International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Black Money Crisis in India and Its Parallels to Reaganomics

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Abstract

This paper examines black money in India as an outcome of institutional design, where tax complexity, enforcement asymmetries, and behavioral incentives shape participation in the formal economy. Despite headline efforts like demonetization, which temporarily increased tax filings, the underlying drivers of non-compliance remain intact. Through a population-based model of the tax gap, this study estimates that nearly two-thirds of India's taxable population does not file returns, even when economically eligible. Rather than framing this as evasion in the traditional sense, the analysis views it as a structural mismatch between tax policy and taxpayer engagement. In response, the paper proposes a framework centered on simplified marginal rates and targeted sectoral reforms, particularly in real estate and micro, small, and medium-sized enterprises (MSMEs), to make compliance more accessible. While global proposals, such as Zucman's minimum billionaire tax, reflect broader momentum, India's long-term progress depends on reforms that reduce friction and rebuild trust in the tax system.

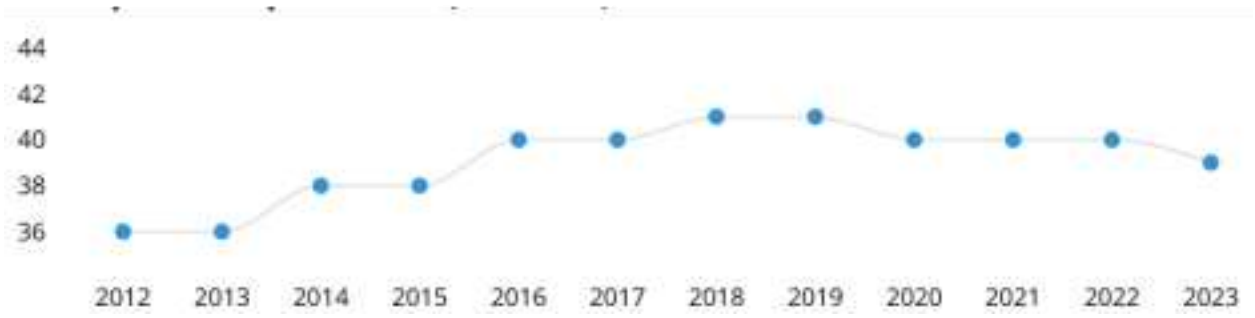
Keywords: Black money, Tax Compliance, Institutional Reform

Introduction

What is Black Money?

According to a report by the National Institute of Public Finance and Policy, the total amount of black money in India is estimated to be around 20% of its GDP. Black money refers to funds earned through illegal activities or not reported to the government for tax purposes. It encompasses income generated by corruption, bribery, tax evasion, and other forms of financial crime. In simpler terms, black money refers to any income that is not declared to the authorities. For example, someone who receives payments in cash and fails to report them as income contributes to the creation of black money. Various factors, including weak regulatory systems, corruption, and the complexity of the tax system, cause this issue. In 2018, the Transparency International's Corruption Perceptions Index ranked India 78th out of 180 countries, indicating high levels of corruption. According to the index, 89% of the country believed that corruption in the Indian government is a significant problem, as shown in Figure 1 (Transparency International, 2018). Thus, the accumulation of black money in India is mainly contributed to by political factors.

Figure 1: Corruption Perceptions Index (2012-2023)



Note: The lower the score, the greater the perception of corruption. Although there has been a slight increase in the corruption index as an effect of significant changes - mentioned later on - made by the Indian government in 2016, there has been a consistent rise in corruption in the long term scale, as the policies put out in 2016 only proposed a short term solution to the issue of black money.

Why India?

Ranking 4th for the largest average illicit financial flows in the world (GFI, 2013), India's black money crisis significantly contributed to this statistic, placing it just behind countries like China, Russia, and Mexico. To understand why India ranks so high, it is essential to examine the political landscape and its impact on the flow of money.

China - Largest Average Illicit Financial Flow

China's political state was characterized by the consolidation of power under President Xi Jinping. The 19th National Congress of the Communist Party in 2017 saw Xi's ideology glorified in the party constitution, and the removal of term limits for the presidency in 2018 allowed him to potentially remain in power indefinitely. The period also saw an all-time low corruption score of 36, indicating severe corruption in the country at that time, facilitated by the growing power of the party.

Russia - Rank 2

During this period, Russia's political landscape was dominated by President Vladimir Putin. The country saw increased centralization of power and suppression of dissent. During the 2018 election, Putin was re-elected with 77% of the vote. The political system remained highly authoritarian, characterized by limited political freedoms and a pronounced emphasis on anti-Western rhetoric. With a corruption of 29 at that time, the corruption is explained by the increased and constantly growing authority of the government.

Mexico - Rank 3

Mexico underwent significant political changes, culminating in the 2018 general election, in which Andrés Manuel López Obrador (AMLO) won the presidency with 53.2% of the vote. His victory marked a shift towards leftist policies and a promise to tackle corruption and inequality. However, the period was also marked by high levels of violence, with over 150 political figures killed during the election campaign. Additionally, these promises do not align with the fact that their Corruption Index was at an all-time low, indicating extreme corruption, of 28 during this period.

India - Rank 4

India's political scene from 2015 to 2018 was dominated by the Bharatiya Janata Party (BJP) and Prime Minister Narendra Modi. The BJP won several key state elections, solidifying its power. However, the period also saw rising concerns over religious intolerance, suppression of dissent, and challenges to democratic institutions. The opposition, led by the Indian National Congress, began to regain some ground

towards the end of this period, winning important state elections in 2018. India scored 39 out of 100 on the Corruption Perceptions Index during this period.

