persons engaged in certain trades
1990-91	i) Donee-based gift tax
	ii) Abolition of Gold Control Act
1991-92	i) Tax deduction at source on the interest on Bank's time deposits, Commission, etc.
	ii) Announcement of three Schemes

STEPS TO MOP UP BLACK MONEY

Demonetisation : 1946

Hundred rupee currency notes were demonetised by the Government of India with immediate effect in 1946. A time limit was fixed for exchange of demonetised notes by genuine holders at the Reserve Bank of India or its agencies on the basis of their declarations. Their declarations and explanations regarding the source of earnings and others were investigated carefully. The exchange was not permitted if the explanation of the source of income was not satisfactory. But this caused great difficulties to people. It did not also produce impressive results. At that time, total notes of the value of Rs 1,235.93 crore were in circulation of which hundred rupee currency notes of the value of Rs 143.97 crore were demonetised. In fact, only Rs 9 crore worth of hundred rupee currency notes were immobilised.

Voluntary Disclosure Schemes

A number of Voluntary Disclosure Schemes were announced from time to time (Table 3). In the following, we shall review them briefly.

TABLE 3. VOLUNTARY DISCLOSURE SCHEMES: AMOUNT DISCLOSED AND TAX COLLECTED

(Rs Crore)

Year	Amount Disclosed	Tax collected
1951	70.20	10.89
1965-I	52.18	30.80
1965-II	145.00	19.45
1975	1,578.00	248.70
1985	10,778.00	459.00
1991 Voluntary Deposit Scheme of NHB	24.00*	-

* up to 30th November 1991.

1951: A voluntary disclosure scheme was first announced in 1951. Under this scheme, the tax law was relaxed to persuade tax evaders to come forth and disclose their unaccounted incomes. A total amount of Rs 70.20 crore was disclosed in 20,912 cases. Additional tax collected was Rs 10.89 crore.

1965: Two schemes of voluntary disclosure were announced in 1965. The first scheme was implemented under Section 68 of the Finance Act of 1965. It was also known as '60-40 scheme'. Under the scheme, the tax evader who disclosed his unaccounted income paid 60 per cent of the disclosed income in the form of taxes and the rest 40 per cent was accounted into the books. The total amount of income disclosed was Rs 52.18 crore and tax realised was Rs 30.80 crore.

The second scheme, known as 'block scheme', was under Section 24 of the Finance Act, 1965 (No. 2). Under this scheme, instead of a flat rate of 60 per cent, different tax rates were determined on the basis of the blocks of unaccounted income disclosed. The total amount disclosed was Rs 145.00 crore and tax realised was Rs 19.45 crore. Thus, under the two Voluntary Disclosure Schemes (VDS) of 1965, around Rs 197 crore of concealed income was disclosed and about Rs 50 crore of tax collected. DTEC criticised these schemes because they favoured the fraudulent and dishonest persons at the cost of honest and law-abiding tax payers [Wanchoo, 1971, Pp. 12-13].

1975: In spite of DTEC's criticism, Voluntary Disclosure of Income and Wealth Ordinance, 1975 was promulgated on October 8, 1975. The aim of the 1975 scheme was to bring about voluntary disclosure of unaccounted income and wealth as well as undervalued assets. Three months time was given for declaring unaccounted income and wealth under any of the following three categories: (i) income for which a person failed to file a return under the Income Tax Act; (ii) income which a person failed to disclose in a return of income filed before October 8, 1975; and (iii) income which escaped assessment in any assessment made by the income tax department. The scheme envisaged a special rate of tax on a slab basis ranging from 25 to 60 per cent at different levels of disclosed incomes. They were treated as a separate block irrespective of the years in which they were earned. In the case of companies the rate was a uniform 60 per cent. In addition, the person concerned was required to invest 5 per cent of the disclosed income in notified government securities. There was no penalty and no wealth tax was payable on the disclosed income and wealth.

The benefits of the scheme were not available to smugglers and foreign exchange racketeers who had been detained, or to whom detention orders had been issued, under the Conservation of Foreign Exchange and Prevention of Smuggling Act, 1974. No person could file his regular income-tax return during this period and hide a portion of his income and then declare it at a later stage to get the advantage of concessional tax rates.

