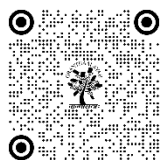


# TAX EVASION AND BLACK MONEY IN INDIA: CAUSES AND SOLUTIONS

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## ABSTRACT

This study explores the causes, extent, and impacts of tax evasion and black money in India, supported by statistical data and real-world case studies. It also critically examines the effectiveness of existing solutions and suggests policy reforms to address these deeply rooted economic and governance issues. Tax evasion and black money have been persistent and deeply entrenched challenges for the Indian economy, undermining fiscal stability, economic development, and social equity. Tax evasion refers to the illegal practice of deliberately avoiding the payment of taxes through concealment of income, manipulation of accounts, or exploitation of legal loopholes. Black money, on the other hand, denotes income that is undisclosed to tax authorities, often generated through unreported legitimate earnings or illegal activities such as corruption, smuggling, and bribery. Together, these phenomena erode government revenues, fuel inflation, distort investment patterns, and widen income inequalities.

The causes of tax evasion and black money generation in India are multifaceted. They include high tax rates in the past, complex and ambiguous tax laws, the dominance of the informal sector, widespread use of cash transactions, political corruption, and weak enforcement mechanisms. The real estate sector, unorganised trade, shell companies, and offshore tax havens are key contributors to the problem. Social tolerance towards tax evasion and a lack of trust in government spending further aggravate the situation. To combat these issues, the Indian government has implemented several measures, including tax reforms like the Goods and Services Tax (GST), the demonetisation of high-value currency notes, increased digitisation of financial transactions, stricter monitoring of foreign assets, and legal frameworks like the Black Money (Undisclosed Foreign Income and Assets) Act, 2015. Despite these efforts, tax evasion and black money continue to pose significant policy challenges due to the complexity and scale of the problem.

**Keywords:** Tax Evasion, Black Money, India, Causes etc.

## 1. INTRODUCTION

Tax evasion and black money are two interrelated yet distinct challenges that significantly affect a nation's economy and governance. **Tax evasion** refers to the deliberate illegal practices adopted by individuals, businesses, or entities to reduce their tax liability. This includes concealing income, falsifying financial records, underreporting profits, inflating expenses, or exploiting loopholes to avoid paying the rightful amount of tax. Tax evasion undermines government revenue, weakens public services, and increases the tax burden on honest taxpayers. On the other hand, **black money** represents income that is not reported to tax authorities and is, therefore, outside the formal economic system. It may originate from both legal activities, such as unreported business income, and illegal activities, including corruption, smuggling, drug trafficking, and bribery. The defining characteristic of black money is that it is concealed from regulatory and tax agencies, making it untraceable and untaxed.

The nature of tax evasion and black money in India is both complex and widespread, deeply rooted in the socio-economic structure. It thrives in sectors with high cash transactions, such as real estate, trade, construction, and unorganised businesses. It also extends beyond domestic boundaries through offshore accounts and shell companies. The informal economy, which accounts for a significant share of India's GDP and employment, further facilitates the proliferation of unaccounted income. Tax evasion and black money not only erode public finances but also fuel corruption, distort markets, and widen social inequalities, posing a serious threat to the nation's development and governance.

## **2. OBJECTIVE OF THE STUDY**

This study explores the causes, extent, and impacts of tax evasion and black money in India.

## **3. RESEARCH METHODOLOGY**

This study is based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

### **3.1. TAX EVASION AND BLACK MONEY IN INDIA: CAUSES AND SOLUTIONS**

Tax evasion and the generation of black money have long been deeply embedded in the Indian economic landscape, severely impacting the country's fiscal health and its socio-economic development. Tax evasion refers to illegal practices employed by individuals, companies, trusts, or other entities to avoid paying their rightful taxes, while black money represents income not declared to the tax authorities and often generated through illegal activities or legitimate activities that are not reported. In India, the problem of black money is not merely an economic issue but a profound governance, social, and moral challenge that undermines public trust in the fairness of the taxation system. The roots of tax evasion in India stretch back to the pre-independence era, but the phenomenon gained unprecedented traction in the post-independence period due to a combination of high tax rates, complex regulations, weak enforcement mechanisms, and the dominance of a cash-driven informal economy. During the decades following India's independence in 1947, the marginal tax rates on the highest income brackets reached as high as 97.5% in the 1970s, making tax avoidance a near-universal practice among the wealthy and corporates. The punitive tax structure inadvertently created a system where evading taxes became the norm rather than the exception. Although tax rates have been rationalized over the years, the cultural habit of non-compliance persists.

