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Black Money and its Estimation

2.1 Defining 'Black Money'

2.1.1 There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or 'unofficial' economy. All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate per se, like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption. For the purpose of this document, 'black money' can be defined 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.

2.1.2 This definition of black money is in consonance with the definition used by the National Institute of Public Finance and Policy (NIPFP). In its 1985 report on Aspects of Black Economy, the NIPFP defined 'black income' as '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'.

2.1.3 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.

2.2 Factors Leading to Generation of Black Money

2.2.1 Black money arising from illegal activities such as crime and corruption has an underlying anti-social element. The 'criminal' component of black money may include proceeds from a range of activities including racketeering, trafficking in counterfeit and contraband goods, smuggling, production and trade of narcotics, forgery, illegal mining, illegal felling of forests, illicit liquor trade, robbery, kidnapping, human trafficking, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money, bank frauds, and illegal trade in arms. Some of these offences are included in the schedule of the Prevention of Money Laundering Act 2002. The 'corrupt' component of such money could stem from bribery and theft by those holding public office – such as by grant of business, leakages from government social spending programmes, speed money to circumvent or fast-track procedures, black marketing of price-controlled services, and altering land use regularizing unauthorized construction. All these activities are illegal per se and a result of human greed combined with declining societal values and inability of the state to prevent them. Factors leading to their generation are both social and administrative.

2.2.2 These illegal activities are punishable under various Acts of the central and state governments which are administered by various law enforcement agencies. Effective implementation of these Acts is the responsibility of both state and central governments.

2.2.3 Significant amount of black money, however, is generated through legally permissible economic activities, which are not accounted for and disclosed or reported to the public authorities as per the law or regulations, thereby converting such income into black money. The failure to report or disclose such activities or income may be with the objective of evading taxes or avoiding the cost of compliance related to such reporting or disclosure. It may also be the result of non-compliance with some other law. For example, a factory owner may under-report production on account of theft of electricity which in turn leads to evasion of taxes. Generally, a high burden of taxation, either actual or perceived, provides a strong temptation to evade taxes and generate black money. Sometimes the procedural regulations can be such that complying with them may increase the probability of further scrutiny and thereby the incidence of the burden of compliance, creating a perverse incentive not to report at all and remain outside the reported and accounted proportion of the economy. Culture and social practices may also play a vital role in deciding the preferences of citizens between tax compliance and black money generation. In a society where tax evasion and under-reporting of activities and income is perceived to be very common or the norm, such activities may be considered acceptable and honest tax compliance and paying one's due share to the public fund may not be considered a virtue. Studies indicate that countries with relatively poor implementation of regulations tend to have a higher share of unaccounted economy, whereas countries with properly implemented regulations and sound deterrence have smaller 'black' economies.

2.2.4 Thus the fight against generation and accumulation of black money is likely to be far more complex, requiring stronger intervention of the state, in developing countries like India than in developed countries. It needs a stronger legal framework, commensurate administrative measures, and a very strong resolve to fight the menace. It also calls for political consensus as well as patience and perseverance.

2.3 Generating Black Money by Manipulation of Accounts

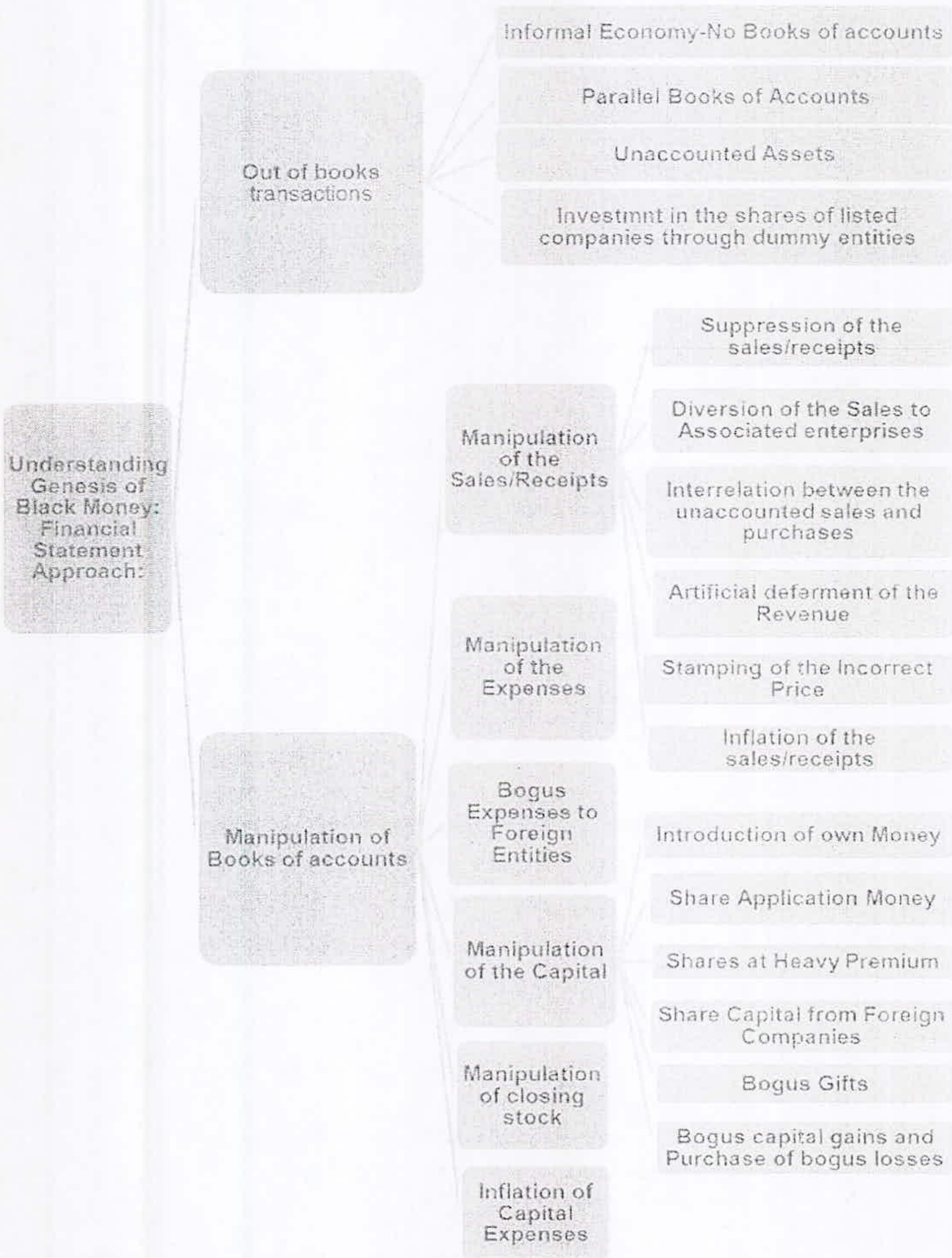
2.3.1 There can be two different modi operandi involved in the generation of black money. The first is the crude approach of not declaring or reporting the whole of the income or the activities leading to it. This is the likely approach in all cases of criminal, illegal, and impermissible activities. The sophistications in such an approach mostly get introduced subsequently for the purpose of laundering the money so generated with the objective of making it accountable and converting it into legitimate reported wealth that can be openly possessed and used.