In some respect, VDS of 1975 was different from the earlier VDS. Thus, while VDS of 1975 covered concealed wealth, the earlier VDS did not do so. The VDS of 1975 did not allow income already detected while the VDS of 1965 did so. Under the VDS of 1965, a period of six months was allowed for the final tax payment; under the VDS of 1975, a period of 15 months was given.

Around Rs 1,578.00 crore of unaccounted income and wealth came to light in 1975 under the VDS and it brought an estimated Rs 248.70

crore into the tax net (Table 3). Subscription to notified government securities under the VDS amounted to Rs 39.50 crore in 1975-76. The scheme was a success beyond expectation due to various factors like low income tax liability in comparison to normal tax rates, additional concessions, immunities under other Acts, etc., but mainly due to fear psychology during the internal emergency then declared. The scheme helped the Income Tax Department to keep on records at least some of the sources from where black money originated and where it flowed. But all the voluntary disclosure schemes have only marginal impact on the black money problem. On the other hand, tax evaders are rewarded with concessional treatment. Moreover, a majority of the individuals who took advantage of the scheme belonged to the middle income group and the amount declared averaged around Rs 25,000. Declaration by individuals of amount over Rs one lakh constituted only 1.4 per cent of the total, accounted for 15.8 per cent of the amount collected and 26.8 per cent of the tax revenue realised.

1985: The Voluntary Disclosure Scheme of 1985 was sanctioned by a series of executive instructions. The scheme allowed a blanket waiver of interest on arrears and provided for a liberal spread of income for back periods up to 16 years. Further, there was no compulsion to disclose actual sources of income disclosed under 'other sources'. The scheme enabled a number of tax payers to convert their black money into white by paying a small amount as conscience money. Since the scheme was by executive fiats, it was not properly understood by both tax payers and the tax authority. A number of disclosures were of cases already detected. It was also used to avoid tax through declaration by women, minors, and benamis. Moreover, the declarations under VDS of 1985 overlapped with those under VDS of 1975. Rs 10,778.00 crore of unaccounted income was disclosed and resulted in additional revenue of Rs 459.00 crore which is equivalent to only 4.25 per cent of tax on the disclosed income. But the penalty worth of Rs 471.00 crore was waived [Prabhu, 1990].

The floating of voluntary disclosure schemes one after another since 1951 has created a class of tax evaders who are confidently concealing their income and wealth to take advantage of voluntary disclosure schemes at intervals so as to pay income tax at a rate lower than the normal rate. The Comptroller and Auditor General of India (CAG), in his latest Report on VDS refers to these habitual offenders and tax dodgers laundering large amounts of black money at a nominal cost[2] [CAG, 1990].

Demonetisation: 1978

On the night of January 16, 1978, Government withdrew from circulation currency notes of denomination of Rs 1,000 and above. Banks were asked immediately to prepare statements of all currency notes of Rs 1,000, Rs 5,000 and Rs 10,000 in their possession. Persons holding such notes could exchange them before January 19, 1978, at the designated branches of the Reserve Bank of India and other Public Sector banks provided they disclosed the source, the time and the manner of acquisition along with a proper attestation of identity. If for some reason an individual could not apply for exchange of high denomination notes by January 19, 1978 he could do so by January 24, 1978 to the Reserve Bank of India, together with a satisfactory explanation of the reasons for not applying within the earlier time limit.

Demonetisation in 1978 was better implemented than in 1946. The value of these high denomination notes in circulation on January 17, 1978 was estimated at about Rs 180 crore. Of these, notes worth Rs 20 crore were immobilised. But, most holders of high denomination notes did not turn up at bank branches to exchange them. They sold them to others who could present them at the bank with less suspicion. An estimated Rs 20 crore worth of high denomination currency notes were so exchanged at discount for small denomination notes. The element of intended surprise and secrecy was also not well maintained and thousand rupee notes were already out of circulation one week before the demonetisation. Reportedly large amounts of high denomination notes were sent to the Gulf countries especially to Dubai and Kuwait a few days before the Ordinance was announced. In due course, they were presented to the Reserve Bank of India

through official channels of the middle-east based foreign banks that had connection with such operations [Venugopal, 1978].

