## TABLE OF CONTENTS

	Page
Foreword	v
Preface	yi <b>i</b>
Acknowledgements	ix
1. Introduction	1
2. Black Money: Some Preliminaries	5
1. Concepts and Definitions	5
<ol><li>Black Income Generation: Some Examples</li></ol>	11
<ol> <li>The Extent of Black Income in India:</li> <li>A Qualitative View</li> </ol>	16
3. Black Income in India: A Critical Review of Recent Estimates	21
1. Introduction	21
<ol> <li>Alternative Methods for         Estimating Black Income:         A Taxonomy</li> </ol>	22
3. Fiscal Approach: Chopra's Estimates	25
4. Monetary Approach: Estimates by Gupta and Gupta	34
<ol><li>Physical Input Approach: Estimates by Gupta and Mehta</li></ol>	39
6. National Accounts Approach: Estimates by Ghosh, et. al.	43

xiii

			Page
	7.	Estimates of Unaccounted Income: A Numerical Overview	45
	8.	Some Lessons	47
4.		timating Unaccounted Income: Monetary Approach	51
	1.	Introduction	51
	2.	The Tanzi Method	52
	3.	Some Problems with the Tanzi Method	53
	4.	Adapting the Tanzi Approach to India	56
	5.	Interpretation and Assessment of the Result	70
5.		e Scale of Black Income: A Fiscal oproach	74
	1.	Introduction	74
	2.	National Accounts Statistics: From Net Domestic Product to Gross Personal Income	76
	3.	The Distribution of Gross Personal Income	77
	4.	Matching the NCAER and NAS Totals of Gross Personal Income	88
	5.	The Derivation of Taxable Income	95
	6.	Estimates of Tax-Evaded Income: First Approximations	122
	7.	Estimates of Tax-Evaded Income for 1980-81	126
	8.	What if National Income is Underestimated?	132
	9.	Overview and Assessment	136

6.		lack Income Generation in the Sugar ndustry: A Case Study	145
	1.	Introduction	145
	2.	The Sugar Industry in India: A Capsule History	148
	3.	The Anatomy of Black Income Generation in Sugar	154
	4.	Estimating Suppression of Sugar Output: A Physical Input-Output Approach	157
	5.	Underpayment for Sugar-cane	182
	6.	Black Income Generation in Sugar: A Summary of Estimates	183
7.		ack Income Generation in Urban Real	190
	1.	Introduction	190
	2.	Black Income Generation: Forms and Causes	191
	3.	Sources of Data	194
	4.	Black Income Generation in Urban Real Estate: Delhi	195
	5.	Black Income Generation in Urban Real Estate: Bombay and Madras	199
	6.	Some Other Results	205
8.	Bl	ack Incomes From Public Expenditure	210
	1.	Introduction	210
	2.	Some Examples and an Unifying Concept	211
	3.	The Scale of Black Incomes from Public Expenditure: Some Piecemeal Evidence	213
	4.	The Scale of Black Incomes from Public Expenditure: Some Speculations	218

9.	Underlying Causes of the Black Economy: A Qualitative Review of the Principal Factors	222
	1. Introduction	222
	2. The Level and Structure of Taxation	223
	3. Controls on Economic Activities	232
	4. General Laws and Regulations	237
	5. The Scale of Government Spending	238
	6. Political Funding	239
	7. Standards of Public Morality	241
	8. Inflation	242
10.	Deterrence of Tax-Evasion: Theory and Practice	245
	1. Introduction	245
	2. Factors Influencing the Rate of Detection	246
	3. Punishment through Penalties	269
	4. Punishment through Prosecution	276
	5. A Summing Up	293
11.	The Black Economy: Some Aspects	296
	I. Introduction	296
	2. Important Sectors for Black Income Generation	297
	3. Methods of Black Income Generation	299
	4. Forms in Which Black Wealth is Held	301
	5. Methods of Converting Black Income and Wealth into "White"	303
	ANNEXURE: Questionnaire on Black Money	306

