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Government Policies and Programs to Control Black Money in India: An Analytical Study

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Abstract

Black money has been one of the hottest topics of discussion in the recent past. Many social reformers and activists have protested against the Government of India to bring the black money to India. This is not the first time that voice was raised against the black money. Various committees were formed and numerous efforts were made to stop the black money to increase the tax collection in colonial India. In 1936, the Ayers Committee was formed to investigate the black money from Indian colonies. The Ayers Committee suggested major amendments to shield and promote the honest tax payer and efficiently deal with the deceitful fudging. Now, after so many years gone, we are still not able to deal with the black money effectively. Several other proposals were also made in the white paper brought out by India to tackle black money.

Keywords: *Black Money; Demonetization; Goods And Services Tax; Digital Economy; Direct Benefit Transfer; Income Disclosure Scheme; Pan-Aadhaar Linking.*

1. INTRODUCTION

1.1 Reduce Disincentives Against Voluntary Compliance

The major reason behind the increasing black money is the excessive tax rates. It is observed that when the tax rate approaches 100%, tax revenues approach zero. Reports have found out that high transaction cost associated with compliance with the law is another cause of black money. The white paper brought out by India on black money suggests that lower taxes and a simpler compliance process reduce black money. The report also suggests that non-tariff barriers to economic activity, such as permits and licences and long delays in getting approvals from government agencies, are an incentive to proceed with black money.

1.2 Reforms in Vulnerable Sectors of the Economy

Sectors like gold trading, real estate, the equity trade market, mining permits, bullion, and non-profit organisations, etc., require systematic reforms.

1.3 Creating Effective Credible Deterrence

Effective and credible deterrence is needed in combination with reform, transparency, simple processes, elimination of bureaucracy, and discretionary regulations. Although, it should be cost effective. This can be achieved by integration of systems and compliance departments of the Indian government, direct tax admission, adding data mining capabilities, and improving prosecution processes.

1.4 Other Measures

Other measures such as public awareness initiatives must be launched. Also, financial auditors should be more accountable for distortions and lapses. Whistleblower laws must be strengthened to encourage reporting and tax recovery. Amnesty programs are also proposed in the white paper. It is suggested that it can be an effective and lasting solution. India has a Double Tax Avoidance Agreement with 82 nations, and it has expanded agreements with 30 countries which require mutual efforts to collect taxes on behalf of each other. The white paper suggests that the agreement can be expanded to other countries as well to help with enforcement.

2. MAJOR GOVERNMENT POLICIES AND PROGRAMS TO CONTROL BLACK MONEY

2.1 Demonetization (2016)

The Government of India took a remarkable step on 8 November 2016 to curb black money by declaring the existing ₹500 and ₹1,000 currency notes invalid. This decision was taken under the leadership of the Prime Minister of India. It created a significant impact across the country, especially on individuals who had accumulated large amounts of unaccounted cash through illegal means. Such money became unusable unless deposited into the banking system.

At the same time, ordinary citizens faced considerable difficulties due to cash shortages and disruption of daily transactions. However, it was a bold economic reform that required strong political determination.

Objectives of Demonetization:

The primary objective of demonetization was to eliminate black money from the Indian economy. The government believed that black money encouraged corruption, increased social inequality, and adversely affected economic development. By reducing the circulation of unaccounted cash, the government aimed to promote a transparent and formal economy.

The second objective was to eliminate counterfeit currency. A large number of fake ₹500 and ₹1,000 notes were circulating in the country, many of which were allegedly smuggled into India from across the border. These counterfeit notes were harming the country's financial system and economy.

The third objective was to curb terrorism financing. Terrorist organizations often receive funds through illegal channels such as black money and the hawala network. By invalidating high-value currency notes, the government intended to disrupt these illegal financial networks and strengthen national security.

The fourth objective was to encourage digital payments and reduce financial crimes. With the rapid growth of cybercrime, the government has promoted digital payment systems while simultaneously creating awareness among citizens regarding online fraud. Banks regularly send SMS alerts advising customers not to share personal banking information or click on unknown links. The government has also established specialized cybercrime agencies and organized awareness programs to educate people about cyber security.

Table 1. Currency in Circulation Growth and Cash-GDP Ratio

Financial Year	Ratio (%)	Currency in Circulation Growth (%)
2015-16	12.1	14.9
2016-17	8.7	-19.7
2017-18	10.7	37.0
2018-19	11.3	16.8
2019-20	12.2	14.5
2020-21	14.4	16.6
2021-22	13.3	9.8

Source: Reserve Bank of India – Annual Report

2.2 Goods and Services Tax (GST)

To reduce corruption and black money, the Government of India implemented the Goods and Services Tax (GST) in 2017. Under GST, businesses are required to maintain complete records of purchases and sales, preserve invoices and vouchers, and issue proper tax invoices for every transaction. The digital nature of GST has improved transparency in business transactions and reduced opportunities for tax evasion.

The government has also made it compulsory for taxpayers to disclose their income and assets, which has significantly strengthened efforts to control black money.

2.3 Digital and Cashless Economy

Under the Digital India Programme, the government has promoted a cashless economy by encouraging digital modes of payment. Online transactions create a transparent financial record, making it difficult to conceal income or evade taxes.

Digital payment platforms such as UPI (Unified Payments Interface), the BHIM App, internet banking, and digital wallets have been widely adopted. These initiatives have helped reduce cash transactions, increased transparency, and played an important role in controlling black money.

2.4 Direct Benefit Transfer (DBT)

The Direct Benefit Transfer (DBT) scheme was introduced to reduce corruption and prevent leakages in government welfare programs. Under this system, financial assistance provided by the government—such as subsidies, farmers' benefits, pensions, widow pensions, and other welfare payments—is transferred directly into the bank accounts of beneficiaries.

This system has eliminated the role of middlemen, reduced corruption, and ensured that government

benefits reach the intended recipients efficiently and transparently.

2.5 Income Disclosure Scheme (IDS)

The Government introduced the Income Disclosure Scheme (IDS), under which individuals were allowed to voluntarily declare their previously undisclosed income by paying the prescribed tax and penalty.

This scheme increased government revenue while bringing unaccounted income into the formal economy. It contributed to improving tax compliance and reducing the generation of black money.

2.6 Linking PAN with Aadhaar

The Government made it mandatory for taxpayers to link their Permanent Account Number (PAN) with Aadhaar. This measure enables tax authorities to accurately verify the identity and financial transactions of taxpayers.

Mandatory PAN–Aadhaar linking reduces the possibility of tax evasion, prevents the use of multiple or fake PAN cards, improves transparency, and strengthens the government's efforts to control corruption and black money.

3. CONCLUSION

The Government of India has implemented several important policies and programmes to curb black money, including demonetization, GST, the Digital India initiative, Direct Benefit Transfer (DBT), the Income Disclosure Scheme (IDS), and mandatory PAN–Aadhaar linking. These initiatives have improved transparency, strengthened tax administration, promoted digital transactions, and reduced opportunities for tax evasion and corruption. Although the challenge of black money has not been completely eliminated, these reforms have

significantly contributed to building a more transparent and accountable economic system in India.

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