Report Summary

White Paper on Black Money

- The Finance Minister tabled the White Paper on Black Money (the Paper) in the Lok Sabha on May 21, 2012.
- According to the Paper, black money is a serious issue because it has a 'debilitating effect' on governance and public policy and this affects the poor disproportionately.
- The Paper defines black money 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'.
- Black money can be generated through (i) illegal activities like crime, drug trade, terrorism and corruption or (ii) failing to pay dues to the public exchequer in one form or another. In the second case, activities might be legal but the perpetrator may simply have failed to report the income generated to avoid paying tax.
- The Paper provides an overview of how manipulation of financial records and accounting techniques are used to generate black money.
- Certain sectors are highlighted as being more vulnerable to black money issues. These include land and real estate, bullion and jewelry, financial markets, public procurement, the non-profit sector, informal sector and cash economy.
- The Paper does not provide an estimate of the amount of black money currently generated in India. It cites a lack of uniformity, unanimity or consensus about the best approach to be used to measure black money.
- The Paper highlights the issue of Indian assets held abroad, particularly in Swiss banks. In 2010, liabilities in Swiss Banks towards India were Rs 7,924 crore and this was 0.13% of Swiss banks' total liabilities.
- The Paper describes the institutions currently in place responsible for dealing with black money issues. These include the Central Board of Direct Taxes (CBDT), the Enforcement Directorate (ED), the Financial Intelligence Unit (FIU-IND) and the Central Board of Excise and Customs (CBEC). The Central Economic Intelligence Bureau (CEIB), the National Investigation Agency (NIA), and the High Level Committee (HLC) act as coordinating agencies.
- The Paper also describes the framework the Government of India has employed to tackle black money. 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 Paper stresses the need for any long term strategy to be based on public acceptance, political consensus and the commitment to implement it.
- The Paper proposes a strategy to curb black money generation from legitimate activities based on four pillars:
  - **Reducing disincentives against voluntary compliance** – this could involve measures like rationalization of tax rates and reducing transaction costs by providing electronic and internet-based services to pay tax.
  - **Reforms in sectors vulnerable to generation of black money** – the Paper proposes various policy initiatives to prevent black money generation in certain vulnerable sectors of the economy. For instance, in the area of real estate, the Paper proposes deducting tax at source on payments made on real estate transactions. In the cash economy, the Paper recommends that the Government provide tax incentives for use of credit/debit cards.
  - **Creation of effective credible deterrence** –policies should create enough disincentives for black money generation. The Paper believes the introduction of the Goods and Service Tax (GST) will be an important step in this process. Other measures proposed include strengthening the direct tax administration, strengthening of the prosecution mechanism and enhancing exchange of information.
  - **Supportive measures** – some of the measures suggested by the Paper include creating public awareness and public support, enhancing the accountability of auditors and participating in international efforts. With regards to repatriation of money overseas, the Paper suggests a onetime partial benefit of immunity from prosecution for voluntary disclosure.

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