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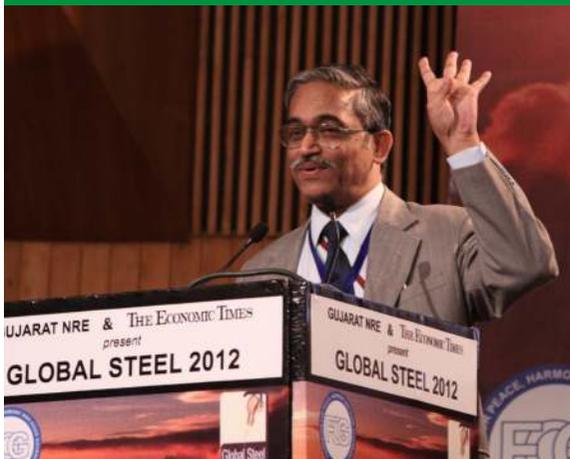
TRUST

National Seminar on

# BLACK MONEY

18 May 2011, India Habitat Centre, New Delhi

PROCEEDINGS



## Introduction

### D R Kaarhikeyan President, FGG and Former Director, CBI



Corruption is all pervasive and affects everyone; black money is a part of this problem. We have not addressed the root cause of the problem; we need to address the problem from its source. Focus of the conference is to address the source, its threat to the society, and how government and society can work together to tackle the problem of black money. The big defaulters of the black money get away with what has been stashed away. Even the big businessmen agree, had it not been for extortionary corruption, they consider, they will be able to provide better service to the consumers.

## Inaugural Address

### Justice PV Reddi Chairman, Law Commission of India

Certain ideas to minimise corruption is essential, though specific issues relating to sources are important. Vohra Committee recommendations on black money is

important and the reasons for the non implementation must be looked into. Corruption and Black money is intertwined and all pervasive.

Black money is the source of all ills in the country; many scams involving public property is an expression. The linkage between new economic policy and black money needs to be explored and adequate measures need to be taken. Hawala, real estate dealing etc leads to corruption and creation of black money.

Seeping and general advice may not help. Specific action plan is required. Ideal plan would be to curb the mafia, drug traffickers etc. We should evolve mechanisms to control black money and black marketing exclusively. Dedicated mechanism and expert bodies with functional autonomy to deal with this problem is essential. Gathering of information and supervision on a regular basis is important. Irrespective of the cost, adequate mechanisms should be put in place with enough experience and powers.

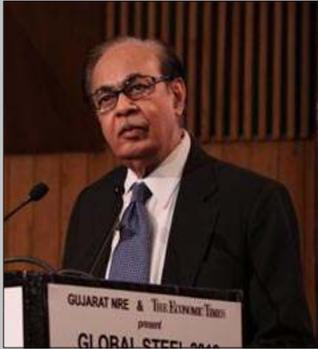
The above mechanism should create a feeling that the stringent measures are implemented and act as a deterrent for people to mobilise black money. Under valuation of cost of buildings/ estate has become the norm. Both the buyer and seller are in collusion on this issue. Stamp duties should be looked into; cash transactions should be restricted. State governments



**From left:** Arun Kumar Jagatramka, CMD, Gujarat NRE Coke Ltd; Sudhir Chandra, Chairman, CBDT; R Sri Kumar, Vigilance Commissioner, CVC; Paromita Chatterjee, Senior Editor, ET Now; Justice P V Reddi, Chairman, Law Commission, D R Kaarhikeyan, President FGG and Former Director, CBI, Kiran Bedi, Former IPS Officer and B G Verghese, Journalist & Writer.

should play a greater role. Hawala transactions need to be tackled with a sense of urgency.

International cooperation is also essential to handle black money and black marketeering. Tax evasion and avoidance becomes a liability.



***“Black money is the source of all ills in the country; many scams involving public property is an expression”***

**- Justice PV Reddi**

### **Session on Combating the menace of Black Money – Stop its generation...we cannot keep on mopping the floor with tap open**

**Sudhir Chandra**

**Chairman, Central Board of Direct Taxes**

Income Tax department should come clean before the public. Until 15 May, 2011, 1.4 million crores of refund has been made. Chairman CBDT has placed everything on the net; hence the work force know what is happening. Honest officers are afraid of petty things related to anonymous complaints; hence the CVC was told there should be no cases on anonymous complaints. An emotional connect is made between the Chairman and the officers.

Despite refunding, the department has achieved maximum collection from the Income Tax department. Reduction of corruption in Income Tax department has been a success story this year. In terms of black money, though 15,000 crores of rupees of black money has been recovered in the last two years, it were only against the big fishes. More than the mopping, the tap should be closed in terms of black money.