All together

The countries ranked above India in illicit financial flows—China, Russia, and Mexico—highlight the intricate relationship between political systems, institutional dynamics, and economic corruption. Drawing upon Daron Acemoglu's seminal research on institutions and economic development, these nations illustrate how extractive institutions consolidate power within elite groups, enabling them to exploit resources while marginalizing broader societal participation. Acemoglu argues that such institutional structures create environments where corruption and illicit financial flows flourish, as seen in the authoritarian governance of China and Russia, or the violence-ridden political transitions of Mexico. However, in India's case, religious factors cannot play as significant a role in corruption, to the point where the public is motivated to engage in black money. It simply doesn't fit, which is why India is an interesting case study: despite significant efforts to grow the economy and improve the state of democracy, it is still ranked 4th in the world.

Black money in India - A General overview

Historical Context

The phenomenon of black money has long been entrenched in the socio-economic landscape of India, often characterized by its association with infamous figures such as Dawood Ibrahim, whose extensive money laundering operations have left an indelible mark on the nation's financial history. The pervasive nature of black money, however, extends beyond the activities of high-profile criminal syndicates and notorious gangs. According to the Global Financial Integrity Report, India ranks eighth globally in terms of black money generation, with an estimated USD 500 billion in undeclared income as of 2010. This alarming figure suggests that the problem of black money is not confined to a select few but is instead a widespread challenge permeating various levels of society. That said, there is an imperative need to recontextualize our understanding of black money, recognizing it as a systemic issue that impacts the entire economy.

General Overview

Black money in India is generated through both illegal and legal activities, significantly impacting the economy. Pradip Kumar Das, in the Journal of International Business Research and Marketing, examines how converting black money into legitimate assets undermines India's economy by reducing government revenue (Kumar Das, 2017). This is generated through illegal activities, such as smuggling and tax evasion, as well as through legal activities, including real estate and financial market manipulations. Notably, financial market manipulations often involve the creation of dummy or "shell" companies in the stock market, which serve to convert black money into legitimate company stock. Moreover, real estate has been a common practice by the majority of Indians, creating a superficially inflated sector by undervaluing a property, to avoid high stamp duty, while paying for the property at full price through under-the-table transactions. Therefore, converting unannounced capital into gains on a legitimate asset. High tax rates, coupled with ineffective strategies to curb the growth of black money, have opened up more opportunities for sophisticated tax evasion methods. These include the use of tax havens and cross-border transactions. Such practices have become so common that they even encourage honest taxpayers, who bear the disproportionate tax burden, to engage in these illicit activities.

Attempts to solve this issue - Demonetization

Context and Background

On November 8th, 2016, the Indian government, under the Modi administration, announced the demonetization of the Rs 500 and Rs 1000 currency notes. The primary aim of this policy was to combat black money, counterfeit currency, and corruption by removing large denominations from circulation. This sudden and unprecedented move required individuals and businesses to deposit or exchange their old notes within a limited timeframe, thus bringing unaccounted wealth into the formal banking system. The policy was expected to disrupt the circulation of black money and reduce its overinflated presence in the economy.

The Good - Curbing old black money

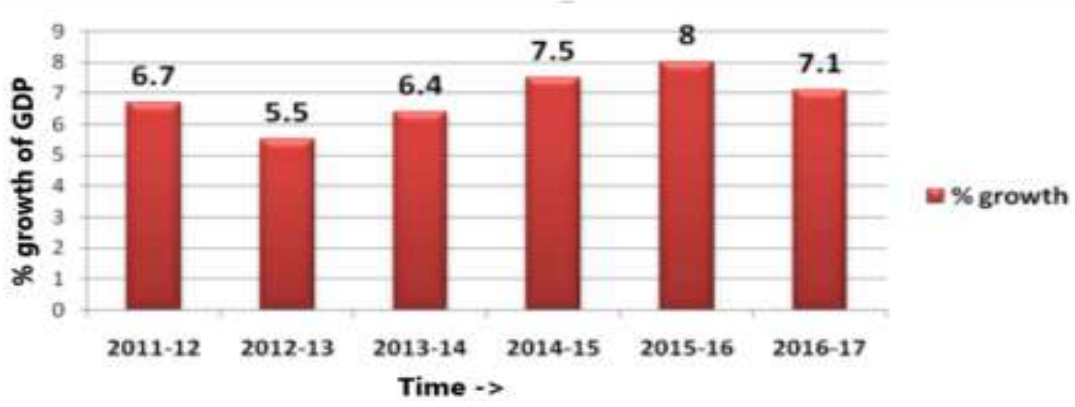
The demonetization policy initially had a significant impact by temporarily disrupting the circulation of black money. The move forced many individuals to deposit large amounts of cash into banks, thus revealing unaccounted wealth and bringing some transparency to financial transactions. According to the Central Board of Direct Taxes (CBDT), there was a 25% increase in the number of tax returns filed that fiscal year (2017-2018), compared to the previous year.

This ensured that the government could define more accurate and effective tax slabs for the benefit of both the economy and the government. In terms of the government, increased tax compliance helped boost government revenue and reduce the fiscal deficit, but also introduced a significant flaw in their plan to address the issue of black money.

The Bad - Ineffective in addressing the long-term issue

As Dr. Neeraj Emmanuel Eusebius points out, the process had a "backward effect" by destroying existing black money, but failed to provide a solution to prevent the "forward effect" of creating new black money (Eusebius 2018). The major flaw in this demonetization policy was that the government did not view black money as a concept, but as a tangible issue that could be eradicated by simply replacing the medium of exchange, cash. However, the concept would live on and impact future denominations that are later introduced. This meant that they were simply changing the denominations people use to hide their money. Additionally, the policy caused severe liquidity shortages, particularly harming cash-dependent sectors, including small traders, MSMEs (Micro, Small, and Medium-sized Enterprises), and the agricultural sector. The impact on GDP (displayed in Figure 2), employment, and industries such as real estate (as shown in Figure 3) and manufacturing, which were platforms for black money conversion, were negatively affected due to their previously overinflated nature.

