

# Should Income Tax Be Abolished To Curb Black Money: Alternative Revenue Collection Methods

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## ARTICLE DETAILS

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## ABSTRACT

In this paper, an attempt has been made to analyse whether abolishing Income Tax could help solve the Black money crisis prevailing the country. Also, if Income Tax is abolished, then what shall be the alternative revenue collection methods to be introduced by the Government of India in order to bridge the gap created by the abolishment of Income Tax. For purpose of this research, tax rates and the Illicit Financial Outflows, it is considered as a benchmark for Black Money for the purpose of this analysis, of 112 countries has been taken.

## 1. Introduction

Income tax is a direct tax on the income of the assesses which has been there since 1860s and has since then been reformed and undergone rigorous change to adapt to the growing and changing economy. Income tax has been perceived as an unnecessary burden on the general public due to which black money is generated. In a faster growing economy, income tax leads to tax evasion, the assesses not declaring their real income in the statement, this leads to tax evasion and tax evasion leads to generate black money. If there is no income tax, there will be no tax evasion and no generation of Black Money. There is a harm of ever raising black money in Indian economy. The black money has activated the parallel economy in India and has created an effect on vital sector of industries. The Government has taken various steps to curb the black money such as Demonetization, Voluntary Disclosure scheme, Taxation reforms etc., If Income tax abolished there are some alternative methods to collect revenue for the Government. Our research will aim to provide a brief insight on if and how abolishing Income Tax could go about and any other solution there might be to collect revenue and curbing of Black Money?

## 2. Review of Literature

- **(Parekh, No Income Tax in India – Modi’s Next move, 2018)**

The author argues for the proper implementation of the Arthakranti Proposal with demonetization already taken place and the GST system in place by abolishing income tax, putting a ban on high value cash transaction and introducing a banking transaction tax.

- **(Subramanian Swamy pitches for abolition of income tax, 2018)**

Subramanian Swamy spoke for abolition taxation and also about the future of India (growth). As he said if income tax abolished, it leads to increase in savings and increase in investment. As the loss by abolishing it, the revenue can increase by way of indirect tax. He also mentioned there should be a growth of 10% for

10 years so there will be decrease in unemployment and poverty.

- **(Parekh, Reviving Indian Economy – Arthakranti Proposal, 2014)**

The author tells about the Arthakranti proposal in its original form which states that all forms of taxes be withdrawn except import duty with banking transaction tax along with a ban on high value cash transactions and withdrawing 100/500/2000 denomination notes. The article tells about the benefits of the proposal and its effect on curbing black money.

- **(Jagannathan, 2014)**

This article talks about Shri Narendra Modi’s promise to reform the Income Tax system before the 2014 general elections and claimed that Income Tax is a burden on common man. The article also talks about how 63% of the total tax collected just comes from the 1% tax payers and the need to abolish income tax.

- **(Srivastava, 2017)**

This article talks about a complete overhaul of the income tax system with a flat rate of 12% which, in the author’s opinion, would increase the compliance by 8 percentage point and bring it to 33% and would curb black money. The 3 examples mentioned are the Hong Kong, Russia and New Zealand where flat tax rates were implemented and resulted in a growth in economy.

- **(Mukherjee, 2012)**

The paper places in the public domain various facets and dimensions of black money and its complex relationship with the policy and administrative regime in the country. The paper also presents the framework, policy options, and strategies that the Government of India has been pursuing to tackle this issue, especially recent initiatives and developments. The paper is expected to contribute to the ongoing debate on the issue of black money and help develop a broad political consensus regarding the future course of action to address it. This paper also

addresses the issue of defining Black Money 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.

### 3. Research Design

- **Statement of Problem**

For a long time now, the middle class have been under the pressure of government to give out a portion of their hard-earned income for the betterment of the nation. Why might this be a problem? Simply because of the public doesn't trust the system. This is one of the many reasons as to why people have been avoiding tax and this in turn leads to the circulation of black money in the economy. The primary reason behind income tax is that it has been a source of government revenue for almost a century or so. It was initially reformed post world war to increase government collections to make up for the war costs. While it has served its initial purpose, people have grown to find loopholes in the tax system or even evaded tax illegally. The need for the hour has shifted from collection of government revenue to eradication of black money in the economy. We attempt to dig deep into this problem to find how the government can abolish the income tax laws with a view to curb black money and at the same time recover the foregone income which could have been collected through income tax?

- **Scope of Study**

For the purpose of this research we have considered the illicit financial outflows, trade mis-invoicing and Balance of Payment Leakages for all countries for the financial year 2013-2014.

- **Research Question**

- Will the abolishment of income tax result in curbing of black money?
- If income tax is abolished, what alternative revenue collection methods can be sought after?
- As bank transactions increase, related banking charges would increase relatively, so wouldn't people go back to cash transactions resulting in increase in black money?
- Will the deficit of income tax revenue be earned back through an increase in indirect taxes? Wouldn't that lead to a fall in consumption and hence reduction in revenue?

