

PREFACE

The National Institute of Public Finance and Policy is an autonomous non-profit organisation whose major functions are to carry out research, undertake consultancy work and impart training in the area of public finance and policy.

This study was sponsored by the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Government of India. The study was begun early in 1983 and was completed by the end of February, 1985. The report is the product of team work. The study team, whose members are listed on page iv, worked under the leadership of Dr. Shankar Acharya, Senior Fellow. The team must be complimented on the excellent and painstaking work that it has carried out in such a difficult and treacherous terrain.

In the main body of the report no attempt is made to arrive at a global estimate of black income generation in the country. This is because the study team felt that within the limitations of time and resources at its disposal, the required data could not be collected and rigorous methodologies could not be applied to them in respect of each of the major sectors in which black income was considered to be generated. However, since the report would be incomplete if it did not contain the results of even a rough estimate of black income generated in India, additional work was carried out whose results are presented in Chapter 13. This work has been carried out largely by Shri A V L Narayana and myself. In doing this we have received assistance from Dr. M Govinda Rao.

As stated earlier, the report was completed by the end of February, 1985; but could not be submitted immediately because of the delay in reproduction. Meanwhile, the Union Budget was presented on March 16, 1985. We note that

some of measures we have recommended in Chapter 14 have been announced in the Budget. Needless to say, our recommendations were formulated independently.

The Governing Body of the Institute does not take responsibility for any of the views expressed in this report. This responsibility belongs to the Director and staff of the Institute, and more particularly to the authors of the report.

March 1985

R.J. CHELLIAH
Honorary Director

ACKNOWLEDGEMENTS

This study is the product of a little over two years' work by a group at the National Institute of Public Finance and Policy. In any such team effort it is difficult to isolate the contribution of individual members. However, some attempt in this direction is nevertheless desirable.

The bulk of the statistical analysis underlying the estimates of tax-evaded income presented in Chapter 5 has been done by Shri A.V.L. Narayan. He has also drafted Appendix 1, which presents details relating to the underlying data and calculations. Though Shri Narayan only joined the study team in October 1983, his contribution has been invaluable; it has included supervision of the final stages of production of the report.

The case studies of tax evasion in sugar and urban real estate, reported in Chapters 6 and 7 respectively, have been carried out by Dr. Arun Kumar, with the assistance of Shri Diwan Chand and Shri Dilip Mund. Chapter 6 is based on an initial draft by Dr. Kumar, who is currently engaged in preparing a more detailed write-up of his work on sugar, which will be submitted later as Appendix 3 to this report. Chapter 7 is based on background material prepared by Dr. Kumar.

Chapter 10, which explores the effectiveness of deterrence provisions relating to income tax evasion, is based on extensive background material prepared by Shri S.P. Chaudhury, who rendered invaluable assistance to the study during his association with it from July 1983 to July 1984.

In addition to his work on sugar and urban real estate, Shri Dilip Mund also provided research assistance for several other chapters of the report. Shri Ajay Kumar and Smt. Vijaya Khari also helped with research assistance.

For all empirically-oriented chapters, prompt and efficient computer services were provided by the NIPFP's Computer Unit, led by Shri K.K. Atri and including Shri A.K. Halen and Smt. Geeta Bhatnagar.

Very competent typing services were provided by personal assistants, Kum. Sushila Panjwani and Shri N. Natarajan, a number of NIPFP's typists, including, most notably, Shri K.R. Subramanian, Shri Anil Sharma and Kum. Chandra. Whereas Kum. Panjwani and Shri Natarajan had borne the brunt of typing preliminary drafts, the burden of typing the stencilled version has been shouldered by Shri Subramanian.

Shri C. Cecil has contributed welcome assistance in editing this report.

The NIPFP Library, managed by Shri H.K. Paruthi, has rendered valuable services at all stages of the study.

Thanks are due to Shri N. Natarajan, Shri Jagmohan Singh Rawat, Shri Hira Ballabh Pandey and Shri Puran Chand for producing the cyclostyled copies of the present draft.

A number of professional colleagues at the NIPFP have contributed valuable suggestions and comments. In particular, Professor Chelliah has provided constant encouragement and carefully reviewed the penultimate draft. During the first half of the study, when "the light at the end of the tunnel" was often dim, Dr. Amaresh Bagchi provided invaluable encouragement and advice to buoy the spirits of the study team. Shri K. Srinivasan could also always be counted upon for advice and practical assistance whenever difficulties were encountered.

Outside the NIPFP, thanks are due to the Central Board of Direct Taxes (CBDT) and various offices of the Income Tax Department, without whose assistance Chapters 7, 10 and 11 could not have been written in their present form. Special mention needs to be made of the assistance received from Shri P.S. Bhaskaran who was the CBDT Member (Investigation) during the formative stage of this study. Thanks are due to the Central Statistical Organisation's National Income Division for useful discussions on sources and methods of national income accounting. Thanks are also due to the National Council of Applied Economic Research for making

available computer tabulations of their 1975-76 survey of Household Income.

Finally, a very large number of people in many different walks of life have contributed to this study with their insights, responses and comments. However, given the rather unusual nature of the subject, they have generally insisted on anonymity and would be less than delighted to find their names in these acknowledgements.

January 1985

SHANKAR ACHARYA