Figure 2: GDP% Growth4



Note: The GDP growth between 2016 and 2017 displays the impact on MSMEs and the deflation of key industries. This pressured the government to implement drastic tax and compliance measures for these MSMEs, consequently increasing pressures in higher tax brackets, which motivated the underreporting of income.

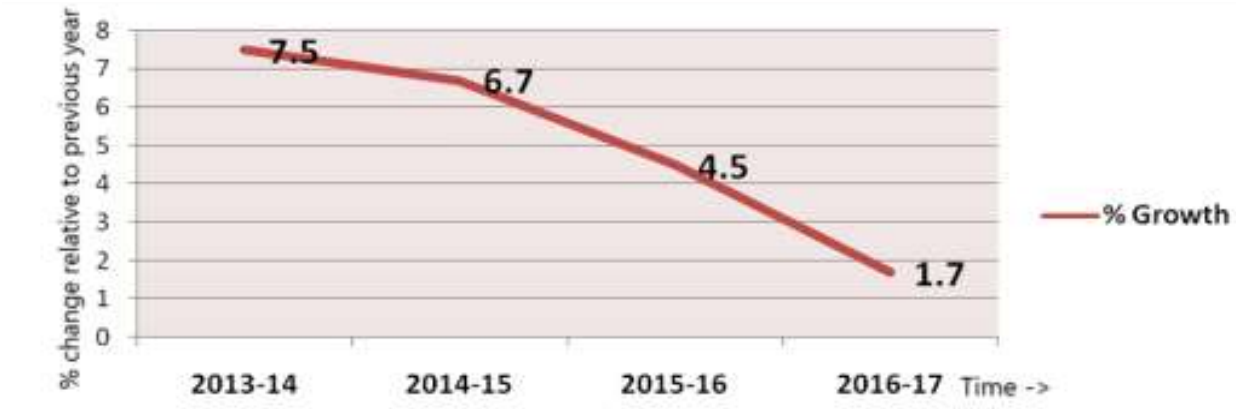


Figure 3: % Change in the Real Estate sector. Note: This graph delves specifically into the decline of the real estate market. This was due to three main reasons. One being the initiator, the demonetization and deflation of this asset class. Second, the effect of this initiation was the collapse of several builders due to such sharp liquidity crunches. Third, the resultant increase in the price of real estate disincentivized buyers and investors from entering the real estate market.

The recent tax updates further complicate the issue. High-income earners, who are affected by unchanged 30% tax rates for those earning over ₹15 lakh, find little incentive in the new standard deduction increases or other minor deductions, as these mainly benefit middle-income groups. This disparity pushes even honest taxpayers towards black money practices to avoid these high tax burdens. Therefore, taxation in India is currently the primary motivator for the concept of black money, which the government must prioritize changing.

The Solution - Reaganomics

Context and Background

Reaganomics refers to the economic policies introduced by President Ronald Reagan in the 1980s to address slow economic growth, high inflation, and unemployment. These policies were based on the idea that cutting taxes and reducing government involvement would boost the economy. The plan consisted of four main parts: lowering taxes for individuals and businesses to encourage spending and investment, reducing federal spending on social programs to reduce the budget deficit, easing regulations on industries to promote business growth, and implementing strict monetary policies to control inflation.

The Good

The outcomes of Reaganomics directly responded to the immediate needs of the economy at that period. Over eight years, 20 million new jobs were created, a reflection of improvement in combating high unemployment, with a drop in unemployment shrinking to 5.5% from 7.6%. Similarly, bringing down inflation from 13.5% to 4.1% exhibited the success of tight monetarism in stabilizing the economy. The 26% growth in GNP indicated renewed economic expansion, and a 27% increase in family incomes demonstrated improved living standards for most Americans. Even though the impact failed to become transformational in its stated aims, these success stories represented significant improvements in resolving

the early 1980s crisis of slow growth, inflation, and unemployment.

The Bad

Reaganomics created several significant problems that contradicted its fundamental economic promises. The Productivity-Compensation Gap Index (Figure 4) reveals a clear split between worker productivity and worker pay starting in the 1980s.