2.3.2 The same approach of not declaring or reporting activities and the income generated therefrom may also be followed in cases of failure to comply with regulatory obligations or tax evasion on income from legitimate activities. However, complete evasion or non-compliance may make such incomes vulnerable to detection by authorities and lead to consequent adverse outcomes for the generator. Thus a more sophisticated approach for generation of this kind of black money is often preferred, involving manipulation of financial records and accounting.

2.3.3 The best way of classifying and understanding the various ways and means adopted by taxpayers for the generation of black money would be the financial statement approach, elaborating different means by which the accounts prepared for reporting and presenting before the authorities are manipulated to misrepresent and underdisclose income, thereby generating unaccounted, undeclared, and unreported income that amounts to black money.

2.3.4 Any transaction entered into by the taxpayer must be reported in books of account which are summarised at the end of the year in the form of financial statements. The financial statements basically comprise statement of income and expenditure which is called by different names such as 'Profit and Loss Account' or 'Income and Expenditure Account' and statement of assets and liabilities which is called 'Balance Sheet' or 'Statement of Affairs'. Tax evasion involves misreporting or non-reporting of the transactions in the books of account. Different kinds of manipulations of financial statements resulting in tax evasion and the generation of black money are summarised in Figure 2.1 and and some of these are elaborated in the following paragraphs.

Figure 2.1 Manipulations of Accounts for Tax Evasion



2.3.5 Out of Book Transactions: This is one of the simplest and most widely adopted methods of tax evasion and generation of black money. Transactions that may result in taxation of receipts or income are not entered in the books of account by the taxpayer. The taxpayer either does not maintain books of account or maintains two sets or records partial receipts only. This mode is generally prevalent among the small grocery shops, unskilled or semi-skilled service providers, etc.

2.3.6 Parallel Books of Accounts: This is a practice usually adopted by those who are obliged under the law or due to business needs to maintain books of account. In order to evade reporting activities or the income generated from them, they may resort to maintaining two sets of books of account – one for their own consumption with the objective of managing their business and the other one for the regulatory and tax authorities such as the Income Tax Department, Sales Tax Department, and Excise and Customs Department. The second set of books of account, which is maintained for the purpose of satisfying the legal and regulatory obligations of reporting to different authorities, may be manipulated by omitting receipts or falsely inflating expenses, for the purpose of evading taxes or other regulatory requirements.

2.3.7 Manipulation of Books of Account: When books of accounts are required to be maintained by taxpayers under different laws, like the Companies Act 1956, the Banking Regulation Act, and the Income Tax Act, it may become difficult for these taxpayers to indulge in out of books transactions or to maintain parallel books of accounts. Such parties may resort to manipulation of the books of accounts to evade taxes.

2.3.8 Manipulation of Sales/Receipts: A taxpayer is required to pay taxes on profit or income which is the difference between sale proceeds or receipts and expenditure. Thus manipulation of sales or receipts is the easiest method of tax evasion. Other innovative means may include diversion of sales to associated enterprises, which may become more important if such enterprises are located in different tax jurisdictions and thereby may also give rise to issues related to international taxation and transfer pricing.

2.3.9 In case of use of a dummy / associated entity, there can be a plethora of possible arrangements entered into by such entities to aid generation of black money. In its simplest form, the associate entity may not report its activities or income at all. The main entity may show sales to such a dummy / associate entity at a lower price, thereby reducing its reported profits.

2.3.10 More complex scenarios can emerge if the dummy/ associated entity is situated in a low tax jurisdiction having very low tax rates. Thus the profit of the Indian entity will be transferred to the low tax jurisdiction and money will be accumulated by the taxpayer in the books of accounts of the entity in the low tax jurisdiction.

2.3.11 Under-reporting of Production: Manipulation of production figure is another means of artificially reducing tax liability. It may be resorted to for the purpose of evading central excise, sales tax, or income tax.

2.3.12 Manipulation of Expenses: Since the income on which taxes are payable is arrived at after deducting the expenses of the business from the receipts, manipulation of expenses is a commonly adopted method of tax evasion. The expenses may be manipulated under different heads and result in under-reporting of income. It may involve inflation of expenses, sometimes by obtaining bogus or inflated invoices from the so called 'bill masters', who make bogus vouchers and charge nominal commission for this facility.

2.3.13 Any number of more sophisticated versions of manipulation of expenses can also be resorted to by those intending to generate black money. Sometimes it can also involve 'hawala' operators, who operate shell entities in the form of proprietorship firms, partnership firms, companies, and trusts. These operators may accept cheques for payments claimed as expense and return cash after charging some commission. There have been instances of claims of bogus expenses to foreign entities. The payments can be shown to foreign entities in the form of advertisement and marketing expenses or commission for purchases or sales. The funds may be remitted to the account of the foreign taxpayer and the money can either be withdrawn in cash or remitted back to India in the form of non-taxable receipts. Such money may also be accumulated in the form of unaccounted assets of the Indian taxpayer abroad.

2.3.14 **Other Manipulations of Accounts:** Besides inflation of purchase / raw material cost, expenses like labour charges, entertainment expenses, and commission can be inflated or falsely booked to reduce profits. In these cases, bogus bills may be prepared to show inflated expenses in the books.

2.3.15 **Manipulation by Way of International Transactions through Associate Enterprises:** Another way of manipulating accounted profits and taxes payable thereon may involve using associated enterprises in low tax jurisdictions through which goods or other material may be passed on to the concern. Inter-corporate transactions between these associate enterprises belonging to the same group or owned and controlled by the same set of parties may be arranged and manipulated in a way that leads to evasion of taxes. This can often be achieved by arrangements that shift taxable income to the low tax jurisdictions or tax havens, and may lead to accumulation of black money earned from within India to another country.

2.3.16 **Manipulation of Capital:** The statement of affairs or balance sheet of the taxpayer contains details of assets, liabilities, and capital. The capital of the taxpayer is the accumulated wealth which is invested in the form of assets or as working capital of the business. Manipulation of capital can be one of the ways of laundering and introduction of black money in books of accounts.