- **Objective of Study**

- To establish that there exists a direct correlation between rate of income tax and curbing of black money.
- To find out the alternative revenue streams to be adopted for recovering the loss of direct tax collections.
- To conclude whether people would fall back to cash transactions if there is an increase in banking transaction charges.

- To determine whether a removal of income tax would lead to fall in consumption because of increase in indirect taxes.

- **Source of Data**

For the purpose of this research we have decided to utilize secondary sources of data: -

- **Global Financial Integrity:** - Illicit financial flows to and from the developing countries between 2005-2014.
- **Central Board of Direct Taxes:** - Tax return filing and collection data.
- **Ministry of Finance:** - White paper on black money.
- **Arthakranti:** -Arthakranti Proposal.
- **KPMG Website:** - Official Tax rates for the countries FY 2013-2014.

- **Data Analysis**

- **Qualitative Data** –Arthakranti Proposal and White Paper on Black Money
- **Quantitative Data** – Income Tax collection and return filing data and Illicit financial flows to and from developing countries.

- **Hypothesis**

- **Null Hypothesis** - There is no relationship between income tax and curbing of black money.
- **Alternative Hypothesis** - There is a direct relationship between income tax and curbing of black money

- **Expected Outcome**

- There is a direct relationship between rate of Income Tax and curbing of Black Money
- Banking Transaction tax as an alternative method to collect revenue along with increase in collection by GST and STT.

### 4. Data Analysis and Interpretation

- Our data for the purpose of analysis is compiled through the Global Financial Integrity Report and the tax rates for various countries from the KPMG website. A small representative of our data (note that the data shown below is just a representative and not the entire data, it is shown to make sure that the user understands what data is analysed, analysis is done on the entire data of 112 countries) taken is as follows: -

Country	Corporate Tax Rate (%)	Illicit Financial Outflow (in Million US\$)
Afghanistan, Islamic Republic of	20	408.04
Albania	15	-
Algeria	19	7,950.31

Angola	35	-
Antigua and Barbuda	0	-
Argentina	35	2,129.47
Armenia, Republic of	20	479.51
Aruba	28	346.89
Azerbaijan, Republic of	0	8,357.59
Bahamas, The	0	741.49
Bahrain, Kingdom of	0	4,374.37
Bangladesh	27.5	6,056.88
Barbados	25	10.39
Belarus	18	3,064.77
Benin	0	27.20
Bolivia	25	333.79
Bosnia and Herzegovina	10	-
Botswana	22	2,275.49
Brazil	34	9,685.43
Brunei Darussalam	0	941.81
Bulgaria	10	2,474.27
Burkina Faso	0	776.76
Burundi	0	93.98
Cambodia	20	46.52
Cameroon	0	23.63
Chile	20	4,097.72
China, P.R.: Mainland	25	1,92,372.06
Colombia	25	5,297.66
Costa Rica	30	10,079.25
Croatia	20	1,452.91

- The result of the normality test is as follows: -

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Illicit Financial Outflow	.392	112	.000	.256	112	.000

a. Lilliefors Significance Correction

- As per the normality test, since the significant value is less than 0.05, the dependent variable is not normally distributed.
- Since the data is not normally distributed, we will perform non-parametric tests in order to find out relationship between the Corporate tax rates and the Illicit Financial Outflows of various countries.
- The result of Spearman's rank Correlation is as follows:-
  - So, there exists a positive direct relationship between the Corporate Tax Rate and the Illicit Financial Outflow. However, the relationship is weak as the Correlation Coefficient is 0.243 which is less than 0.5.

## 5. Findings and Suggestions

(Mukherjee, 2012)

"The term '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."

As per this definition given in the White Paper on Black Money, Black Money constitutes any asset not disclosed to public authorities. Since, the Income Tax Department is a public authority, so, Black Money constitutes of assets not disclosed to the Income Tax Department. This is done, in order to evade taxes. So, there exists a relationship between Income Tax and Black Money

As observed through our analysis, there is a positive direct relationship between the Income Tax rates and Black Money, abolishing Income Tax will potentially drastically reduce Black Money in the country.

For the purpose of bridging the gap created by the abolishment of Income Tax, we recommend the following ways in which such revenue could be generated by the Government: -

- With the abolishment of Income Tax, there will be an increase in Disposable Income as well as Foreign Direct Investment. This will in turn increase the government's indirect tax collection.
- We propose an introduction of a new tax called the Banking Transaction Tax (BTT) which would be levied on all banking transactions.

## 6. Conclusion

To conclude, the abolishment of Income Tax would help in solving the Black Money crisis prevailing the

country and with the introduction of other revenue collection methods such as BTT, the economic growth of

the country could be unprecedented.

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