12.	Some Economic Consequences of the Black Economy	311
	1. Misinformation about the Economy	311
	2. Impact on the Fiscal System	314
	3. Implications for Resource Allocation	316
	4. Consequences for Income Distribution	322
	5. Implications for Monetary Policy	323
	6. Some Wider Issues	324
13.	A Global Estimate of Black Income Generation	327
	1. Introduction	327
	2. A Global Estimate of Black Income Generation	329
14.	Policies for Scaling Down Black Income Generation	346
	. A Brief Review of Past Policies	346
	2. Measures Recommended for Reducing Black Income Generation	350
Bibl	ography in the Text	36 <b>6</b>
App	ndix I. Background Material for a Fiscal Approach to Estimating Black Income in India	378
	1. The Basic NCAER Survey Data	380
	<ol><li>Conversion Procedure for Deriving Frequency Distribution of Earners</li></ol>	382
	<ol> <li>Population Adjustments and Changes in the NCAER Estimates for 1975-76</li> </ol>	384
	4. Fitting a Two-Parameter Lognormal Function	387

TABLE OF	CONTENTS
----------	----------

	alts of Lognormal Fits and lifications	391
Leve	nation Procedure for Component of Income Distribution Classified acome Ranges for Earners	397
	nation of Scaled-up Component el Income Distribution	399
8. Estin	nation of Tax Deductions	406
	nation of Income Below	414
10. Com	putation of Blow-up Factors	417
	asion: Some Implications for I Income Estimates	512
References in Append	lices	525

xvii

## LIST OF TABLES IN THE TEXT

		Page
3.3.1	Chopra's Estimates of Unaccounted Income	27
3.3.2	Number of Assessments and Assessees Reported in Alternative Sources and Derived Indicators of Underreporting in AIITS	31
2.4.1		37
3.4.1	•	31
3.7.1	Alternative Estimates of Black Income (As per cent of GNP or GDP)	45
4.4.1	Data Used in the Regressions	58
4.4.2	Regression Results with R12 as the Interest Rate Variable	64
4.4.3	Regression Results with RAVE as the Interest Rate Variable	66
4.4.4	Estimates of Tax-Induced Currency Demand (TICD)	69
4.5.1	Estimates of Unaccounted Income by Tanzi's Method	71
5.2.1	From Net Domestic Product to Gross Personal Income (Rs crore in current	77
	prices)	77
5.3.1	Summary Version of the Household Distribution of Income (NCAER) by Source Components of Income for Urban	
	India 1075-76	70

LIST OF TEXT TABLES XIX

5.3.2	Summary Version of the Frequency Distribution of Reporting Households (NCAER) by Source Components of Income for Urban India, 1975-76	83
5.3.3	Frequency Distribution of Reporting Households (Urban and Rural) by Earner-Density of Households, 1975-76	84
5.3.4	Distribution of Earners (Urban and Rural) from Households of Varying Earner-Density, 1975-76	85
5.3.5	Conversion of Household Frequency Distribution to Earner-Wise Frequency Distribution: Illustration for 'Two- Earner' Urban Households, 1975-76	86
5.4.1	Population Adjusted Estimates of Gross Household Income (NCAER) and Earners for Urban and Rural India, 1975-76	91
5.4.2	Gross Personal Income Distributed under Three Different Scenarios for Urban and Rural India, 1975-76	92
5.4.3	Estimated Distribution of Gross Personal Income by Income Ranges for Earners—Urban India 1975-76	94
5.4.4	Estimated Distribution of Gross Personal Income by Income Ranges for Earners—Rural India, 1975-76	95
5.4.5	Estimated Distribution of Gross Personal Income by Income Ranges for Earners—All India, 1975-76	96
5.4.6	Size Distribution of Income Based on Derived Earner-Wise Data and the NCAER Raw Household Data for Urban	
	and Rural India, 1975-76	96

5.5.1	Composition of Gross Household Income by Source Components for Urban and Rural India, 1975-76	99
5.5 2	Unscaled Gross Personal Income Distribution by Income Ranges for Earners, Urban India, 1975-76	102
5.5.3	Unscaled Gross Personal Income Distribution by Income Ranges for Earners, Rural India, 1975-76	104
5.5.4	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Urban India, 1975-76, Case 1 ("Missing Income" Allocated in Ratio of U:R=1:2)	106
5.5.5	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Urban India, 1975-76, Case 2 ("Missing Income" Allocated in Ratio of U:R=1:1.5)	108
5.5.6	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Urban India, 1975-76, Case 3 ("Missing Income" Allocated in Ratio of U:R=1:1)	110
5.5.7	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Rural India, 1975-76, Case 1	112
5.5.8	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Rural India, 1975-76, Case 2	114
5.5.9	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Rural India' 1975-76, Case 3	116
5.5.10	Summary Estimates of Taxable Income under Different Scenarios, 1975-76 (Assessment Year, 1976-77)	124