In spite of these limitations, the demonetisation served some useful though limited purpose. First, it brought out into open, cash circulating in the illegal informal economy. Second, the step gave an effective blow to the political use of unaccounted money at that time. Third, the declaration made during the exchange of demonetised notes gave tax officials clue for further investigation. But frequent demonetisation of currency notes does not help; people with black money in high denomination notes convert them in time into smaller denomination notes.

Special Bearer Bonds : 1981

In January 1981, Government issued an Ordinance on the Special Bearer Bond Scheme and on February 2, 1981, issued at par, Special Bearer Bonds of the face value of Rs 10,000. The Bonds were on sale from February 2 to April 30, 1981 and again from December 1, 1981 to January 9, 1982. There was no limit on the investment in these bonds and no questions asked about the source of money from which the bonds were acquired. They carried an interest of 2 per cent per annum, had a maturity period of 10 years, and enjoyed full immunity from wealth, capital gains and gift taxes. Premium payable on the redemption of the bonds was free from income tax. There was facility for bank advances against them as collateral security. In fact, they were freely transferable and ran parallel to the official currency. Allowing tax payers to bring the sale proceeds without any evidence about the initial purchase and resale resulted in multiple sales during the life of each bond thereby helping to continue tax evasion. Thus, though the Bonds ostensibly were to unearth black money, they became an instrument for further transaction in black money, since they were exchanged at a premium. The Union Finance Minister in his 1990-91 budget speech admitted as much.

The collection during 1980-81 amounted to Rs 88.67 crore and during 1981-82 to Rs 875.59 crore [Government of India, Budget Papers]. On maturity of the bonds, around Rs 107.00 crore in 1990-91 and Rs 1,051 crore in 1991-92 were paid towards principal and interest. An important reason for the poor response in the first year was that the Ordinance was challenged in the Supreme Court by R.K. Karanjia, the Editor of Blitz. In his affidavit, he pointed out that the real intention was to help a special category of holders of black money, men in high positions and using government powers for personal enrichment and reaping rich harvests of bribes, pay-off, and kickbacks in national and international sales and purchases constituting a sizeable part of both civil and defence budget. He argued that the scheme violated the very concept of economic, social, and moral justice and discriminated against honest tax payers and favoured black money holders. The Scheme was also referred to the Supreme Court for clarification and the Court ruled in favour of the Government.

Indira Vikas Patra: 1986

Indira Vikas Patra (IVP) is a kind of bearer bond. The IVP scheme was introduced on November 19, 1986 ostensibly to raise resources and mop up excess liquidity in the economy but in reality to mobilise black money into the postal saving scheme; though the Government of India had specifically declared earlier that it would not renew the bearer bond scheme. The scheme is operative for five years. Indira Vikas Patra is a post-dated currency since it is cash for the bearer of the bond at the expiry of five years from the date of issue. The maturity value of the IVP is twice the issue price. The IVP yields around 15 per cent of interest compounded over five years. No questions are asked at the time of purchase or at the time of encashment.

Most of the black money earned by way of bribes, smuggling, etc., might have been invested in the IVP. At the same time, many ordinary honest savers have diverted their resources from term deposits in commercial banks and Post Offices to the IVP. So, it is difficult to estimate

the exact amount of black money collected through the IVP. But the issue of the IVP had major impact in the market of financial assets [Ghosh, 1986, Pp. 2251-52]. Receipts and outstandings on account of IVP are shown in Table 4. Government is contemplating a policy designed to induce IVP investors to reinvest the maturity value of the certificates. But, interest at 15 per cent per annum which was once attractive may not be so now because of double-digit inflationary trend.

TABLE 4. INDIRA VIKAS PATRA

(Rs crore)

Year	Receipts	Outstandings
1986-87	838	838
1987-88	1,011	1,848
1988-89	1,708	3,556
1989-90	2,685	6,241
1990-91	2,469	8,709

Source: *Reserve Bank of India Bulletin*, October 1981, December 1992 and May 1992.