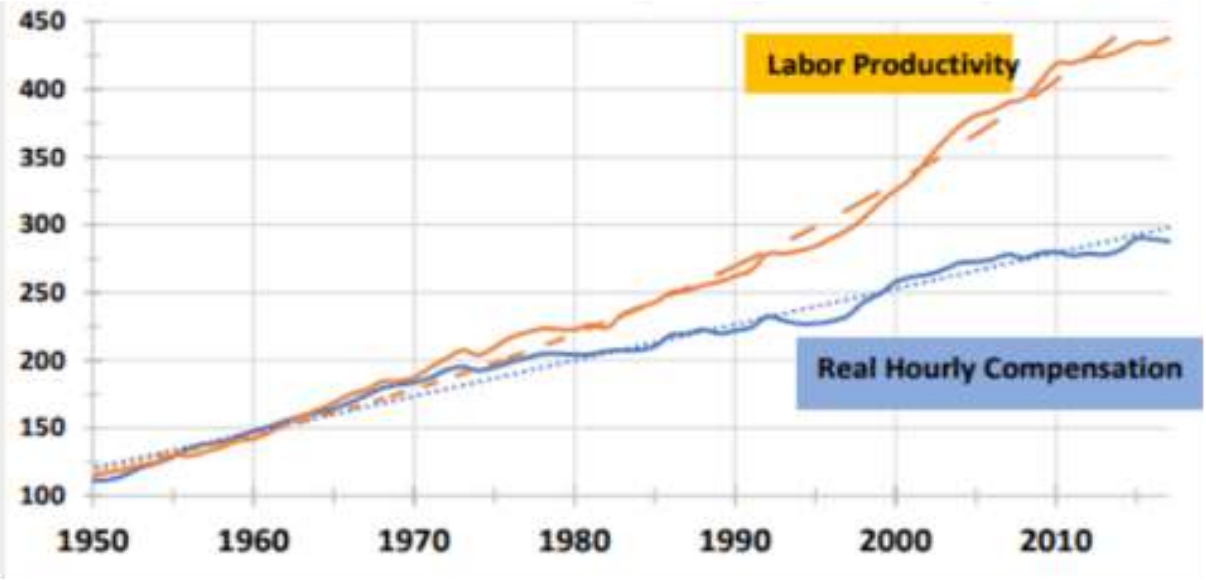
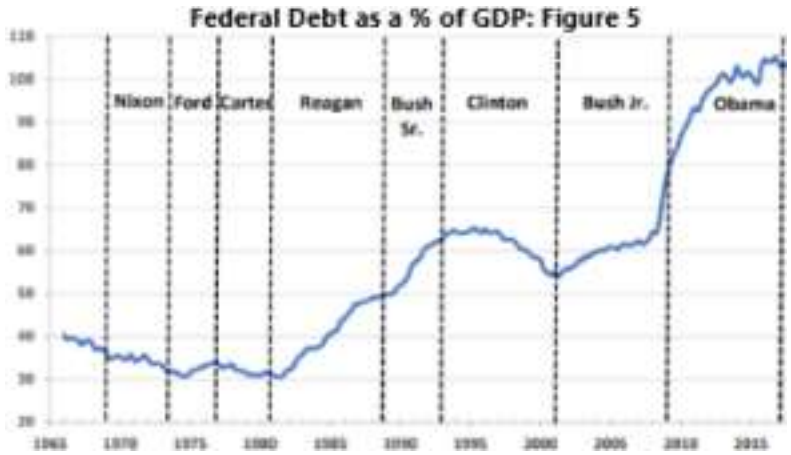


Figure 4: The Productivity-Compensation Gap Index (1950-2010). While workers kept producing more and more, their actual pay fell far behind, showing that Workers were not getting their fair share of the economic growth they helped create. Federal debt levels paint an equally concerning picture; government debt as a share of GDP jumped from 30% to about 50% during Reagan's tenure (Figure 5). Even though Reagan communicated about being responsible with government money, debt increased dramatically because the government cut taxes while being ineffective with budget cuts in federal spending and federal programs. However, these cuts affected the people during the Reagan administration, when the government had stopped funding three main social safety net programs:

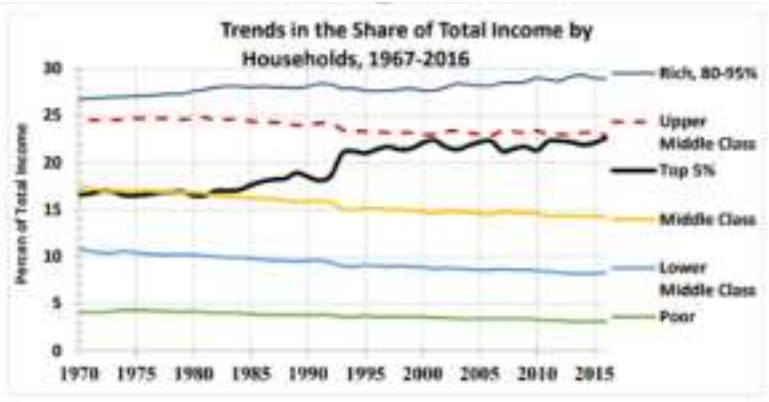


1. Food Stamps: Funding was significantly reduced, limiting access for low-income individuals.
2. Aid to Families with Dependent Children (AFDC): Funding decreased, restricting the scope of

assistance for impoverished families.

3. Medicaid: Though not eliminated, Medicaid funding was constrained, limiting its expansion.

Examining income trends across different household groups reveals an even more striking story. The share of total income going to the wealthiest 5% increased significantly, while the shares of the middle class and lower-middle class steadily declined. The evidence shows that while Reaganomics did help reduce inflation, it overlooked how the American people would benefit from the cuts. Without adequate resources for the lower and middle classes (lack of prioritization of social safety net programs), the tax cuts only encouraged wealthy individuals to invest and stimulate economic growth. This made income inequality worse because the wealthy people could take advantage of the tax cuts while everyone else saw little benefit just because of the shift being extreme and favorable mainly to the rich.