5.6.1	Adjustments of Income Assessed to Tax by Status of Assessees, 1975-76 (Assess- ment Year, 1976-77)	127
5.6.2	Estimates of Tax-Evaded Income in India (First Approximation) under Three Scenarios for Non-Corporate Sector, 1975-76 (Assessment Year, 1976-77)	128
5.7.1	Summary Estimates of Taxable Income under Different Scenarios, 1980-81 (Assessment Year, 1981-82)	130
5.7.2	Estimates of Taxable Income, Income Assessed and Tax-Evaded Income, 1980- 81 (Assessment Year, 1981-82)	133
5.8.1	Tax-Evaded Income Associated with Adjustments to GDP to Allow for Underestimation: Some Speculations	136
5.9.1	Estimates of Tax-Evaded Income: An Illustrative Overview	138
5.9.2	NAS-Based Estimates of Tax-Evaded Income: Some Sources of Bias	142
6.1.1	Relative Standing of Sugar-Industry in the Economy as a Whole	146
6.2.1	Indian Sugar Statistics: Area, Production & Yield of Sugarcane, Factories in Operation, Duration, Crushing Capacity, Cane Crushed, Percentage of Cane Crushed by Factories, Sugar & Molasses	
	Production from 1930-31	150
6.4.1	Corrected Electricity Consumption Per Unit of Output	163
6 4.2	Age Profile of Sugar Mills Crushing Capacity	166

6.4.3	Number of Days of Factory Running Corrected for Hours Lost—Converted to Fiscal Year	168
6.4.4	Conversion of Evasion of Output from Fiscal Year to Sugar Year	175
6.4.5	Evasion: Implication for Underreporting of Sugar-cane Crushed and Percentage Recovery (Partitioning)	180
6.5.1	Underpayment in Cane Purchase during Sugar Year	184
6.6.1	Evasion of Excise, Income and Under- payment for Underweighed Cane	186
7.4.1	Estimates of Black Income Generated in Registered Sales of Immovable Property in Delhi	196
7.4.2	Estimates of Black Income Generated in 'Power of Attorney Sales' of Property in Delhi	200
7.5.1	Estimates of Black Income Generated in Registered Sale of Immovable Property in Bombay	201
7.5.2	Estimates of Black Income Generated in Registered Sale of Immovable Property in Madras	206
7.6.1	Undervaluation of Immovable Properties Detected by Valuation Cells in Cases Referred by Acquisition Departments in Delhi, Madras and Bombay	207
7.6.2	Total Number of Forms No. 37G received by the Office of IAC (Acquisition), in the Union Territory of Delhi	208

LIST OF TEXT TABLES xxiii

8.4.1	Leakages from Public Expenditures: Some Speculative Numbers (Current Prices, Rs crore)	220
9.2.1	Burden of Income Tax at Selected Income Levels (1971-72 and 1981-82)	229
9.2.2	Combined Impact of Income and Wealth Taxes Assuming an Yield Rate of 10 Per Cent Per Annum	230
10.2.1	Assessment and Penalty	252
10.2.2	Progress of Detection of New Assessees from External Survey during the Period 1972-73 to 1977-78	256
10.2.3	Year-Wise Statistical Information Relating to Survey Operations in Financial Years 1979-80 to 1983-84	258
10.2.4	Search and Seizure	260
10.2.5	Results of Sample Study of Search Cases Involving Seizure of Assets of More than Rupees Five Lakh in Each Case Carried Out During the Calendar Years 1976 to 1978	264
10.3.1	Particulars Relating to Penalty Exceeding Rs 10,000 Levied Under Section 271(1)(c) in the Financial Years 1976-77, 1977-78 and 1978-79	271
10.3.2	Statement Showing Results of Appeals Decided by the Benches of the Tribunal during the Period from 1978-79 to 1982-83 where the Penalty Levied or Sustained by the Lower Authorities Exceeded Rs 5,000	272
	2/ACCCGGG IXS 3,000	273