BUDGETARY MEASURES TO CHECK GENERATION OF BLACK MONEY

Besides the particular steps taken for mopping up black money, certain measures were taken in various union budgets, particularly since 1974, to check generation of black money. According to the Direct Taxes Enquiry Committee (1971), the higher rates of direct taxes were mainly responsible for tax evasion because they made tax evasion profitable and attractive. For instance, the Committee argued: 'When the marginal rate of taxation is as high as 97.75 per cent, the net profit of concealment can be as much as 4,300 per cent of the after-tax income' [Wanchoo, 1971, para 2.20 (a)]. That is to say, rather than paying 97.75 per cent tax on 100 rupees earned in the top bracket and retaining only 2.25 rupees out of it, by concealing your income, you make a profit of 97.75/2.25 x 100 = 4344 per cent of the after-tax income. Hence the Committee recommended reduction in the rates of direct taxes. On the basis of the Committee's recommendation, the highest marginal rate of individual income tax was reduced from 97.75 per cent to 77 per cent in 1974-75 and further to 66 per cent in 1976-77 (Table 5).

TABLE 5. INCOME TAX RATES AND COLLECTION

Year	Maximum Marginal Rate of Individual Income Tax (Including Surcharge) (Per Cent)	Total Tax Collection (Rs Crore)	GDP at Factor Cost and Current Prices (Rs Crore)	Percentage of Tax Collection to GDP (Per Cent)
1973-74	97.7	745.00	56,954	1.31
1974-75	77.0	874.40	67,039	1.30
1975-76	77.0	1,214.40	71,201	1.71
1976-77	66.0	1,209.50	76,536	1.58
1977-78	69.0	1,002.02	87,351	1.15
1978-79	69.0	1,177.40	93,880	1.25
1979-80	72.0	1,340.30	102,442	1.31
1980-81	66.0	1,506.40	122,427	1.23
1981-82	66.0	1,475.50	143,216	1.03
1982-83	66.0	1,563.00	159,395	0.98
1983-84	67.5	1,699.10	186,723	0.91
1984-85	61.5	1,927.80	208,577	0.92
1985-86	50.0	2,509.30	233,476	1.07
1986-87	50.0	2,878.00	259,055	1.11
1987-88	52.5	3,187.00	294,266	1.08
1988-89	52.5	4,237.00	351,724	1.20
1989-90	54.0	5,004.00	401,569	1.25
1990-91 (RE)	54.0	5,560.00	472,599	1.18

Source: (i) For Income Tax: *Report on Currency and Finance, Vol. II*, Reserve Bank of India (Various issues)
(ii) For Gross Domestic Product (GDP): *National Account Statistics*, Central Statistical Organisation, Government of India.

Tax revenue increased from Rs 745 crore in 1973-74 to Rs 874 crore in 1974-75 which is an increase of about 17 percent. But in 1976-77, with a lower tax rate, the total tax collection was actually smaller despite the internal emergency. Moreover, reduction of marginal tax rates can at best minimise tax evasion, and hence generation of black money through this channel, but cannot bring into tax net money earned in illegal informal market because in any case it remains outside the tax net. It seems that the policy was never certain on this score. The maximum marginal rate of individual income tax was increased to 69 per cent in 1977-78 and further to 72 per cent in 1979-80. But it was again reduced to 66 per cent in 1980-81 and further to 50 per cent in 1985-86. In 1990-91, it was 54 per cent (Table 5).

1984-85 Budget

In 1984-85 budget, certain provisions in the Income Tax Act were made empowering the central government to acquire immovable property in a situation where the declared consideration for transfer of the property was less than the fair market value of the property. Other measures were: (i) audit of accounts of tax payers if their total sales in business was more than Rs 20 lakh or gross receipt from profession exceeded Rs 10 lakh; (ii) issuance of account payee cheques or account payee bank drafts being made mandatory in case of loans and deposits of Rs 10,000 or more, and (iii) debarring the real owner of any owner held benami from enforcing his claim in a court of law unless a notice in a prescribed form is given by him to Income Tax Commissioner within one year from the date of acquisition of property.

1985-86 Budget

The 1985-86 budget introduced some reforms in personal income tax to reduce tax evasion by effectively using administrative machinery such as (i) shifting tax assessment from routine examination of a very large number of returns to a thorough scrutiny of a sample of cases, (ii) ensuring swift and severe penalties in case of detection of tax evasion, (iii) removal of the provisions relating to grant of immunity from penal provisions in the case of those tax evaders who made disclosure only after the seizure, by the Income Tax Department, of incriminating books of accounts and assets in their possession, (iv) proposal to set up special courts to try tax evaders involved in criminal proceedings, and (v) plugging a lacuna in section 167 A of the Income Tax Act to check tax avoidance with the provision that an association of persons shall be charged to income tax at the maximum marginal rate if the individual shares of the members in even a part of its income were indeterminate or unknown.