The Connection - India and the USA's National Economies

In evaluating the potential impact of tax reforms aimed at curbing black money in India, it is necessary to examine broader macroeconomic and institutional variables through comparative analysis. Comparing India to the United States in the early 1980s, when both countries faced challenges related to narrow tax bases, inefficient compliance structures, and public disengagement from formal taxation, enables a more layered understanding of policy design. However, this is not a one-to-one comparison. The structure of India's national economy today differs significantly from that of the U.S. of that era. India possesses a technologically advanced tax infrastructure, including Aadhaar-linked PAN systems, real-time GST tracking, and expanding digital payment adoption. At the same time, the Indian economy is characterized by significant sectoral variation, regional enforcement asymmetries, and a large base of emerging enterprises navigating formalization. In contrast, the U.S. reforms operated within a highly centralized, formalized, and institutionally mature environment, allowing policy shifts to translate more directly into compliance outcomes. Institutional coherence and administrative capacity, such as unified databases, consistent enforcement, and streamlined compliance systems, played a central role in the effectiveness of U.S. tax reforms. For India, any attempt to reduce marginal tax rates or expand the tax base must be evaluated within the complexity of its economic environment – one that is distinct in its institutional structure, regional diversity, and pace of formalization. The comparison with the United States is useful for identifying broader patterns, but the effects of tax policy must ultimately be understood by isolating India as its own analytical context, where outcomes are shaped by factors unique to its economic and administrative landscape.

True Solution - A Balance

In the face of such challenges, a more balanced approach is needed—one that addresses both economic growth and wealth equality. The persistence of black money in India continues to pose a challenge to its economic stability and societal frameworks. Despite attempts such as demonetization, these issues remain unresolved due to deeply rooted systemic inefficiencies. By adopting principles from Reaganomics and tailoring them to India's specific context, a more effective and sustainable set of reforms can be devised. This section builds on earlier discussions of black money's origins and the limitations of current policies to propose actionable reforms that address these challenges while promoting growth.

Simplified Taxation for Equity

By relying on the principles of Reaganomics and their application in the Indian context, a more robust and resilient body of reforms can be established. Reaganomics concentrated on reducing tax rates to drive economic growth through compliance, increased disposable income, and broadening the tax base. Similarly, India's current tax system, particularly the 30% income tax slab for those with higher incomes, is a primary reason for tax evasion and underreporting. This issue can be addressed by restructuring rates across all tax brackets, with simplicity and fairness in mind for all income groups. By restructuring marginal tax rates i.e., 10% for income in the ₹5–₹15 lakh range (India's middle class), a very sizable proportion of taxpayers, India can encourage better compliance. This middle class accounts for about 25% of the economy, which will benefit directly from reduced taxation. For the more affluent, a 20% rate on incomes exceeding ₹15 lakh would simplify tax compliance and reduce incentives for underreporting, bringing the "rich" under the overall reform. This twin-pronged strategy of reducing the burden on middle-income taxpayers and easing compliance for higher-income taxpayers addresses structural inefficiencies. It is directly linked to the tenets of Reaganomics, which aimed to broaden the tax base and eliminate loopholes without compromising equity. These steps are particularly relevant in India's context, where a vast underground economy exists and compliance is often discouraged due to complex regulations and high tax rates.

In American terms, this reform parallels indexing tax brackets for middle-income families and addressing fairness through progressive taxation without imposing overly harsh rates. For example, reducing marginal tax rates in the U.S. during the Reagan era boosted economic growth, increased tax revenues by widening the tax base, and lowered the use of loopholes. One can anticipate a similar effect in India: improving compliance, increasing the share of the formal economy, and promoting economic growth through increased consumer spending and job creation.

In addition, examples of how this change can work are:

1. A salaried income earner of ₹10 lakh a year would save heavily under the new 10% regime, which can translate into higher consumer spending and investment.
2. Small businessmen earning ₹5–₹15 lakh would have lower tax outgo, which can be invested in their businesses and generate employment.

By addressing the "bad" of tax evasion and underreporting through lower marginal rates, India's tax regime would be on the path of simplicity and fairness, with economic stability and growth. Flat corporate tax rates across MSMEs (Micro, Small, and Medium Enterprises) could also encourage formalization and reinvestment, balanced growth across sectors, and promote transparency. For example, MSMEs may utilize the tax relief to upgrade their operations, invest in new technology, or hire additional employees, thereby creating a multiplier effect in the economy. These reforms would make India's tax system

conducive to strong growth while being equitable and fair.

Targeted Reforms for High-Risk Sectors

Certain sectors, such as real estate (as seen in Figure 3) and luxury goods, are particularly prone to black money transactions. Mandating accurate market valuations for property transactions would help eliminate common undervaluation practices. Additionally, introducing small consumption taxes on high-value luxury items could discourage cash payments in these areas, further reducing the prevalence of unaccounted wealth. These reforms are crucial in the Indian context, where property dealings and luxury markets have historically been significant sources of black money circulation. Black money in property dealings can be addressed further by decreasing stamp duty – a tax levied on property purchases – in addition to insisting on accurate market values and imposing low consumption taxes on luxuries, as mentioned above. The imposition of high stamp duties prompts buyers and sellers to declare reduced values for the deals to avoid paying as much tax, resulting in under-valuation. Lowering stamp duty simply diminishes the under-valuation incentive. This policy has the potential to make the real estate sector more transparent, and property transactions to be more documented and less reliant on unaccounted wealth. Between September and December 2020, the Maharashtra government reduced the stamp duty on property transactions from 5% to 2% to counter the sharp decline in real estate activity caused by the COVID-19 pandemic. This policy led to an immediate spike in registrations—Mumbai recorded 19,220 property registrations in December 2020, up from 6,433 in December 2019, representing a 199% year-on-year increase (The Times of India, 2021). When the stamp duty was partially rolled back to 3% from January to March 2021, volumes remained elevated. In March 2021, Mumbai registered 12,696 transactions, a 234% increase over March 2020, which had recorded only 3,798 registrations (Livemint, 2021). Despite the lower tax rate, overall revenue from stamp duties increased due to higher transaction volumes and more accurate value disclosures, indicating that lower transaction taxes not only revived demand but also incentivized greater formalization in a historically opaque sector.