10.4.1	Convictions Obtained, Cases Acquitted by the Courts & Compounded during the Years 1971-72 Onwards Relating to Non-Technical (Concealment) Offences	277
10.4.2	Data on the Details of Punishment on Conviction for the Year 1980-81 to 1982-83	279
10.4.3	Prosecutions Launched for Concealment: Month-Wise Break-Up	284
10.4.4	Cases in which Penalty was Imposed by the Commission in 1981-82, 1982-83 and 1983-84 (Upto 31-10-1983) for Conceal- ment of Income	288
10.4.4A	"Search Cases" in which Objection had been Received from the Commissioner to the Admission of Settlement Application	289
10.4.4B	Settlement Cases Position in 1981-82, 1982-83 and 1983-84 (Upto 31-10-1983)	290
10.4.5	Statement Giving Details of Receipt and Disposal of Applications by the Settlement Commission (IT + WT)	291
11.2.1	Sectors/Activities Generating Black Income: Percentage Breakdown of Questionnaire Responses	298
11.3.1	Methods of Black Income Generation: Percentage Breakdown of Questionnaire Responses	300
11.4.1	Forms in which Black Wealth is Held: Percentage Breakdown of Questionnaire Responses	302
11.5.1	Methods of Converting Black Income and Wealth into 'White': Percentage Break-	305
	down of Questionnaire Responses	303

13.2.1	Registered Value of Immovable Property Transfers in Major States in India	333
13.2.2	Forecasting of Registered Values of Immovable Property Transfers in some States for 1975-76 and 1980-81	334
13.2.3	Fixed Capital Formation and Black Income Generation	336
13.2.4	Private Corporate Investment on New Assets and Black Income Generation	338
13.2.5	Black Incomes Generated by Underinvoicing Traditional Exports	339
13.2.6	A Global Estimate of Black Income Generated in India for 1975-76 and 1980-81	342
13.2.7	Estimate of Black Income in India during	344

## LIST OF TABLES IN APPENDIX I

		Page
A.1.1	Household Distribution of Income (NCAER) by Households of Varying Earner-Density and by Source Components of Income: Urban India for 1975-76	419
A.1.2	Frequency Distribution by Households (NCAER) of Varying Earner-Density and by Source Components of Income: Urban India for 1975-76	426
A.1.3	Household Distribution of Income (NCAER) by Households of Varying Earner-Density and by Source Components of Income: Rural India for 1975-76	432
A.1 4	Frequency Distribution by Households (NCAER) of Varying Earner-Density and by Source Components of Income: Rural India for 1975-76	438
<b>A</b> .1.5	Frequency Distribution by Income Ranges for Earners Derived for 'Three-Earner' Urban Households, 1975-76	445
<b>A.1.</b> 6	Frequency Distribution by Income Ranges for Earners Derived for 'Four-Earner' Urban Households, 1975-76	446
<b>A.</b> 1.7	Frequency Distribution by Income Ranges for Earners Derived for 'More than Four- Earner' Urban Households, 1975-76	447

A.1. 8	Frequency Distribution by Income Ranges for Earners Derived for 'Two-Earner' Rural Households, 1975-76	448
<b>A</b> .1. 9	Frequency Distribution by Income Ranges for Earners Derived for 'Three-Earner' Rural Households, 1975-76	449
A.1.10	Frequency Distribution by Income Ranges for Earners Derived for 'Four-Earner' Rural Households, 1975-76	450
A.1.11	Frequency Distribution by Income Ranges for Earners Derived for 'More than Four-Earner' Rural Households, 1975-76	451
A.1.12	Results of 'Goodness of Fit' and Parametric Estimates of Lognormal Distributions Fitted to Earners-Data: Urban and Rural India for 1975-76	452
A.1.13	Results of Modified Parametric Values for Scaled-Up Gross Personal Income Distribu- tions: Urban and Rural India 1975-76	454
A.1.14	Results of Derived Parametric Values for Gross Personal Income Distribution for 1980-81	456
<b>A</b> .1.15	Gross Personal Income Distributions under Different Scenarios, Urban and Rural India for 1980-81	458
<b>A.</b> 1.16	Income Distribution (NCAER) of 'One Earner' Urban Households by Source Com- ponents of Income for 1975-76	460
A.1.17	Income Distribution (NCAER) of 'Two- Earner' Urban Households by Source Com- ponents of Income for 1975-76	462
A.1.18	Income Distribution by Income Ranges for Earners Derived for 'Two-Earner' Urban	