1988-89 Budget

The 1988-89 budget proposed assessment of income of persons engaged in certain trades like liquor and forest contracts at a reasonably fixed percentage of amount payable by them while purchasing the goods. Tax was to be collected at source.

Though not as a part of the budget, on the basis of the recommendation on benami transaction made by the Law Commission in 1973, the Benami Transaction (Prohibition of the Right to Recover Property) Ordinance 1988 was promulgated. The Ordinance annuls all benami transaction in all kinds of immovable and movable property.

1990-91 Central Budget

In the 1990-91 budget a donee-based gift tax was introduced. In the past, gifts were taxed in the hands of the donor but there was no limit on the amount which a donee could show as having received by way of gifts and the mechanism of gift was used to launder black money. According to the new provision, any person who claims his assets or his expenditures as having been financed from gift is liable to a gift tax on a graduated scale. There is a basic exemption limit of Rs 20,000 per year. For gifts amounting to a total between Rs 20,000 and Rs 50,000, gift tax is levied at 20 per cent and thereafter at 40 per cent. Gifts received at the time of marriage are exempted from gift tax up to a limit of Rs 1 lakh. This would curb to some extent laundering of black money through gifts. But since gift received in foreign exchange

through official channels was exempted, it would not be fully effective to check laundering black money through havala market. Another step was abolition of the Gold Control Act which was introduced in 1963 to curb demand. Promises were also made to make changes in tax laws, revamp Economic Intelligence Bureau and to recast the Act on 'benami' transaction, in order to check tax evasion and black money operations. The Finance Minister also proposed to introduce time-bound incentive scheme with a suitable flat rate of tax without any query for unearthing black money and channelling it into desired direction for social purposes such as slum clearance, housing for low and middle income group, and agro-based industries in rural or backward areas. But the government fell and the scheme could not be introduced.

1991-92 Budget

The 1991-92 budget proposed to extend the scheme of tax deduction at source to cover new areas of payment in the nature of commission, interest paid on time deposits in banks and withdrawal from National Saving Scheme to identify income earners most of whom would not otherwise declare their income or would not declare their full income. In his budget speech, the Finance Minister announced three schemes to mop up black money. The schemes which were due to expire on November 20, 1991 were extended till January 31, 1992. The three schemes are:

Voluntary Deposit Scheme of National Housing Bank

In accordance with the announcement of the Finance Minister, the National Housing Bank announced its Voluntary Deposit Scheme. In essence, this was similar to the proposal made in 1990-91 budget. The scheme is being implemented through the Voluntary Deposits (Immunities and Exemptions) Act, 1991. Under this scheme, deposits are accepted in 855 branches of nine designated banks all over the country. The minimum deposit accepted is Rs 10,000 and thereafter in multiples of Rs 1,000. The account can be opened by any person, viz., an individual, Hindu Undivided Family, a company, a firm, an association of persons, or a body of individuals, whether incorporated or not, and persons not falling within any of the above categories. There is no limit on the number of deposits as well as the amount. A person can open more than one account and in more than one designated bank branches. Nomination facility is provided when the account is opened in the name of an individual. No questions are asked as to the source of the money. The deposits cannot be held as evidence in any proceedings or imposition of any penalty. No interest is paid on the deposits.

Forty per cent of the amount deposited is credited to a special fund of the National Housing Bank for slum clearance and low-cost housing for the poor. These are not refundable. Hence, in a sense, the depositor pays 40 per cent tax on total deposits. The depositors are allowed to draw the balance 60 per cent without having to comply with any lock-in period in one or more instalments through account payee cheques for any stated purpose of his choice. This part does not attract any income tax. The provisions of the Wealth Tax Act also do not apply from the assessment year 1991-92.

Foreign Exchange Remittance Scheme

Under this scheme, any person residing in India can receive remittance in foreign exchange from any person residing outside India[3]. The remittances are exempted from income tax, wealth tax, and gift tax, and are immune from exchange control regulation. The scheme also grants immunity in respect of disclosing the nature and source of remittance. However, any income by the persons on the remitted amount is subject to income tax.