2.3.17 **Manipulation of Closing Stock:** Suppression of closing stock both in terms of quality and value is one of the most common methods of understating profit. More sophisticated versions of such practice may include omission of goods in transit paid for and debited to purchases, or omission of goods sent to the customer for approval. A more common approach is undervaluation of inventory (stock of unsold goods), which means that while the expenses are being accounted for in the books, the value being added is not accounted for, thereby artificially reducing the profits.

2.3.18 **Manipulation of Capital Expenses:** Over-invoicing plant and equipment or any capital asset is an approach adopted to claim higher depreciation and thereby reduce the profit of the business. As already stated, increase in capital can also be a means of enabling the businessman to borrow more funds from banks or raise capital from the market. It has been seen that such measures are sometimes resorted to at the time of bringing out a capital issue. At the same time, under-invoiced investments, indicating entry of undeclared wealth, may imply introduction of black money.

2.4. Generation of Black money in Some Vulnerable Sections of the Economy

2.4.1 While the source of generation of black money may lie in any sphere of economic activity, there are certain sectors of the economy or activities, which are more vulnerable to this menace. These include real estate, the bullion and jewellery market, financial markets, public procurement, non-profit organizations, external trade, international transactions involving tax havens, and the informal service sector.

2.4.2 **Land and Real Estate Transactions:** Due to rising prices of real estate, the tax incidence applicable on real estate transactions in the form of stamp duty and capital gains tax can create incentives for tax evasion through under-reporting of transaction price. This can lead to both generation and investment of black money. The buyer has the option of investing 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. A more sophisticated form occasionally resorted to consists of cash for the purchase of transferable development rights (TDR)[1].

[1] *TDRs are rights for construction beyond the usual limits, which can be transferred by the owner. These rights can be made available in lieu of area or land surrendered by the owner.*

2.4.3 **Bullion and Jewellery Transactions:** Cash sales in the gold and jewellery trade are quite common and serve two purposes. The purchase allows the buyer the option of converting black money into gold and bullion, 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.

2.4.4 **Financial Market Transactions:** Financial market transactions can involve black money in different forms. Initial public offers (IPOs) offering equity shares to the public at large are also vulnerable to various manipulations that can generate black money for the promoters or operators. Rigging of markets by the market operators is one such means. This may involve use of shell companies and more sophisticated versions of such manipulation may involve 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.

2.4.5 **Public Procurement:** Public procurement has grown phenomenally over the years – in volume, scale, and variety as well as complexity. It often includes sophisticated and hi-tech items, complex works, and a wide range of services. An OECD (Organisation for Economic Cooperation and Development) estimate puts the figure for public procurement in India at 30 per cent of the GDP whereas a WTO (World Trade Organisation) estimate puts this figure at 20 per cent of the GDP.[2] The Competition Commission of India had estimated in a paper that the annual public sector procurement in India would be of the order of ` 8 lakh crore while a rough estimation of direct government procurement is between ` 2.5 and 3 lakh crore. This puts the total public procurement figure for India at around ` 10 to 11 lakh crore per year.[3]

2.4.6 **Non-profit Sector:** Taxation laws allow certain privileges and incentives for promoting charitable activities. Misuse of such benefits and manipulations through entities claimed to be constituted for non-profit motive are among possible sources of generation of black money. Such misuse has also been highlighted by the Financial Action Task Force (FATF), an intergovernmental body which develops and promotes policies to protect the global financial system against money laundering and financing of terrorism. A Non-profit Organisation (NPO) Sector Assessment Committee constituted under the Ministry of Finance has reviewed the existing control and legal mechanisms for the NPO sector and suggested various measures for improvement.

2.4.7 **Informal Sector and Cash Economy:** The issue of black money is related to the magnitude of cash transactions in the informal economy. The demand for currency is determined by a number of factors such as income, price levels, and opportunity cost of holding currency. Factors like dependence on agriculture, existence of a large informal sector, and insufficient banking infrastructure with large un-banked and under-banked areas contribute to the large cash economy in India.

2.4.8 **External trade and Transfer Pricing:** More than 60 per cent[4] of global trade is carried out between associated enterprises of multinational enterprises (MNEs). Since allocation of costs and overheads and fixing of price of product/services are highly subjective, MNEs enjoy considerable discretion in allocating costs and prices to particular products/services and geographical jurisdictions. Such discretion enables them to transfer profit/income to no tax or low tax jurisdictions. Differing tax rates in different tax jurisdictions can create perverse incentives for corporations to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates as a means of minimising their tax liability. For

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[2] *Ref: Para 1.5 of the Report of the Committee on Public Procurement, 6 June 2011*

[3] *Ibid.*

[4] *Christianaid, Death and Taxes: The Truth of Tax Dodging, March 2009.*

example, a foreign parent company could use internal 'transfer prices' for overstating the value of goods and services that it exports to its foreign affiliate in order to shift taxable income from the operations of the affiliate in a high tax jurisdiction to its operations in a low-tax jurisdiction. Similarly, the foreign affiliate might understate the value of goods and services that it exports to the parent company in order to shift taxable income from its high tax jurisdiction to the low tax jurisdiction of its parent. Both of these strategies would shift the company's profits to the low tax jurisdiction and, in so doing; reduce its worldwide tax payments. In this context transfer pricing has emerged as the biggest tool for generation and transfer of black money. In recent years, after the 9/11 incident in the USA due to intense scrutiny of banking transactions, enhanced security checks at airports and ports, and relaxation of exchange controls, transfer of money through hawala has reduced significantly but now transfer pricing is now being extensively used to transfer income/profit and avoid taxes at will across countries. Also, with the relaxation of exchange controls and liberalisation of banking channels, the popularity of the hawala system for legitimate transfers has reduced substantially. The increasing pressure on financial operators and banks to report cash transactions has also helped in curbing hawala transactions. Tax evasion through transfer pricing is largely invisible to the public and difficult and expensive for tax officers to detect. Christianaid[5] estimates that developing countries may be losing over US$160billion of tax revenues a year, primarily through transfer pricing strategies.

2.4.9 The illicit money transferred outside India may come back to India through various methods such as hawala, mispricing, foreign direct investment (FDI) through beneficial tax jurisdictions, raising of capital by Indian companies through global depository receipts (GDRs), and investment in Indian stock markets through participatory notes. It is possible that a large amount of money transferred outside India might actually have returned through these means.