	Households by Source Components of Income for 1975-76	464
<b>A</b> .1.19	Income Distribution for Selected Components of Income by Income Ranges for Earners: Urban India for 1975-76	466
A.1.20	Income Distribution for Selected Components of Income by Income Ranges for Earners: Rural India for 1975-76	468
<b>A</b> .1.21	Composition of Gross Income under Diferent Scenarios by Selected Source Components of Income: Urban and Rural India for 1975-76 and 1980-81	470
A.1.22	Weighting Schemes for Selected Components of Income: Urban and Rural India for 1975-76	472
<b>A.</b> 1.23	Estimated Distributions of 'Agricultural Income': Urban and Rural India for 1975-76 and 1980-81	474
A.1.24	Estimated Distributions of 'Business Income': Urban and Rural India for 1975-76 and 1980-81	476
<b>A.</b> 1. <b>2</b> 5	Weighted Frequency Distribution of Salary Earners: Urban India for 1975-76 and 1980-81	478
A.1.26	Results of Lognormal Fits and Estimated Parametric Values for Salary Income Dis- tributions: Urban India 1975-76 and 1980-81	480
<b>A.1.2</b> 7	Modified Parametric Values used in Estimat- ing Salary Income Distribution for Urban India 1975-76 and 1980-81	481
<b>4.</b> 1.28	Estimated Salary Income Distributions: Urban and Rural India for 1975-76 and 1980-81	482

<b>A</b> .1.29	Illustration of Procedures to compute Standard Deductions for the Scenario U:R=1:2: Urban and Rural India for 1975-76	484
		404
A.1.30	Bagchi's Estimated Rates and Average HRA Rates by Salary Income Ranges	486
A.1.31	Estimated Results of HRA Deductions: Urban and Rural India for 1975-76 and 1980-81	487
A.1.32	Estimates of Salary Income and Employers' Contribution to Provident Fund for Urban, Rural and All-India for 1975-76 and 1980-81	489
A.1.33	Estimated Results of Employers' Contributions to Provident Fund by Income Ranges: Urban and Rural India for 1975-76 and 1980-81	490
A.1.34	Estimated Results of Average Rates for Chapter VIA Deductions for 1975-76 (Assessment Year, 1976-77)	492
<b>A.1.3</b> 5	Estimated Results of Average Rates for Chapter VIA Deductions for 1980-81 (Assessment Year, 1981-82)	493
A.1.36	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Urban India 1980-81, Case 1 ("Missing Income" Allocated in Ratio of U:R=1:2)	494
A.1.37	Step-Wise Derivation of the Distribution of "Net Income" From Gross Income for Urban India 1980-81, Case 2 ("Missing Income" Allocated in Ratio of U:R=1:1.5)	496
A.1.38	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Urban India 1980-81, Case 3 ("Missing Income" Allocated in Ratio of U:R=1:1)	498

A.1.39	Step-Wise Derivation of the Distributions of "Net Income" from Gross Income for Rural India 1980-81, Case 1 ("Missing Income" Allocated in Ratio of U:R=1:2)	500
A.1.40	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Rural India 1980-81, Case 2 ("Missing Income" Allocated in Ratio of U:R=1:1.5)	502
A.1.41	Step-Wise Derivation of the Distribution of "Net Income" from Gross Income for Rural India 1980-81, Case 3 ("Missing Income" Allocated in Ratio of U:R=1:1)	504
A.1.42	Estimated Results of Applying the Exemption Limit in Terms of Gross Income under Different Scenarios: Urban and Rural India for 1975-76	506
A.1.43	Estimated Results of Applying the Exemption Limit in Terms of Gross Income Under Different Scenarios: Urban and Rural India for 1980-81	508
A.1.44	Estimated Values of "Blow-Up" Factors by Status of Assessees for the Assessment Year 1976-77	510
<b>A</b> .1.45	Estimated Values of "Blow-Up" Factors by Status of Assessees for the Assessments Completed in the Year 1981-82	511
	TABLE IN APPENDIX II	
<b>A</b> .2.1	Gross Domestic Product at Factor Cost of Current Prices by Industry of Origin for 1970-71 and 1980-81: Percentage Distribution	513

## LIST OF FIGURES

		Page
<b>V</b> .1	Frequency Distribution for Urban India by Income Ranges for Earners: 1975-76 (Based	
	on NCAER data)	89
VI.1	Electricity Consumption and Output	161
VI.2	Evasion Relationship with Other Variables	177
VI.3	Evasion of Output and Implication for Recovery Percentage and Cane Underrepor-	
	ting	179