‘360 degree profiling’ is being done to avoid harassment. Union Finance Minister has announced a five point strategy to deal with black money; this includes the following: joining the global crusade against black money, getting an appropriate legislative framework, setting up institutions for dealing with illicit money, developing a system of implementation and imparting skills.

**R Sri Kumar**

**Vigilance Commissioner, Central Vigilance Commission**

Black money is not an income earned legally. What are we doing with the illegal activity? Black money leads to parallel economy. This affects the process of governance. It is a threat to democracy. Public sector corruption is only a part of this.

Private sector and the public have to work together on this issue. Article 51-A(J) talks about collective endeavour; we have to work together and build a team India and have a vision together. If individual violation of public conscience takes place to suit ones own convenience, the struggle against corruption will never come to an end.

More than the public servants having assets disproportionate to the known source of income there are non-public servants, who have amassed wealth. There are not adequate mechanisms to deal with this. We need enforcement and we need Rule of Law; in this, we need to perform our duties.

Operation Vig-Eye has been launched with the objective to empower citizens to report corruption (blowyourwhistle.com). There is a need to strengthen the existing institutions enabling them to perform. For the institutions to function, there should be transparency, technology, efficiency, empowerment and mutual cooperation.



***“Black money leads to parallel economy. This affects the process of governance. It is a threat to democracy.”***

**- R Sri Kumar**

**Kiran Bedi**

**Former IPS officer**

The destiny of India is in the hands of CBDT, which has enormous responsibility. If it gets after the big fish and nail them, the rest will take care of itself. Ministers and political parties can be rejected by the people. Three departments are the most corrupt: income tax, land department and police.

There is slow change at the individual level in select departments; but there is a need for a substantial change right from recruitment to training. Every department should have one hour to listen to complaints on first come first served basis. Junior officers will follow this.

This will improve transparency. Senior officers should also visit their departments un-announced. If the black money comes back, India may be debt free; its senior citizens may have enough pension. It may have enough for building infrastructure.



*“If the Black money comes back, India may be debt free; its senior citizens may have enough pension. It may have enough for building infrastructure.”*  
- Kiran Bedi

**B G Verghese**  
**Journalist and writer**

India's institutions are as good as any other in the rest of the world. What is needed is autonomy of institutions and the implementation of existing laws and regulations. Lack of political will is the second most important issue

which is needed to tackle corruption. Public interest litigation is a great initiative, which needs to be taken forward.

Technology has transformed crime; hence, the institutions also have to change and be ahead in terms of updating themselves. For frivolous complaints, there should be punishment as well.

For the society, media acts as the ‘First Information Report’. Media today is an extremely powerful tool. Unfortunately, while the power of media has grown, its responsibility has come down. Equally unfortunately, the public media, led by Doordarshan has been systematically demolished. Along with the reforms of constitution, there is a need for reforms in political parties as well. Political parties, cutting across party lines, seems to be unanimous in not taking action against the corrupt.

**Session on Black Money and Black Economy**

**Vishv Bandhu Gupta**  
**Former Commissioner, Income Tax**

Reforms are needed in three sectors: tax, electoral and judicial. Filing tax returns should be the responsibility of the employers and not the employees. Service tax should be reduced from 12 percent to 2 percent; excise duty should be reduced to 3 percent except on negative goods



**From Left:** Arun Kumar, Professor, Centre for Economic Studies & Planning, JNU; N Bhaskara Rao, Chairman, Centre for Media Studies; Swami Agnivesh, Chairperson, Bandhua Mukti Morcha; Govindraj Ethiraj, Industry Outreach, UDAI, Planning Commission, Government of India; Subhash Lakhotia, Tax Guru, CNBC Awaaz; Gopal Agarwal, CA and Financial Expert ; Vishv Bandhu Gupta, former Commissioner, Income Tax.

The corporate taxation rate should be at 20 percent, with effective rate at 9 percent. This would encourage people to declare their correct income and pay taxes as the incentive for non compliance would be reduced considerably.

Number of seats in legislative assembly and the Parliament should be doubled. Election expenditure needs to be brought down. Lokpal institutions should be created at the state level and even should go to district levels.

**Gopal Agarwal**  
**CA and Financial Expert**

Those who take bribes, do not take bribes directly; its done through their spouses or their NGOs. Hence, there is a need to bring the NGOs under scrutiny. Private sector bribery needs to be addressed. A new bill needs to be introduced in the Parliament in this regard.

Tax evasion, leading to parking of money in foreign banks need to be examined and proved to be crime money. A floating warrant should be issued to identify the beneficiary of these tax evaders, who have deposited their black money in different banks worldwide. Real estate sector involves mammoth corruption; there is a need for a separate authority to ensure that the public dream of owning a house becomes a reality.