One of the major causes of tax evasion in India is the complexity of the tax system itself. Despite various rounds of simplification, India's tax framework remains intricate, with numerous exemptions, deductions, and ambiguous clauses that allow room for manipulation. Both direct and indirect taxes have historically been prone to evasion, and the introduction of the Goods and Services Tax (GST) in 2017, while a landmark reform, also opened new avenues for fraudulent claims of input tax credit through fake invoices and circular trading. The dominance of the informal sector in India is another critical driver of tax evasion and black money. According to the National Statistical Commission and the Economic Survey of India, more than 80% of employment in India is generated in the informal sector, where cash transactions remain prevalent, and income is rarely reported to tax authorities. Informal businesses, street vendors, small traders, and unregistered manufacturing units typically operate outside the tax net. The use of cash as the primary medium of transaction in these sectors makes it almost impossible for authorities to trace income streams, creating fertile ground for black money generation.

Corruption at various levels of the administrative and political structure exacerbates the problem. India has consistently ranked poorly on the Transparency International Corruption Perceptions Index, and bribery, kickbacks, and the use of political influence to suppress tax assessments are widespread. Corrupt tax officials sometimes collude with taxpayers to undervalue assets, manipulate audit results, or ignore significant discrepancies in exchange for illicit payments. The leakage of funds through under-invoicing, over-invoicing, and shell companies is facilitated by these corrupt practices. Another significant contributor to the black money economy in India is the real estate sector. It is widely acknowledged that real estate transactions frequently involve substantial cash components that are not reported to tax authorities. The unaccounted cash paid during property purchases, commonly referred to as "black" payments, enables both buyers and sellers to evade capital gains and stamp duties. The undervaluation of property deeds, where

the declared price is substantially lower than the actual transaction price, has long been a method of tax evasion in India. This practice not only reduces government revenue but also fuels the black economy and artificially inflates property prices.

The role of offshore tax havens and undisclosed foreign assets has further complicated India's struggle against black money. High-net-worth individuals and corporations often route their income through complex international structures to conceal profits and evade taxes. The HSBC Geneva list leak in 2015, which exposed hundreds of Indians holding secret bank accounts abroad, highlighted the global dimensions of India's black money problem. Investigations into these offshore accounts revealed widespread use of shell companies, trusts, and layered ownership structures to disguise beneficial ownership and evade detection by Indian tax authorities. Political funding is another major conduit for the circulation of black money in India. Historically, political parties have been significant beneficiaries and channels for unaccounted funds. Donations to political parties, particularly in cash, have often escaped tax scrutiny due to lax reporting requirements and legal loopholes. Although electoral bonds were introduced as a step towards transparency, they have been criticized for their lack of public accountability and the possibility of perpetuating opaque funding mechanisms.

The misuse of trade practices like under-invoicing of exports and over-invoicing of imports is yet another avenue for tax evasion. Importers often declare a higher value for imported goods to remit more foreign exchange abroad than is warranted by the actual transaction, effectively parking funds overseas. Similarly, exporters understate the value of shipments to retain a portion of the proceeds abroad, thus avoiding tax obligations in India. This manipulation not only deprives the exchequer of legitimate tax revenues but also distorts the balance of payments and weakens the national economy. Social attitudes towards tax compliance have historically been indifferent in India. The perception that tax money is misused or that government services are subpar has contributed to low tax morale. Many citizens view tax evasion not as a crime but as a necessary self-defense against an inefficient or corrupt state apparatus. This cultural acceptance of non-compliance perpetuates a vicious cycle where honest taxpayers bear an unfairly high burden while large sections of the population operate outside the tax system with impunity.

The nature of India's cash-driven economy until recently has made tax evasion easier. Despite significant advancements in digital payments post-demonetisation in 2016, cash continues to dominate many sectors, particularly in rural areas and among small traders. Cash transactions, by their very nature, leave no trace, making them difficult to regulate or tax. Black money is often stored in the form of high-denomination currency, gold, or real estate investments, which can be easily hidden and transferred without detection. Furthermore, loopholes within the taxation system have historically allowed legal but ethically questionable tax avoidance. Corporate structures like Limited Liability Partnerships (LLPs) and trusts have been used strategically to minimize tax liability without technically breaking the law. Transfer pricing manipulation, where multinational companies shift profits to low-tax jurisdictions, is another legal strategy that reduces the effective tax burden while depriving the Indian treasury of its fair share.