The scheme was used to convert black money into foreign currency in the havala market and then receiving it as foreign currency remittance which in turn gets converted into white money at the official exchange rate when it is deposited in the Reserve Bank of India. The unofficial exchange rate in the havala market is generally 25-30 per cent higher than the official rate and this constitutes the cost of converting black

money into white. From the standpoint of government, it gets so much foreign exchange.

It will be noticed that the Foreign Exchange Remittance Scheme competes with the Voluntary Deposit Scheme of National Housing Bank (NHB) because the havala commission at about 30 per cent is less than the 40 per cent the National Housing Bank charges on its Voluntary Deposit Scheme. Hence, the NHB scheme was not much of a success; against the expectation of Rs 200 crore, only Rs 24 crore was collected under NHB scheme by 30th November, 1991. In comparison, through the Foreign Exchange Remittance Scheme, government collected around Rs 200 crore worth of foreign exchange by 20th October, 1991 [Economic Times, 1992]. Of course, this again is not a great success.

India Development Bond

On the basis of the announcement of the Union Finance Minister in his 1991-92 budget speech, State Bank of India launched India Development Bond for non-resident Indian (NRI) and their Overseas Corporate Bodies (OCB). The bond was initially opened for subscription from October 1, 1991, to November 30, 1991, and further extended up to January 31, 1992. Non-resident Indians and their OCBs are eligible to apply for the India Development Bond which do not have any upper ceiling. The bonds have a five-year maturity period and denominated in U. S. Dollar (later on, it is also denominated in Pound Sterling). It carries an interest of 9.5 per cent per annum.

So far, the India Development Bond is no more than an instrument for raising foreign currency loans. But they are made freely transferable not only among the NRIs and their OCBs but also among person resident in India. The bonds can be gifted by non-resident Indians to resident Indians who too are entitled to same amnesty and immunity including exchange rate protection until maturity though only the first resident donee of the gift is exempted from the gift tax. The bonds are free from income and wealth taxes for the entire five year period, irrespective of the residential status of the bond holder. These provisions make the bonds an instrument of laundering of black money through illegal havala market as is the Foreign Exchange Remittance Scheme.

To sum up all the Voluntary Disclosure Schemes, including the ones in 1991, have had only a marginal impact on the problem of black money. On the other hand they discriminate against honest tax payers and demoralise the taxation authorities, while rewarding tax evaders and black money operators with various concessions and immunities. More importantly, they do not curb generation of black money; in fact, to the extent black money sooner or later gets adequately rewarded, they encourage generation of and transactions in black money. It is a case of living with the devil. Recent liberalisation policies which are trying to reduce controls, licences, and bureaucracy may reduce to some extent corruption, hush money, and bribing prevalent in many important Government departments. But, Government cannot function without levying some taxes and duties. They provide the occasions for avoidance and evasion and hence generation of black money. There appears to be no alternative to direct action against black money holders through presumptive tax and raids.

NOTES

1. See Samal, [1981, 1984 and 1987].

2. The Comptroller and Auditor General of India (CAG) in its report has given a brief history of five Voluntary Disclosure Schemes by analysing the various reports of expert committees, public accounts committees and National Institute of Public Finance and Policy.

3. According to the clarification by a circular by the Finance Ministry on 25th October 1991 (The Economic Times, Calcutta, November 10, 1991); the permitted currencies are Australian dollar, Austrian schilling, Bahrain dinar, Belgian franc, Canadian dollar, Danish kroner, Deutsche Mark, French franc, Hongkong dollar, Italian lira, Japanese yen, Kuwait dinar, Malaysian vinggit, Netherlands guilder, Norwegian kroner, Pound sterling, Singapore dollar, Swedish kroner, Swiss franc and the U.S. dollar. Also permitted are any other currencies provided the authorised dealer is satisfied that (a) banks in the country of currency are freely permitted under the rule and regulation prevailing in that country to convert authorised dealer's balances in its currency into U.S. dollar, Pound sterling or any other currency mentioned in the above paragraph, (b) a fairly active market exists for dealings in the currency against any currency mentioned in the above paragraph. Instruments issued by overseas branches of Indian banks will also qualify for such immunities.

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