**Subhash Lakhotia**  
**Tax Guru, CNBC Awaaz**

Black money deposited elsewhere will come back to India, only if there is a will to bring it back. The government should have the zeal to do so. Black money under circulation is much more than what is estimated.

There is so much even within India. Tax provisions should be made in such a way that it is easy to file the returns. Meet the stakeholders and ask how to curb black money. Have realistic income tax returns; corporate tax should be increased to 25 percent from 20 percent. Dividend distribution tax should be removed.

Have friendly tax regime. Launch educational programme to bring out the importance of White Money. Encourage tax payers to pay tax on black money, specially received without their desire. State laws should be transparent. A special amnesty scheme with confidentiality to bring back the black money may be introduced.

Cancel business relationship with tax haven countries. Bank fixed deposit with American interest plan to reduce black money may also be introduced.

**Swami Agnivesh**  
**Chairperson, Bandhua Mukti Morcha**

There is a need to emphasis on values, spirituality and good conduct. Religion has become a source of hiding black money. Real estate and builder lobby is a source of black money. The lack of political will in sorting out the problem can be observed.



*“There is a need to emphasis on values, spirituality and good conduct. Religion has become a source of hiding black money..”*  
- Swami Agnivesh

**N Bhaskara Rao**  
**Chairman, Centre for Media Studies**

Black Money should be seen as an undeclared war against the nation. RTI Act, in the last few years have led to the creation of more 5000 RTI activists, creating an environment against corruption. This is a good initiative, but only a first step. Declaration of assets before the filing of nomination, has not made any dent. A war cannot be waged against black money without the active involvement of political leaders.

‘Note for vote’ has become a huge phenomenon and has been growing from 2 rupees in the 1970s, to 200 rupees per vote and more than 25 percent of people is taking the money. Initially, it was behind the scene; now it is open. Approximately, one lakh crore needs to be generated annually for a assembly segment, from unaccounted sources. Unless this is addressed, black money will never cease to exist. Control of black money should involve creation of institutions, making them effective and creating awareness.

**Arun Kumar**  
**Professor, Centre for Economic Studies & Planning, JNU**

The solution for black money cannot be anecdotal - we need analytics to understand and tackle the problem. Black money is a tiny part of the black economy- it is only the part of black incomes that are saved in cash, but black savings do take other forms, hence black economy has a larger connotation than black money alone. Black

economy has engulfed all the elite sections of society.

The growth rate of the economy has been adversely affected by approximately 5% due to black money. Apart from this, development has been adversely affected, large scale policies have failed as well as national security has been affected and criminalization of society has grown due to this menace. An astounding 97% of the population suffers due to the existence of the black economy and today the black economy is around 50% of the GDP.

The existing laws do not mean what they are on paper and have been systematically subverted. National interest have been sacrificed by the elite for small individual gains and it is the lack of political will due to weakness of democracy and the existence of triad that has lead to spiraling increase of this menace. RTI for public and private sectors be strengthened and transparency and accountability needs to be implemented at all levels to fight this Goliath.

#### Session on Unraveling Black Money

##### V S Sampath

**Election Commissioner, Election Commission of India**

The Election Commission has been able to contain the 'money power' that was rampant in general election of various states. Tirumangalam by elections was a game

changer in the role of money in elections. The Commission has tried to appoint expenditure observer from Indian Revenue Service to keep an eye on the legal activities and check on illegal activities of the candidates contesting the election.

However there is no limit on expenditure done by political parties. There should be some means of publishing the accounts of political parties as public money is involved in it. In terms of raising funds by political parties, there is need for some regulation. The blatant propaganda through newspapers and television channels done by political parties who own them need to be regulated too. Bribery of voter is a non-cognizable offence; hence a suitable legal framework needs to be created.

##### P S Bawa

**Chairman, Transparency International India**

Black economy includes the money stashed outside and the unaccounted money within the country. On 12<sup>th</sup> May 2011, the UN Convention against Corruption has been ratified by India thereby facilitating information flow and legal support from other countries who are a part of the Convention. The role of the civil society has increased after the ratification of UN Convention against Corruption.

Black money is used in acquiring property, purchasing gold, marriage ceremonies, items of conspicuous



**From Left:** Mr P S Bawa, Chairman, Transparency International India, (standing and speaking); Mr Arun Kumar Jagatramka, CMD, Gujarat NRE Coke Ltd, Mr V S Sampath, Election Commissioner, Election Commission of India; Wajahat Habibullah, Chairperson, National Commission for Minorities; Mr D R Kaarthikeyan, President, FGG and Former Director CBI.

consumption and investment in political parties. There is need to contain benami transactions through the Benami Transactions Act. Stamp duty never corresponds to the actual transaction. The registration and market rate is nowhere close.