Box 2.1: Characteristics of Tax havens

Various studies on tax havens have shown that tax havens are typically small countries/ jurisdictions, with low or nil taxation for foreigners who decide to come and settle there. They usually also offer strong confidentiality or secrecy regarding wealth and accounts, making them very attractive locations for safe keeping of unaccounted wealth. They also offer a very liberal regulatory environment and allow opaque existence, where an entity can easily be set up without indulging in any meaningful commercial activity and yet claim to be a genuine business unit, merely by getting itself incorporated or registered in that jurisdiction. This makes them highly desirable locations for multinational entities wishing to reduce their global tax liabilities. These multinational entities consisting of a network of several corporate and non-corporate bodies may set up conduit companies in tax havens and artificially transfer their income to such conduit companies in view of the low tax regime there. There is increasing global awareness and concern about the role of tax havens and their facilitation of certain abusive and undesirable arrangements that result in significant fiscal challenges to other countries and also pose a threat in terms of potential financing of terrorism and other activities that threaten peace and security.

2.4.10 **Trade-based Money Laundering (TBML):** The FATF defines TBML as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt at legitimising their illicit origins. Factors that facilitate such manipulation include the enormous volume of international trade flow, the complexity associated with financing arrangements and currency exchanges as well as limited recourse to verification procedures between countries.

[5] *ibid*

2.4.11 **Tax Havens:** The term 'tax haven' has been widely used since the 1950s. However, there is no precise definition of the term. The OECD initially defined tax havens as being characterised by no or very low taxes, lack of effective exchange of information, and lack of transparency about substantial activities. It listed 35 countries/ jurisdictions as tax havens in the year 2000. The list has changed over time as more tax havens have made agreements to share information.

2.4.12 **Offshore Financial Centres:** Some of the old tax havens have adopted the more benign designation of 'offshore financial centre' (OFC) and tend to describe themselves as financial centres specializing in non-residential financial transactions. However, with their array of secrecy provisions that lack regulation, the zero or near zero taxation imposed by them, and lack of adequate capital controls, they are logical extensions of the traditional tax havens. The IMF has defined OFCs as *centers where the bulk of financial sector transactions on both sides of the balance sheet are with individuals or companies that are not residents, where the transactions are initiated elsewhere, and where the majority of the institutions involved are controlled by non-residents. Thus, many OFCs have the following characteristics:*

1. *Jurisdictions that have financial institutions engaged primarily in business with non-residents;*
2. *Financial systems with external assets and liabilities out of proportion to domestic financial intermediation designed to finance domestic economic; and*
3. *More popularly, centers which provide some or all of the following opportunities: low or zero taxation; moderate or light financial regulation; banking secrecy and anonymity.*

International organizations including the BIS and IMF began to use the term OFC in a more restrictive manner to describe financial services that were evolving in tax havens.

Box 2.2 : Participatory Notes

A Participatory Note (PN) is a derivative instrument issued in foreign jurisdictions, by a Foreign Institutional Investor (FII) / its sub-accounts or one of its associates, against underlying Indian securities. PNs are popular among foreign investors since they allow these investors to earn returns on investment in the Indian market without undergoing the significant cost and time implications of directly investing in India. These instruments are traded overseas outside the direct purview of SEBI surveillance thereby raising many apprehensions about the beneficial ownership and the nature of funds invested in these instruments. Concerns have been raised that some of the money coming into the market via PNs could be the unaccounted wealth camouflaged under the guise of FII investment. SEBI has been taking measures to ensure that PNs are not used as conduits for black money or terrorist funding.

2.4.13 **Investment through Innovative Derivative Instruments:** With increasing sophistication of derivative instruments, new opportunities for investing and making profits without being subjected to taxes and regulations are also opening up. Such innovative means can also be misused by unscrupulous parties to generate unaccounted income. Some such instruments like participatory notes may not be adequately covered by regulatory mechanisms and their oversight and hence have potential for misuse.

2.5 Estimates of Black Money Generated in India

2.5.1 There are no reliable estimates of black money generation or accumulation, neither is there an accurate well-accepted methodology for making such estimation. By its very definition, black money is not accounted for, thus all attempts at its estimation depend upon the underlying assumptions made and the sophistication of adjustments incorporated. Among the estimates made so far, there is no uniformity, unanimity, or consensus about the best methodology or approach to be used for this purpose. There have also been wide variations in the figures reported, which further serves to highlight the limitations of the different methods adopted.

2.5.2 Analysis of individual methods used for estimation further exposes their limitations. One such method is the input / output method. It consists of using the input/output ratio along with the input to calculate the true output. It estimates black money as the difference between the declared output and the output expected on the basis of the input/output ratio. This method is deceptively simple and, though it may have some utility if applied to a uniform industry or a specific sector of the economy, it is unlikely to be of much help if applied to economy as a whole. It also ignores structural changes in the economy including those related to technology.

2.5.3 Another approach, adopted by the monetarists, is based on the fact that money is needed to circulate incomes in both the 'black' and accounted for economies. As the official economy is known, the difference between that amount and the money in circulation could be assumed to be the circulating 'black' component. An estimate of the velocity of money (that is to say the average number of times currency changes hand in a year) enables an estimation of income circulated annually. A comparison of that with the income captured in the National Accounting System (NAS) gives the income which could be estimated as the black money in the economy. However, the assumption that the NAS represents accounted incomes accurately is not always true. Large proportions of income, such as those falling in the unorganized sector, are not accurately captured in NAS, thus there may be upward bias in the estimate of black money so derived.

2.5.4 Yet another method of estimation of black money is the survey approach wherein sample surveys are carried out. They may be on the consumption pattern of a representative population sample, which is then compared to the total consumption of the country. In this method, the problems consist in getting a truly representative sample, unambiguous set of questions, and the willingness of persons in the sample size to reveal true facts. Often the comfort level with the interviewers is limited as people are unwilling to admit any illegality before strangers.

2.5.5 There is also the 'fiscal approach' method for estimating black income. The underlying basis of this approach is to view the economy as comprising several sectors, each having its own sets of practices. The contribution of these sectors to black money generation is separately worked out, which when added would give the size of the 'black' economy. However, the manner of identifying the 'black component' in these sectors and the assumptions suffer from inherent subjectivity of the researcher and lack of uniform standards.

2.5.6 Attempts have been made in the past to quantify 'black' money generation in India. Broadly speaking, the estimates made so far have followed two distinct approaches:

(i) Kaldor's approach of quantifying non-salary incomes above the exemption limit of income tax; and

(i) The Edgar L. Feige method of working out transaction income on the basis of currency-deposit ratio and deriving from it the 'black' income of the economy.

2.5.7 N. Kaldor in his report (1956) estimated non-salary income on the basis of the break-up of national income into:

(i) Wages and salaries,

(ii) Income of the self-employed, and

(iii) Profit, interest, rent, etc.

Excluding wages and salaries from the contribution to net domestic product, he derived total non-salary income. An estimate of the actual non-salary income assessed to tax was made for each sector in order to arrive at the total non-salary income assessed to tax. The difference between the estimated non-salary income above the exemption limit and the actual non-salary income assessed to tax measures the size of 'black' income.