Regression Framework

Simplified Taxation for Equity

This section aims to extend the concept of Simplified Taxation for Equity beyond its normative ideal by developing an empirical framework that quantifies tax system participation. In contexts like India, where the informal economy is expansive and compliance burdens remain high, understanding who participates in the tax system—and who does not—is critical. I begin by revisiting a foundational effort in this area: the study by Dr. Devarajappa (2017), which examined tax evasion in India between 2000 and 2015. His work estimated tax evasion as the difference between estimated revenue (ER) and actual revenue (AR), and analyzed its relationship to overall revenue trends using regression and correlation analysis. The study reported a correlation coefficient of 0.246 between ER and tax evasion, and 0.223 between AR and tax evasion, suggesting a weak positive relationship. These findings suggest that as revenues rise, the volume of uncollected revenue also increases, albeit modestly. Supporting this, the R^2 values from regression models were 0.061 and 0.050, meaning that fluctuations in revenue collection alone could explain less than 6% of the variation in tax evasion. While this approach offers valuable historical insight, it treats the tax gap as a macro-fiscal discrepancy rather than a behavioral or structural problem involving specific segments of the population. It does not distinguish between legal exemptions, non-filing behavior, and deliberate evasion—factors critical to diagnosing and correcting compliance failures. To address this

limitation, I propose a framework that begins from the population level and works downward. Let X_1 represent the share of individuals who filed taxes in a given year. Let X_2 represent the share of the population that is economically active, approximated by: $X_2 = (1-\text{Unemployment Rate}) \times \text{Total taxable Population}$. However, rather than treating the entire population as a flat starting point, I filter out groups that are either legally exempt or structurally outside the tax system, including children, students, agricultural workers, non-working women, and those earning below ₹2.5 lakh per year. This enables us to isolate the actual taxable population and understand non-compliance as a behavioral and structural issue, rather than just a fiscal shortfall. Thus, X_2-X_1 is the estimated tax gap for that given year. The difference between them reflects the extent of under-filing.

Using 2024 as a reference point:

India's 2024 population was 1.45 billion, equivalent to 145 Indian crores. Removing the under-21 population, which stands at 526 million (52.6 crore), leaves a working-age population of 924 million (92.4 crore). Of this, 43.5% are employed in agriculture—401.9 million (40.19 crore)—and are excluded, as agricultural income is fully exempt under Section 10(1) of the Income Tax Act. This leaves 522.06 million (52.21 crore) individuals in non-agricultural sectors. Applying the ₹2.5 lakh income threshold, 43% of this group qualifies as liable to file income tax, yielding 224.49 million (22.45 crore). Adding 1.55 million (0.155 crore) Non-Resident Indians (NRIs) who file from abroad, the total expected taxable population (X_2) becomes 226.04 million (22.60 crore). The actual number of effective income tax return filers (X_1) in 2024 was 77.88 million (7.79 crore), after removing 1.826 million (0.18 crore) individuals who declared zero taxable income. This produces a tax gap of 148.15 million (14.82 crore) individuals. Since this count includes those who used the Updated Return Mechanism (UFM), re-filers are not excluded from the official data—eliminating any confusion between filing errors and evasion. The compliance rate thus stands at 34.5%, while the non-filing rate is 65.5%, indicating that nearly two-thirds of those who should have filed did not, despite having both economic capacity and legal obligation.

Data limitations:

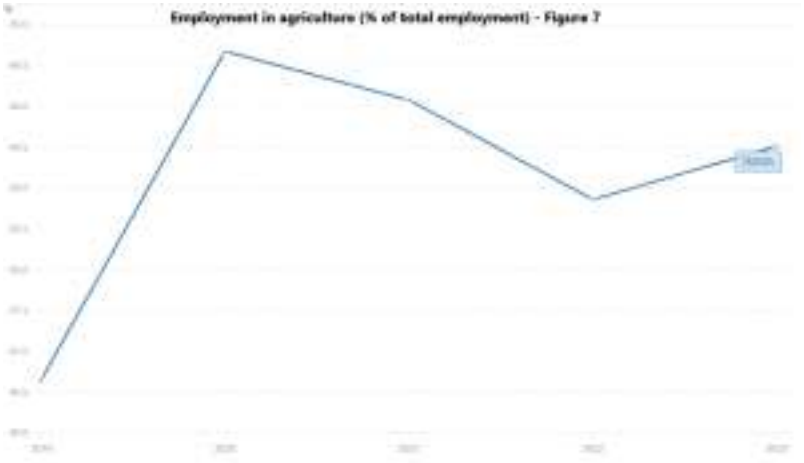
Note that this representation of the tax gap captures approximately 80% of the relevant sample, focusing primarily on non-filers—those who earn above the taxable threshold but do not file returns. A critical limitation of this framework lies in its inability to detect filers who underreport income or undervalue assets, due to the lack of granular, individual-level disclosure data in public tax records. These forms of evasion, often involving under-valuation of real estate, shell companies, or layered transactions, fall outside the scope of publicly accessible government data. Consequently, the model presented here addresses only one significant stream of tax evasion—non-filing—and should be interpreted within that boundary. It is reasonable to assume that the remaining 20% of the evasion population, which consists of intentional under reporters within the filing population, may not respond to tax rate changes or enforcement measures in the same way as non-filers. Different risk calculations influence their incentives and behavior and often involve more sophisticated mechanisms of concealment. However, for this analysis, the focus remains on estimating and explaining the behavioral drivers of non-filing, which represent the more visible and policy-responsive portion of the evasion spectrum. By isolating this subgroup, the analysis maintains internal consistency and allows for the development of measurable relationships between tax participation, labor force activity, and tax policy variables. Future studies could refine this model by incorporating enforcement-level microdata or audit-adjusted underreporting rates to estimate the full scope of evasion, including within the declared base.