### Valedictory Address

**Wajahat Habibullah**  
Chairperson, National Commission for Minorities



*“RTI should not be used for narrow purpose; it should be used for a larger societal purpose, involving public as auditors of the government. Anna Hazare's movement has opened the eyes of the people.”*

**- Wajahat Habibullah**

The constitution talks of equality for all; but the practice of constitution does not ensure the same. Black economy is not all about corruption. India, no doubt is shining. But is the entire nation shining? Why is there a Maoist movement then? A large number, who see India glow and glitter also know they are not a part of this, hence a negative reaction.

We are capable of tackling this problem. The system is capable of; it should provide space for everyone. RTI is a part of this aspect. Lokpal Bill should also be seen in this perspective. Under the RTI, every Indian has a right to know about the decisions of the government. Adarsh, CWG and 2G scams were initially exposed as a result of the RTI. So there is adequate ways/means to make an effective intervention by the public. The above are exceptions, as there have been action on these three cases. Not all cases, there are follow up, because the RTI exposures are not followed up. This institutional framework should be activated.

RTI should not be used for narrow purpose; it should be used for a larger a societal purpose, involving public as auditors of the government. Anna Hazare's movement has opened the eyes of the people. The instruments are in

the hands of the people. We should take this forward. We should take RTI and demand accountability. Laws are made to work. We should know our laws and make use of them.

### Vote of Thanks

**Arun Kumar Jagatramka**  
Conference Chairman, Global Steel

There is a need to have a relook at our laws which are heavily drafted to try to keep the offenders at bay. The regulations in place attempt to make the process a stringent one, as a result making it tough for the honest to comply with. While the dishonest finds a way out to bend the system, the honest finds himself lost in the plethora of rules & regulations. The guilty should not be allowed to roam scot free and certainty of punishment would deter others from repeating the mischief. However, 'Certainty of Punishment' is not espoused by our judicial system, rather the focus is on 'Severity of Punishment'. More severe the punishment, higher the payout of bribe. The need is to come out of age old mentality of the oppressed and the oppressor where the enforcement agencies are viewed as the oppressor and the 'aam admi' as the oppressed.

We avoid speaking up because of our fear of entanglement and the fear of being singled out. The 'chalta hai' attitude and the lack of self belief that one man cannot make a difference has added to the menace. We need to build a society on the foundation of trust. Indians have been brainwashed to distrust other Indians. This saps national energy and distrust kills initiative. Distrust compels people to manoeuvre and manipulate but trust and transparency stimulates entrepreneurship. The second freedom struggle for India has started and this struggle is against corruption.



*“We need to build a society on the foundation of trust.”*  
**- Arun Kumar Jagatramka**

## POLICY PRESCRIPTIONS

***"The more laws are enacted and taxes assessed, the greater the number of lawbreakers and tax evaders." - Lao Tzu***

1. *Non-compliable provisions in most revenue legislations leading to all being defaulters -differing only in scale - with the result that big evaders can afford to buy the system out while genuine ones in difficulty unable to match the payout of tax evaders to keep the officials happy - this leads to even the genuine ones turning into evaders in the longer term*
2. *We need tax laws:*
  - A. *Which do not abet corruption and are not self defeating*
  - B. *Which would not invite more & more avoidable vigilance and suspicion in tax system*
  - C. *Which would not harasses honest tax payers*
  - D. *Which will discourage evasion and greasing palms of tax officials*
3. *Need for a complete overhaul of tax system with a bold message to encourage self compliance*
4. *Harassment should be reduced for top tax payers as against the current system of 'catch the big fish' syndrome of harassing the one's who pay more tax*
5. *Concentrate and focus raids on very large cases (above Rs 100 crores) and only after a '360 degree profiling'*
6. *Accept that Black Economy is a threat to security of the country and its removal is more important rather than the current focus on revenue*
7. *Identify causes of existence of black economy like degree of controls and regulations etc*
8. *Detailed Electoral reforms as a measure to combat black economy and black money*
9. *In all social sector schemes, the thrust should be on implementation. Skimming funds from the public purse at every level and at every crossing within the chain of command results in only a fraction of government outlay reaching to the intended beneficiaries*
10. *Discourage Extortionary Corruption Need to identify extortionary corruption and to deal with it separately from collusive corruption*
11. *One hour open door policy to be mandatory for all public servants to meet the public*
12. *Moral Science and integrity should be made a compulsory subject at all educational institutions*
13. *Zero capital gains tax and 1% stamp duty on all real estate deals to encourage full value transactions*
14. *All bank lockers in India be frozen and assets released only after official scrutiny*

***It is black money that saps out the strength of the Nation and makes it vulnerable to divisive forces, both internal and external.***