2.5.8 The Direct Taxes Enquiry Committee (Wanchoo Committee) followed the method adopted by Kaldor with some modifications. It estimated assessable non-salary income for the year 1961-62 at ` 2686 crore and non-salary income actually assessed to tax to be of the order of ` 1875 crore. Accordingly the income which escaped income tax was of the order of ` 811 crore. After making rough adjustments for exemptions and deductions, the Wanchoo Committee found that 'the estimated income on which tax has been evaded (black income) would probably be `700 crore and ` 1000 crore for the years 1961-62 and 1965-66 respectively'. 'Projecting this estimate further to 1968-69 on the basis of percentage increase in national income from 1961-62 to 1968-69, the income on which tax was evaded for 1968-69 was estimated as `1800 crore.'

2.5.9 Rangnekar's estimate: Dr D.K. Rangnekar, a member of the Wanchoo Committee, dissented from the estimates made by the Wanchoo Committee. According to him, tax-evaded income for 1961-62 was of the order of ` 1150 crore as compared to the Wanchoo Committee's estimate of ` 811 crore. For 1965-66, it was ` 2,350 crore against the ` 1000 crore estimated by the Wanchoo Committee. The projections for 1968-69 and 1969-70 were ` 2833 crore and ` 3080 crore respectively.

2.5.10 Chopra's estimate: Noted economist O.P. Chopra published several papers on the subject of unaccounted income. He prepared a series of estimates of unaccounted income for a period of 17 years, i.e. 1960-61 to 1976-77. Chopra's methodology marked a significant departure from the Wanchoo Committee approach and, as a consequence, he found a larger divergence in the two series from 1973 onwards when income above the exemption limit registered significant increase. The broad underlying assumptions of his methodology were:

i. Only non-salary income is concealed;

ii. Taxes other than income tax are evaded and the study is restricted to only that part of income which is subject to income tax. Thus tax evasion which may be due to (a) non-payment or under-payment of excise duty, (b) sales tax,(c) customs duties, or (d) substituting agricultural income for non-agricultural income is not captured;

iii. The efficiency of the tax administration remains unchanged;

iv. The ratio of non-salary income above the exemption limit to total non-salary income has remained the same; and

v. The ratio of non-salary income to total income accruing from various sectors of the economy remains the same.

2.5.11 The crucial finding of Chopra's study was that after 1973-74, the ratio of unaccounted income to assessable non-salary income went up, whereas the Wanchoo Committee assumed this ratio to have remained constant. As a consequence, after 1973-74 there was wide divergence between the estimates of the Wanchoo Committee and those of Chopra. Chopra's estimates corroborated the hypothesis that tax evasion was more likely to be resorted to when the rate of tax was comparatively high. His findings also supported the hypothesis that increase in prices lead to an increase in unaccounted income. Further, he gave a significant finding that funds were diverted to the non-taxable agriculture sector to convert unaccounted (black) income into legal (white) income. Chopra's study estimated unaccounted income to have increased from ` 916 crore in 1960-61, i.e. 6.5 per cent of gross national product (GNP) at factor cost, to ` 8098 crore in 1976-77 (11.4 per cent of GNP).

2.5.12 NIPFP Study on Black Economy in India: The NIPFP conducted a study under the guidance of Dr S. Acharya (1985). The study defined 'black' money as the aggregate of incomes which were taxable but which were not reported to tax authorities. The study, however, gave a broader definition of 'black' income and called it 'unaccounted income' for purposes of clarity. As there was lack of sufficient data, the NIPFP study followed 'the minimum estimate approach'. That is to say, not being able to ascertain the most probable degree of under-declaration or leakage, it used a degree of under-declaration which could safely be regarded as the minimum in the relevant sector. In several cases the study also made use of a range rather than a single figure of underestimation.

2.5.13 While preparing the estimate of 'black' income, the study excluded incomes generated through illegal activities like smuggling, black market transactions, and acceptance of bribes and kickbacks. To prepare a global estimate of black income, the study confined itself briefly to six areas:

i. factor incomes received either openly or covertly while participating in the production of goods and services,

ii. 'black' income generated in relation to capital receipts on sale of asset,

iii. 'black' income generated in fixed capital formation in the public sector,

iv. 'black' income generated in relation to the private corporate sector,

v. 'black' income generated in relation to export, and

vi. 'black' income generated through over invoicing of imports by the private sector and sale of import licences.

2.5.14. After aggregating the different components of 'black' income the study quantified the extent of 'black' money for different years as shown in Table 2.1.

Table 2.1 NIPFP Estimate of Black Money in India 1975-1983

Year	Estimate for Black Money (` in crore)	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

2.5.15 The NIPFP study concluded that total black income generation of ` 36,784 crore out of a total GDP at factor cost of ` 1,73,420 crore was on the higher side, although it turns out to be less than 30 per cent of GDP as against some extravagant estimates placing it at 50 or even 100 per cent of GDP. The study suggested with some degree of confidence that black income generation in the Indian economy in 1983-84 was not less than18 per cent of GDP at factor cost or 16 per cent of GDP at market prices.

2.5.16 While the NIPFP report estimated the 'black' economy (not counting smuggling and illegal activities) at about 20 per cent of the GDP for the year 1980-81, Suraj B. Gupta, a noted economist, pointed out some erroneous assumptions in NIPFP study and estimated 'black' income at 42 per cent of GDP for the year 1980-81 and 51 per cent for the year 1987-88. Arun Kumar pointed out certain defects in Gupta's method as well as in the NIPFP study. He estimated 'black' income to be about 35 per cent for the year 1990-91 and 40 per cent for the year 1995-96.

2.5.17 The last official study for estimating black money generation was conducted at the behest of the Ministry of Finance by the NIPFP in 1985. The alternative estimates of 'black' income for the decade prior to 1985, compiled in the NIPFP Report, as shown in Table 2.2, show the extent of variation in estimates.