Below are the calculated tax gaps every year from 2019 to 2024:

	2019	2020	2021	2022	2023	2024
Population (billion)	1.396	1.407	1.417	1.428	1.438	1.45
Under 21 (million)	536	533	531	529	528	526
Working Age Pop (million)	860	874	886	899	910	924
Agriculture Employment %	40.5	44.6	44.1	42.8	43.5	43.5
Non-Agric ultural Workforce (million)	511.7	484.196	495.274	514.228	514.15	522.06
Above Threshold (million)	220.031	208.2043	212.9678	221.118	221.0845	224.4858
NRI Filers (million)	1.3	1.35	1.4	1.45	1.5	1.55
Expected Filers (X_2, million)	221.331	209.5543	214.3678	222.568	222.5845	226.0358
ITR Filers (million)	66.91	63.94	67.55	72.58	80.9	79.71
Zero Income Filers (million)	0.517	0.548	0.549	0.464	0.49	1.826
Effective Filers (X1, million)	66.393	63.392	67.001	72.116	80.41	77.884
Tax Gap (million)	154.938	146.1623	147.3668	150.452	142.1745	148.1518
Compliance Rate	29.99715	30.25087	31.25516	32.40178	36.12561	34.45649

(%)						
Non-Filing Rate (%)	70.00285	69.74913	68.74484	67.59822	63.87439	65.54351

Note: According to the World Bank Group, agricultural employment in India stood at approximately 43.5% in 2023, following a slight recovery from the decline observed between 2020 and 2022. Since the official dataset extends only up to 2023, I adopt 43.5% as the estimated share for 2024, holding it constant year-over-year. This assumption is supported by a lack of structural labor shifts reported in recent news and policy outlooks. As of early 2024, no significant rural-to-urban labor migration trends or agricultural labor reforms have been introduced that would suggest a meaningful deviation from the previous year's figure. In fact, policy documents such as the Economic Survey 2023–24 and the Ministry of Agriculture's quarterly updates reinforce the stability of agrarian labor dependence, indicating that agricultural employment remains resilient despite broader shifts in GDP composition. In line with the principle of least structural deviation, this flat extrapolation reflects a conservative, yet reasonable, expectation for the near term.



Effective Estimations:

In the absence of direct published data on India's under-21 population, estimation was used, integrating established age-group statistics with reasonable assumptions. According to official sources, approximately 27.5% of India's population falls within the 0–14 age group (World Bank), while about 18.2% falls within the 15–24 age bracket (United Nations). Because the under-21 category comprises individuals from age 0 to 20, the entire 0–14 group is included, and assuming a uniform age distribution in the 15–24 group, it can be inferred that 60% of that cohort (i.e., those aged 15–20) are under 21. Thus, the calculation is 27.5% plus 60% of 18.2%, which is $27.5\% + 0.6 \times 18.2\% \approx 27.5\% + 10.92\% \approx 38.42\%$ (rounded to 38.4%). With a total population of 1.396 billion in 2019, the estimated number of individuals under 21 is approximately 0.536 billion (536 million). To capture the gradual, non-linear change in the under-21 segment—driven by factors such as a rising median age (approximately 28.8 years in 2025), declining fertility, and other demographic transitions—a logistic model was employed. The model is expressed as

$$U(t) = \frac{K}{1 + Ae^{-rt}}$$

where U(t) is the under-21 population (in billions) t years after 2019, K represents the carrying capacity (set at 0.520 billion to reflect the long-term lower asymptote for this group), A is determined from the initial condition (with $A = (K/U(0)) - 1$ calculated as approximately –0.030 for U(0) = 0.536 billion), and r is the intrinsic decay rate—calibrated at approximately 0.1824 using a projected value U(5) = 0.526 billion in 2024. The following table summarizes the model's forecast:

Year	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
t (Years Since 2019)	0	1	2	3	4	5
U(t) (Billion)	0.536	0.533	0.531	0.529	0.528	0.526

Empirical Framework:

The development of a population-based tax gap model in this analysis was guided by the goal of studying tax evasion not solely as a fiscal shortfall, but as a pattern of non-filing behavior that may shift in response to policy design. While previous studies, such as Devarajappa's work on the relationship between projected and actual tax revenue, have made important contributions to identifying macro-level discrepancies in India's fiscal system, there remains a need to complement such approaches with a framework that emphasizes behavioral non-participation. Specifically, rather than measuring evasion through aggregate fiscal gaps, this analysis aims to approximate tax evasion through the lens of non-filing among individuals who, by legal and economic standards, are required to file.

By estimating the number of potential filers using publicly available data—filtered through age, employment sector, and income threshold constraints—and comparing it against the number of effective tax return filers, the model produces a year-by-year estimate of the tax gap in population terms. This measure serves as the dependent variable in the following empirical framework. It enables the analysis of how fluctuations in the tax gap might be explained by changes in tax policy over time, particularly those involving the progressivity of income tax rates, compliance measures, or simplification mechanisms. The central hypothesis tested in this model is whether more progressive or stricter tax systems result in a measurable reduction in the tax gap. The null hypothesis assumes that higher marginal rates, tighter enforcement, or simplified compliance policies encourage formal participation in the tax system and thereby reduce evasion. The alternative hypothesis allows for the possibility that these same measures either have no significant effect or, in some cases, lead to an increase in tax evasion if taxpayers perceive the system as overly burdensome or opaque. To test these ideas, I specify the following regression model:

$$\mathbf{TaxGap}_{it} = \beta_0 + \beta_1 \text{treatment}_{it} + \beta_2 \text{population}_{it} + \beta_3 \text{unemployment}_{it} + \beta_4 + \mu_i \ldots + \epsilon_{i,t}$$