Political and bureaucratic inertia has at times slowed the enactment and enforcement of stronger anti-evasion laws. The reluctance to penalize influential individuals and companies, often due to their political connections, has weakened the deterrent effect of existing legislation. Although several anti-evasion and anti-corruption agencies exist, including the Enforcement Directorate and the Central Bureau of Investigation, the conviction rates in tax evasion cases remain disappointingly low, reducing the fear of punishment among offenders.

India's large agricultural sector, which enjoys tax-exempt status, has inadvertently created another avenue for laundering black money. There have been instances where non-agricultural incomes were falsely declared as agricultural to exploit tax exemptions, a loophole that persists due to inadequate verification mechanisms. The globalisation of financial markets and the ease of moving capital across borders without corresponding enhancements in regulatory oversight have further aggravated the situation. Despite India's participation in international information-sharing agreements like the Automatic Exchange of Information (AEOI), enforcement remains hampered by bureaucratic delays and the limited capacity of tax authorities to process and act upon the vast data streams now available from foreign jurisdictions.

#### 4. CASE STUDIES

The problem of tax evasion and black money in India is not merely a theoretical or policy debate but a reality that has been repeatedly highlighted through statistical data, government reports, international leaks, and high-profile cases. The sheer magnitude of unaccounted wealth circulating within and outside India's borders underscores the scale of the challenge and the need for systemic intervention. One of the most cited studies on black money in India was conducted by the National Institute of Public Finance and Policy (NIPFP) in 2012. Although the findings were never officially released to the public, leaked information suggested that the size of India's black economy could be as much as 75% of the GDP. Subsequent estimates have varied significantly, but most experts agree that the black money component in the Indian economy is substantial and persistent.

According to Global Financial Integrity (GFI), an international research organization, India lost over USD 83 billion in illicit financial flows in 2015 alone, primarily through trade mis-invoicing. Between 2005 and 2014, India ranked among the top five countries in the world in terms of illicit outflows, with a cumulative loss estimated at USD 770 billion. These figures reflect the extent to which tax evasion, over-invoicing, under-invoicing, and other fraudulent practices have drained the Indian economy over the years. The real estate sector continues to be one of the largest contributors to black money generation in India. Industry estimates suggest that as much as 30% to 50% of all transactions in the real estate sector involve unaccounted cash payments. The Confederation of Real Estate Developers' Associations of India (CREDAI) has acknowledged that despite regulatory measures like the Real Estate (Regulation and Development) Act, 2016 (RERA), cash transactions remain a significant concern, especially in secondary sales and luxury properties. The undervaluation of property deeds to avoid stamp duty and capital gains tax remains a common method of evading taxes and generating black money.

The demonetisation drive of 2016 provided an unprecedented window into the scale of cash-based black money. On November 8, 2016, the Government of India announced the demonetisation of ₹500 and ₹1,000 currency notes, which constituted approximately 86% of the total currency in circulation at the time. The stated objective was to tackle black money, counterfeit currency, and corruption. In the immediate aftermath, over ₹15.3 lakh crore of the ₹15.41 lakh crore demonetised currency found its way back into the banking system, according to the Reserve Bank of India (RBI) Annual Report of 2017-18. While critics argued that this indicated the failure to eliminate black money, supporters contended that the formalisation of previously hidden cash was, in itself, a success. The demonetisation exercise also triggered large-scale investigations into suspicious bank deposits. Under Operation Clean Money, launched by the Income Tax Department, over 18 lakh bank accounts with suspicious cash deposits were scrutinised. According to government data, approximately ₹17,526 crore of unaccounted income was detected in the first phase alone. Despite the mixed public reception, these investigations provided concrete evidence of the extent to which black money circulated within India's cash economy.

In addition to domestic data, international leaks and investigative reports have exposed the global dimension of Indian black money. The HSBC Geneva list leak in 2015, which revealed details of more than 1,000 Indian account holders with undeclared foreign bank accounts, sent shockwaves across the nation. The leaked data suggested that Indians had stashed away nearly ₹25,420 crore in secret Swiss bank accounts, evading taxes and regulatory oversight. The Pandora Papers leak in 2021 further revealed the offshore holdings of hundreds of wealthy Indians, including prominent businesspersons and politicians. The International Consortium of Investigative Journalists (ICIJ) disclosed how Indian entities had established shell companies and trusts in tax havens like the British Virgin Islands, Seychelles, and Panama to conceal assets and income. These revelations confirmed the long-standing suspicion that a significant portion of India's black money resides abroad, beyond the immediate reach of Indian tax authorities.