Table 2.2 Variations in Estimates of Black Income

Year	Chopra's estimates Wanchoo Method	Chopra's estimates Own Method	Gupta & Gupta's estimates	Gupta & Mehta's estimates	Ghosh et.al's estimates	Rangnekar's estimates
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970-71	4.8	5.2	22.3	—	7.6	—
1971-72	5.1	3.2	28.7	—	7.8	—
1972-73	4.0	3.8	31.9	—	7.8	—
1973-74	4.9	8.1	27.1	—	7.4	9.9
1974-75	5.9	12.4	20.9	13.8	8.1	9.3
1975-76	5.6	9.9	25.0	—	8.4	10.0
1976-77	5.7	10.2	37.6	—	8.7	11.3
1977-78	—	—	38.4	—	8.7	12.1
1978-79	—	—	48.1	19.8	—	13.5
1979-80	—	—	—	—	—	14.4

2.5.18 It may be useful to see how India compares with other countries in the world on estimates of black money or black or shadow economy. The World Bank Development Research Group on Poverty and Inequality and Europe and Central Asia Region Human Development Economics Unit in July 2010 estimated 'Shadow Economies' of 162 countries from 1999 to 2007.[6] It reported that the weighted average size of the shadow economy (as a percentage of 'official' GDP) of these 162 countries in 2007 was 31 per cent as compared to 34 per cent in 1999. For India, these figures were 20.7 per cent and 23.2 per cent respectively, comparing favourably with the world average. Shadow economy for the purposes of the study was defined to include all market-based legal production of goods and services that are deliberately concealed from public authorities for any of the following reasons:

- to avoid payment of income, value added or other taxes,
- to avoid payment of social security contributions,
- to avoid having to meet certain legal labour market standards, such as minimum wages, maximum working hours, and safety standards; and
- to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.

2.5.19 The studies discussed here for estimating the extent of Black Money in the economy have followed different methods and have been criticized for their numerous assumptions and approximations. Further, they have arrived at different figures of black money even for the same year. There have also been media reports in recent years that have extended several estimates of black money, especially the unaccounted money held abroad by Indians.

[6] *Policy Research Working Paper 5356, Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007, Friedrich Schneider, Andreas Buehn, and Claudio E. Montenegro.*

2.6 Estimates of Black Money Stashed Abroad

2.6.1 A chain Email, which first started circulating on the Internet in early 2009, states that Indians have more money in the Swiss banks than all other countries combined. It claims that as per a Swiss Banking Association report in 2006, bank deposits in the territory of Switzerland by nationals of a few countries are as under: India, US$1456 billion, Russia, US $470 billion, UK, US$390 billion, Ukraine, US$100 billion, China, US$96 billion.

2.6.2 It is now evident that there is no organization by the name of Swiss Banking Association,[7] although there is a Swiss Bankers Association (SBA). On 13 September 2009 Zeenews.com reported a statement from James Nason, Head of International Communications of the SBA, in which, referring to figures being quoted based on the alleged SBA report, he asserted that the SBA had never published any such report and that the story about Indian deposits was a complete fabrication. Thus these figures appear to be a figment of the imagination and the email circulating them baseless and mischievous in intent.

2.6.3 Another report which was circulated in the media stating that Indian nationals held around US$ 1.4 trillion abroad in illicit external assets was based on the 2008 report of Global Financial Integrity (GFI), 'Illicit Financial Flows from Developing Countries: 2002-2006'. In its November 2010 report, 'The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008', however, it accepted on page 9 that the back-of-the-envelope method used to derive the figure was flawed – the figure was based on GFI's estimated average illicit outflows of US$ 22.7 billion per annum (over the period 2002-06) multiplied by the 61 years since independence and it is erroneous to apply annual averages to a long time series when illicit flows are fluctuating sharply from one year to the next.[8]

2.6.4 It is however useful to mention here one estimate of the amount of Indian deposits in Swiss banks (located in Switzerland) which has been made by the Swiss National Bank. Its spokesperson stated that at the end of 2010, the total liabilities of Swiss Banks towards Indians were 1.945 billion Swiss Francs (about ` 9,295 crore). The Swiss Ministry of External Affairs confirmed these figures when a reference was made by the Indian Ministry of External Affairs to them. Since the information was publicly available on the website of the Swiss National Bank, the figures of earlier years were also taken and are tabulated in Annexure Table 1. From this Table, it can be seen that bank deposits of Indians in Swiss banks have decreased from ` 23,373 crore in year 2006 to ` 9,295 crore in year 2010.

2.6.5 In Annexure Table 2 the liabilities of Swiss banks towards nationals of various countries have been listed. It can be seen that the deposits of Indians in Swiss banks constitute only 0.13 per cent of the total bank deposits of citizens of all countries. Further, the share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 per cent in 2006 to 0.13 per cent in 2010.

2.6.6 These figures are the only authentic information available at this stage about Indian money lying in foreign banks. From these figures, it can be safely concluded that the common belief that Indians hold the maximum deposits in Swiss banks is not correct.

2.7 Illicit Money transferred outside India: Reports of the IMF and GFI

2.7.1 An IMF study as reported by Rishi and Boyce (1990)[9] estimated the flight of capital from India during the period 1971-86 at US$20-30 billion, or US$1-2 billion every year. This estimate was later revised in 2001[10] to US$ 88 billion over the 1971-97 period, a sum that is roughly equivalent to 20 per cent of net real debt disbursements to the economy from 1971 to 1997. In other words, for every dollar of external debt accumulated by India from 1971 to 1997, private Indian residents accumulated 20 cents of external assets.

[7] *The Union Bank of Switzerland was known as Swiss Banking Association before 1921.*

[8] *GFI is an international agency that promotes national and multilateral policies, safeguards, and agreements aimed at curtailing the cross-border flow of illegal money. Various reports of GFI referred to in this section can be accessed at www.gfintegrity.org*

[9] *M. Rishi, and J.K. Boyce (1990) 'The Hidden Balance-of-Payments: Capital Flight and Trade Misinvoicing in India, 1971-1986', Economic and Politcial Weekly, July, pp. 1645-8.*

[10] *External Debt and Capital Flight in the Indian Economy, Oxford Development Studies, vol. 29, no. 1, 2001*

2.7.2 The method followed to arrive at these estimates was the World Bank residual method which estimates capital flight as follows:

> Capital Flight = Change in External Debt Outstanding + Current Account Surplus + Change in Official Reserve + FDI

The underlying rationale of the method is that the sources of funds exceeding recorded use of funds reflect unrecorded outflows. This unrecorded outflow may involve capital earned through legitimate means such as the profits of a legitimate business or it may involve capital earned through illegitimate business.

2.7.3 Capital flight is further adjusted through trade mis-invoicing which arises when transactions are re-invoiced when goods leaving the country of export under one invoice are reported under a different invoice in the country of import. The underlying rationale is that residents can acquire foreign assets illicitly by over-invoicing imports and under-invoicing exports. This is estimated by comparing exports/imports of goods from/to India with what the other countries are reporting as importing/exporting from/to India. The adjusted capital flight was thus estimated at US$ 87,881 million.

2.7.4 GFI used similar methodology, with certain modifications, for estimating illicit outflows and on other related topics in a series of reports:

(a) December 2008: Illicit Financial Flows from Developing Countries: 2002-2006, which estimates that illicit financial flows out of developing countries are US$ 850 billion to US$ 1 trillion per year.

