Black Money, Meaning, Sources, Effects, Steps to Curb

July 10, 2026 • vajiramandravi.com

In economic theory, there is no single official definition of Black Money. Different terms are often used interchangeably with it, such as parallel economy, illegal economy, irregular economy, black incomes, and unaccounted economy. The simplest way to understand it: Black Money is income that is concealed from tax authorities and therefore escapes taxation and official accounting.

Black Money

There is no universally accepted definition of black money in economics. Broadly, it refers to income that is earned through illegitimate means or income that is concealed from tax authorities.

It represents unaccounted money on which due taxes have not been paid to the government. Black money is hidden from official records and does not figure in **GDP** estimates, **national income**, or other economic indicators.

It is important to note that counterfeit currency or spurious notes are not classified as Black Money, since they are illegally printed currency rather than unaccounted legitimate earnings.

Black Money Sources

Black Money in India mainly arises from two broad categories:

- **Illegal Activities**
  - Includes income generated from activities such as smuggling, trafficking, corruption, bribery, extortion, and other unlawful trades.
  - Since these are criminal in nature, the earnings are never reported to tax authorities.
- **Legal but Unreported Activities**
  - Incomes earned through legitimate means but deliberately concealed to evade taxes.
  - Examples: under-reporting business profits, inflating expenses, cash transactions without bills, property dealings in cash (benami transactions).

Black Money Effects

- **Loss of Revenue to the Exchequer**
    - Reduces tax collection and widens the fiscal deficit.
    - To bridge this gap, the government may increase taxes, cut subsidies, or borrow more, leading to higher public debt.
    - Persistent deficits can force cuts in development expenditure.
- **Money Begets Money**
    - Black Money is often parked in assets like gold, real estate, or foreign accounts.
    - It remains outside the formal economy and keeps circulating within a limited wealthy class.
    - This perpetuates concentration of wealth and denies broader economic benefits.
- **Higher Inflation and Inequality**
  - Unaccounted money inflates demand for luxury goods and assets, driving up prices.
  - Inflation hits the poor hardest, reducing their purchasing power.
  - The gap between rich and poor widens, worsening socio-economic inequality.

Steps to Curb Black Money

To curb the menace of black money, India has adopted a mix of legislative measures and international cooperation mechanisms. Over the years, several laws have been enacted to prevent tax evasion, regulate benami transactions, and tackle money laundering. At the same time, India has signed global agreements to enable information exchange on undisclosed assets. The table below summarises the key measures:

Steps to Curb Black Money		
Category	Act/Agreement	Key Provisions
Legislative Measures	Fugitive Economic Offenders Act, 2018	Seizure of assets of offenders who flee India to avoid prosecution. Targets those refusing to return for legal proceedings.

	Central Goods and Services Tax (CGST) Act, 2017	Ensures ease of compliance, widens tax base, and reduces tax evasion via input tax credit mechanism.
	Benami Transactions (Prohibition) Amendment Act, 2016	Defines benami transactions (property held in another's name). Provides for confiscation, special courts, appellate tribunals, and imprisonment up to 7 years.
	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015	Penalises concealment of foreign assets. Creates criminal liability for tax evasion. One-time disclosure window for residents.
	Prevention of Money Laundering Act (PMLA), 2002	Main law to tackle money laundering. Applies to banks, financial institutions, mutual funds, insurers, intermediaries. Allows attachment/confiscation of illicit assets.
International Cooperation	Double Taxation Avoidance Agreements (DTAAs) & Tax Information Exchange Agreements (TIEAs)	Enables exchange of tax-related data with foreign governments to track undisclosed assets.
	Automatic Exchange of Information (AEOI) under CRS (2017 onwards)	Multilateral mechanism for proactive sharing of financial account data of Indian residents abroad. Strengthens tax compliance.

Black Money In India Effects

- Black Money has far-reaching consequences for a nation's economy. It weakens the financial system by making it difficult for the central bank to regulate money supply, often resulting in inflation and depreciation of the currency.
- It erodes a country's credibility at the global level and fuels illegal activities such as drug trafficking and terrorism, which harm national security and social stability.
- The government also loses significant revenue through tax evasion, while the rise of a parallel economy undermines governance and policy implementation.
- Black Money pushes up real estate prices, increasing the risk of asset bubbles that can destabilize the economy.

Also Check Other Posts	
Care Economy	**Mutual Funds**
Alternative Investment Funds – AIF	**GDP Deflator**