For instance, in 2022, Polycab India Ltd., a leading electrical goods manufacturer, came under the scanner of the Income Tax Department for alleged tax evasion amounting to ₹200-300 crore. Raids on the company's offices and directors unearthed undisclosed income, shell transactions, and manipulation of accounts, reflecting how even reputed listed companies engage in tax evasion practices. Another significant case was the detection of ₹32,000 crore worth of Integrated Goods and Services Tax (IGST) evasion by major IT companies, including Infosys, in 2022. The Directorate General of GST Intelligence (DGGI) issued formal notices, highlighting large-scale misuse of input tax credit, fake invoicing, and circular trading mechanisms. These cases revealed that even after the introduction of GST, which was designed to bring uniformity and transparency, large corporations have found ways to circumvent the system.

The enforcement agencies in India have made significant recoveries in recent years, indicating both the prevalence of black money and the increased scrutiny by the government. According to data provided by the Enforcement



Directorate (ED), assets worth ₹1.31 lakh crore were attached between 2019 and 2022 in cases related to money laundering and black money under the Prevention of Money Laundering Act (PMLA). During the same period, over 4,467 money laundering cases were registered, exposing the vast networks of financial crimes operating across sectors. Income Tax Department raids have also surged in frequency and intensity. Between 2016 and 2020, the number of income tax raids increased by over 100%, though conviction rates remained low, hovering around 2.4%, according to data released by the Ministry of Finance. Despite low conviction rates, these raids have uncovered thousands of crores of unaccounted wealth, demonstrating both the scale of tax evasion and the challenges in securing legal closure.

In the realm of indirect taxation, the GST regime has revealed significant gaps exploited by evaders. According to the Indian Express, in the financial year 2022-24 alone, the government detected over ₹2.01 lakh crore in GST evasion, nearly 10% of the total GST collections for that year. The evasion primarily involved fake invoicing, bogus input tax credit claims, and under-reporting of turnover, highlighting how technology-driven tax systems are also vulnerable to manipulation without robust enforcement. The agricultural sector, though largely tax-exempt, has been misused for laundering black money. In several investigations, individuals with no farming background have been found to declare massive agricultural incomes to exploit the tax exemption. For example, in 2017, the Income Tax Department uncovered cases where individuals declared agricultural incomes exceeding ₹100 crore, raising serious questions about the authenticity of such claims and the systemic loopholes that enable them.

The Reserve Bank of India's data on foreign exchange outflows has also indicated that remittances through the Liberalised Remittance Scheme (LRS) have been used in certain cases to transfer unaccounted funds abroad. Between 2016 and 2022, outward remittances under LRS grew exponentially, with annual remittances crossing USD 20 billion. While most of these are legitimate, there have been instances where individuals exploited the scheme to siphon off black money under the guise of permissible remittances. The problem of black money is further compounded by the cash-intensive nature of elections in India. The Association for Democratic Reforms (ADR) has estimated that over ₹60,000 crore was spent during the 2019 Lok Sabha elections, with a significant portion believed to be unaccounted cash. Despite reforms such as electoral bonds and spending caps, political funding remains opaque, providing a fertile ground for the circulation of black money.

## 5. CONCLUSION

Tax evasion and the generation of black money remain among the most critical challenges confronting India's economic and governance landscape. These issues undermine the country's revenue collection, distort markets, fuel corruption, and widen socio-economic inequalities. The causes are deeply rooted in the structural, administrative, and cultural fabric of the nation — from the complexity of tax laws and the prevalence of a cash-driven informal economy to political corruption, weak enforcement, and low tax morale among citizens. Despite significant measures such as tax reforms, demonetisation, increased use of technology, and stricter laws, tax evasion and black money continue to persist, often adapting to new regulatory environments. High-profile cases, data leaks, and government investigations have revealed the sophisticated methods employed to conceal wealth, both domestically and abroad. Addressing this problem requires a comprehensive, multi-dimensional approach that goes beyond legal enforcement. Simplifying tax laws, promoting digital transactions, strengthening institutional accountability, and building public trust in governance are essential. Equally important is fostering a culture of voluntary tax compliance through awareness and transparent public spending. Only through sustained, coordinated efforts can India hope to curb tax evasion, control the black economy, and ensure inclusive, sustainable economic growth.

## CONFLICT OF INTERESTS

None.

## ACKNOWLEDGMENTS

None.

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