(b) February 2010: The Implied Tax Revenue Loss from Trade Mispricing, which estimates that the developing world is losing roughly US$ 100 billion per year in tax revenue loss from illicit financial flows.

(c) March 2010: Privately Held, Non-Resident Deposits in Secrecy Jurisdictions, which estimates that such deposits are currently approaching US$ 10 trillion and have been growing at a compound rate of 9 per cent annually over the last 13 years, much faster than the growth in world GDP at 3.9 per cent per year.

(d) March 2010: Illicit Financial Flows from Africa: Hidden Resource for Development, which estimates that Africa lost US$854 billion in illicit financial outflows from 1970 through 2008.

(e) May 2010: The Absorption of Illicit Financial Flows from Developing Countries: 2002-2006, which examines where trillions of dollars in illicit outflows from the developing countries, being proceeds of crime, corruption, and tax evasion, are being deposited. It has been reported that the greater part of illicit flows departing from one country and arriving in another are transferred as cash through the shadow financial system, resulting in deposits in accounts outside countries of origin. It has been demonstrated that developed countries are the largest absorbers of cash coming out of developing countries and developed country banks absorb between 56 per cent and 76 per cent of such flows, considerably more than the OFCs.

(f) November 2010: The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008, which estimates that between 1948 and 2008,a total amount of US$ 213.2 billion has been shifted out of India through illicit outflows. After taking into consideration the rate of return on external assets, it is estimated that the adjusted gross transfer of illicit assets by residents of India amounts to about US$ 462 billion as of end-December 2008. It has been further stated that if the size of India's underground economy is estimated at 50 per cent of the GDP (US$ 640 billion based on a GDP of US$ 1.28 trillion in 2008), roughly 72.2 per cent of the illicit assets comprising the underground economy is held abroad.

(g) January 2011: Illicit Financial Flows from Developing Countries: 2000-2009, which estimates that illicit outflows from the developing world from 2000 to 2008 were approximately US$ 6.5 trillion.

(h) February 2011: Transnational Crime in the Developing World, which evaluates the overall size of criminal markets in 12 categories: drugs, humans, wildlife, counterfeit goods and currencies, human organs, small arms, diamonds and other gems, oil, timber, fish, art and cultural property, and gold. Of the 12 illicit activities studied, trade in drugs ($320 billion per year) and counterfeiting ($250 billion per year) are ranked first and second in terms of illicit funds generated.

(i) December 2011: Illicit Financial Flows from the Developing World over the Decade Ending 2009, which finds that illicit outflows from the developing world during the year 2009 were US$ 903 billion which is a major drop from the US$ 1.55 trillion recorded in the year 2008. The report also finds that from 2000 to 2009, developing countries lost US$ 8.44 trillion to illicit financial flows. As in the January 2011 report, countries are ranked according to the magnitude of outflows as shown here in Annexure Table 3.

2.7.5 In these reports, the illicit financial flows (IFFs) have been estimated by adding the change in external debt (CED) to trade mispricing based on the gross excluding reversals (GER) method. The CED is computed as source of funds (change in funds plus net FDI) minus use of funds (current account balance plus change in reserves) on the underlying principle that source of funds exceeding recorded use of funds reflects unrecorded outflows. The GER is computed by comparing a country's export/import to the world (free-on-board.) as compared to what the world reports as having imported/exported from/to that country, after adjusting for cost of insurance and freight (10 per cent of f.o.b.).

2.7.6 However, both the CED and GER adjustments only consider illicit outflows. Thus, when the use of funds exceeds the source, that is when there are inward transfers of illicit capital, the CED or GER, as the case may be, is set to zero. Illicit inflows have been excluded mainly on the grounds that since illicit flows are unrecorded, they cannot be taxed or utilised directly by the government for economic development. Further, these inflows are themselves driven by illicit activities such as smuggling to evade import duties or value-added tax (VAT) or through over-invoicing of exports.

2.7.7 By not considering illicit inflows even if the reasons given are valid, it is apparent that the estimate given in GFI's November 2010 report of a total of US$ 213.2 billion being shifted out of India from 1948 to 2008 appears to be on a higher side.

2.7.8 Further, the GFI reports do not consider the net effect of illicit outflows which have come back to the country through legal channels such as FDI and investment through P-Notes. It recognises that while outward transfers of illicit capital could come back to a country through a process known as 'round tripping', as the Indian and Chinese experience shows, these inflows would not be captured and would show up as an uptick in recorded FDI. It further states that while intuitively it may make sense to net out the return of flight capital from outflows, it would be practically impossible to implement because it would not be possible to apportion recorded aggregate inflows between new investments and the return of capital flight. This recognition further reduces the estimate of outflow from India.

2.7.9 Moreover the GFI (and World Bank)models do not capture significant illicit outflows, such as through

> Mispricing occurring through trade in services and intangibles as the same are not addressed in IMF Direction of Trade Statistics

> Trade mispricing that occurs within the same invoice through related or unrelated parties

> Smuggling

> Hawala-type swap transactions

2.7.10 It is therefore reasonable to suggest that although the estimates of illicit outflows outside India made by the IMF and GFI gives useful insights, they are incomplete and further studies are required to get a correct estimate.

2.8 Has Money transferred abroad illicitly returned?

2.8.1 In 'The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008', GFI has estimated that from 1948 to 2008 a total of US$ 213.2 billion has been shifted out of India through illicit outflows. It further estimates that after taking into consideration the rate of return on external assets, the adjusted gross transfer of illicit assets by residents of India amounts to about US$ 462 billion as of end-December 2008. It needs to be ascertained whether such an amount is stashed abroad in offshore bank accounts or whether this money has at least partly already returned to India.

2.8.2 FDI statistics perhaps point to this fact. As per data released by the Department of Industrial Policy and Promotion (DIPP), from April 2000 to March 2011 FDI from Mauritius is 41.80 per cent of the entire FDI received by India. In Annexure Table 4 the FDI equity inflows country-wise have been listed. It can be seen from this table that the two topmost sources of the cumulative inflows from April 2000 to March 2011 are Mauritius (41.80 per cent) and Singapore (9.17 per cent). Mauritius and Singapore with their small economies cannot be the sources of such huge investments and it is apparent that the investments are routed through these jurisdictions for avoidance of taxes and/or for concealing the identities from the revenue authorities of the ultimate investors, many of whom could actually be Indian residents, who have invested in their own companies, though a process known as round tripping.

2.8.3 Investment in the Indian Stock Market through PNs is another way in which the black money generated by Indians is re-invested in India. PNs or overseas derivative instruments (ODIs) are issued by FIIs against underlying Indian securities, which can be equity, debt, derivatives, or even indices. The investor in PNs does not hold the Indian securities in her/his own name. These are legally held by the FIIs, but s/he derives economic benefits from fluctuation in prices of the Indian securities, as also dividends and capital gains, through specifically designed contracts. Thus, through the instrument of PNs, investment can be made in the Indian securities market by those investors who do not wish to be regulated by Indian regulators due to a variety of reasons such as not meeting the eligibility criteria for investment in Indian securities market, cost and time considerations, or the desire to keep their identity anonymous, which is possible also for the reason that PNs/ODIs can be freely traded and easily transferred without disclosing the identity of the actual beneficiaries. ThePNs can only be issued to persons who are regulated by an appropriate foreign regulatory authority and after satisfying know your customer (KYC) norms. Further, the FIIs are required to report to SEBI on a monthly basis, the name and location of the person to whom the PNs/ODIs have been issued. However, in view of the fact that the jurisdictions in which the persons to whom PNs are issued are not only countries such as the UK or USA but also well-known OFCs such as the Cayman Islands, British Virgin Islands, Switzerland, and Luxembourg, it is possible to hide the identity of the ultimate beneficiaries through multiple layers which is also evident by going through the orders passed by SEBI in some cases.[11] The ultimate beneficiaries/investors through the PN Route can be Indians and the source of their investment may be black money generated by them.

2.8.4 In the recent past, instances have come to the notice of SEBI that the GDRs issued by some Indian companies, which are listed on the Luxembourg Stock Exchange, are used for manipulation of markets. On going through a 21 September 2011 order passed by SEBI,[12] it can be seen that surprisingly mysterious 'initial investors' were found ready to invest in GDRs issued by companies which were either start-ups or having shares with very little trading and after two-three years sold the GDRs at deep discounts taking heavy losses. These instances suggest this as another possible route for reinvestment of black money.

[11] Order No. WTM/KMA/IMD/184/12/2009 dated 9.12.2009, Order No. WTM/KMA/IMD/207/01/2010 dated 15.1.2010 and Consent Order CO/IVD/426/2011 dated 14.1.2011

[12] Order No.WTM/ PS/ISD/02/2011 dated 21.9.2011

2.8.5 Charitable organisations, non-government organisations (NGOs), and associations receiving foreign contributions are required to file an annual return to the Ministry of Home Affairs in Form FC-3. In the said form, only the name and address of the foreign donors are mentioned, with no further details of the beneficial owners. It is possible that in many such cases, the black money generated by Indians is being routed back to India.

2.8.6 While GFI recognizes in its various reports that the outward transfers of illicit capital could come back to a country through 'round tripping', it has not taken the same into consideration in view of the practical difficulty of doing so. However, the foregoing examples do suggest that a large part of the illicit flows from India may have returned. They also highlight urgent need of proper investigations by the International Taxation Division, strengthening of the legislative framework consisting of double taxation avoidance agreements (DTAAs) and tax information exchange agreements (TIEAs), and streamlining of exchange of information from various jurisdictions, including OFCs.

2.9 Misuse of Corporate Structure

2.9.1 Corporate structuring is a legitimate means of bringing together factors of production in a way that will facilitate business and enterprise and help the economy. However, an artificial personality can also be created of a corporate entity to conceal the real beneficiaries. Opaque structuring through creation of multiple entities that own each other and the secrecy granted by certain jurisdictions facilitate such misuse.

2.9.2 A World Bank Report of 2011 titled 'The Puppet Masters' investigated 150 big corruption cases and in almost all such cases, misuse of corporate vehicles, such as companies and trusts, was found to the tune of US$ 50 billion. As a response to such blatant misuse of legal privileges, many countries are now demanding meaningful information about beneficial ownership. The FATF has also taken a strong stand on this issue and is in the process of revamping its recommendations to tighten the rules. It is expected that there will be a shift towards identifying real rather than merely legal ownership and global efforts will plug the loopholes existing in the form of such unethical practices prevalent today.

2.9.3 The Vodafone tax case provides an instance of the misuse of corporate structure for avoiding the payment of taxes. In this case, the Hutchison Group had made investments in India from 1992 to 2006 through a number of subsidiaries having 'separate corporate personality' but which were essentially post box companies based in the Cayman Islands, British Virgin Islands, and Mauritius. The Hutchison Group sold its entire business operation in India in February 2007 to the Vodafone Group for a total consideration of US$ 11.2 billion and the same was effected through transfer of a solitary share of a Cayman Islands company. When the tax authorities requested the accounts of the said company, the answer given was that as per Cayman Islands law, the company was not required to prepare its accounts.

2.9.4 With increasing realisation about the harmful effect of ownership being concealed behind complicated corporate ownership structure, such structure is coming under scrutiny. In the Indian context, it is one of the reasons for the fact that tax authorities are not able to take action in cases where money is prima facie brought back to India through round tripping and other legitimate means and it is expected that efforts taken by India in this regard as also global pressure will provide a check on these tendencies.

2.10 Need for more research

2.10.1 The need for more reliable estimates of the extent of black money both inside and outside the country arrived at through rigorous research and examination has been already recognised. This is needed for purposes of policy formulation as well as to prevent wild speculations. To achieve these objectives, a memorandum of understanding has been signed between the Central Board for Direct Taxes (CBDT), the NIPFP, the National Council for Applied Economic Research (NCAER), and the National Institute of Financial Management (NIFM) on 21 March 2011 for completing a study within a period of 18 months with the following terms of reference:

- To assess/survey unaccounted income and wealth both inside and outside the country.
- To profile the nature of activities engendering money laundering both inside and outside the country with its ramifications for national security.
- To identify important sectors of the economy in which unaccounted money is generated and examine causes and conditions that result in generation of unaccounted money.
- To examine the methods employed in generation of unaccounted money and conversion of the same into accounted money.
- To suggest ways and means for detection and prevention of unaccounted money and bringing the same into the mainstream economy.
- To suggest methods to be employed for bringing to tax unaccounted money kept outside India.
- To estimate the quantum of non-payment of tax due to evasion by registered corporate bodies.

2.10.2 The issue of generation of black money and its illicit transfer abroad has gained prominence in the last two years due to the resolve of world leaders, including Indian leaders, to address it effectively. Some of the widely circulated figures about black money of Indians stashed abroad have been, as discussed earlier, baseless exaggerations and there is strong likelihood that substantial amount of such money transferred abroad illicitly might have returned to India through illicit means. Thus a multi-pronged strategy, including joining the global crusade against black money, creating an appropriate legislative framework, setting up institutions for dealing with illicit money, developing systems for implementation, and imparting skills for effective action, is required to deal with the issue of generation of black money and its illicit transfer outside the country, and for bringing it back to India. This will be subsequently discussed in this document.