In this equation, TaxGap_i represents the dependent variable, which is the number of people (in millions) who were expected to file income tax but did not. Treatment_i captures the nature of the tax regime in a given year (based on its progressiveness/ strictness) and is coded as an ordinal variable rather than a binary

dummy. This design choice reflects the fact that tax policies differ not just in timing but in degree. For example, in 2021, a sharp surcharge hike on incomes above ₹5 crore raised the effective marginal rate to 37%, and is scored as +2 to reflect its uniquely high pressure on compliance behavior. In contrast, the introduction of the new tax regime in 2020, which featured lower rates but fewer deductions, is scored as –1 to reflect its flatter, less progressive structure. Years such as 2022 and 2023—where minor relaxations or rebates were added—are coded 0 to reflect relative neutrality in enforcement intensity. The variable $population_i$ represents the number of eligible filers after filtering for age, sector, and income threshold. It controls structural shifts in the size of the tax base. $Unemployment_i$ reflects national labor market volatility, which may affect either the ability or willingness of individuals to file.

Results and Insights

Predictor	Coefficient	Std. Error	t-value	p-value
Const.	55.2249	96.0433	0.5750	0.6234
Expected Filers	0.4799	0.4646	1.0328	0.4102
Unemployment Rate	–2.1158	1.7402	–1.2158	0.3481
Treatment	–0.8435	2.4153	–0.3492	0.7603
R^2	0.4456			

The regression results indicate that, although our three explanatory variables collectively account for nearly half of the inter-annual variation in India's tax-gap ($R^2 = 0.4456$), none attain statistical significance at the conventional 5 % threshold. In practical terms, this null finding suggests that simple expansions of the eligible taxpayer base, fluctuations in unemployment, and major policy pronouncements—captured here by an ordinal treatment indicator—have not produced discernible shifts in non-filing behavior over 2019–2024. The positive coefficient on Expected Filers implies that as more individuals become liable, the tax gap tends to swell, yet the associated standard error is large relative to the point estimate, rendering this relationship inconclusive. Similarly, the negative coefficient on Unemployment Rate intimates a possible dampening of evasion under tighter labor markets, but again the estimate lacks precision. The treatment variable, representing headline reforms such as demonetization and slab adjustments, exhibits an even weaker association, underscoring that policy announcements on paper may be insufficient to change taxpayer conduct without parallel increases in enforcement intensity or reductions in compliance complexity.

These findings carry important implications for understanding black-money dynamics in India. First, the lack of significance reflects both the limited variation in our six annual observations and the coarse nature of our policy dummy, which cannot capture the staggered, sector-specific enforcement drives or the real-time adaptations of taxpayers. Second, it points to the enduring influence of structural complexity and informal-sector inertia: convoluted rate schedules, persistent mistrust of institutions, and entrenched cash-based networks mean that marginal rate changes or high-level pronouncements often go unheeded. Third, the pandemic years introduced additional noise—shifts in administrative focus and emergency relief efforts likely distracted both authorities and taxpayers, further diluting observable effects. In sum, while the regression framework is theoretically sound, its empirical implementation requires richer enforcement metrics (audit rates, penalty collections), higher-frequency compliance data (quarterly or monthly filings),

and behavioral proxies (surveys on institutional trust) to reveal which specific interventions, be they simplification of marginal rates, targeted MSME outreach, or intensified sectoral audits, truly move the needle on black-money reduction. Without such enhancements, any policy prescription risks resting on inconclusive evidence rather than robust causal inference.

Conclusion

Black money, accounting for 20% of India's GDP, is the result of institutionalized tax evasion, corruption, and illicit financial flows. While initiatives such as the 2016 demonetization policy aimed to eliminate unaccounted wealth, the initiative primarily addressed existing black money without offering a forward-looking framework to prevent its resurgence. Although demonetization had temporarily driven unaccounted wealth into the formal banking system—leading to a 25% increase in tax returns for FY 2017-2018—it failed to disrupt the underlying mechanisms that propelled the creation of black money. This failure, coupled with severe liquidity shortages, disproportionately impacted cash-intensive sectors, including MSMEs, real estate, and agriculture. The GDP growth rates decelerated, and the real estate sector experienced sharp deflation due to its excessive reliance on black money transactions, as is evident from the 2016-2017 slowdown in real estate transactions. While corruption in other countries, such as China and Russia, has been institutionalized with its roots in centralized political power sources, India's black money issue has its roots in systemic inefficiencies and high tax rates. The current 30% income tax slab for individuals earning above ₹15 lakh, combined with the absence of targeted tax reforms, only serves to promote tax evasion and underreporting further, as taxpayers seek to avoid disproportionate fiscal burdens. One such step in this direction is introducing Reaganomics philosophies, as appropriate to India's specific problems. Simplification of taxation by reorganizing marginal rates—reducing the middle-class segment (₹5–₹15 lakh) to 10% and the high-income group (over ₹15 lakh) to 20%—can ease compliance and increase the formal tax base. These steps are proposed to address the comparatively high taxpayer burden, which can lead to income concealment. For MSMEs, which are key drivers of employment and GDP growth but remain predominantly informal, a flat tax regime for the corporate sector would promote formalization, encourage reinvestment, and make them economically sustainable in the long term. For example, lower tax rates would allow MSMEs to allocate the savings towards investment in technology upgrades, organizational improvements, and staff additions, resulting in a multiplier effect on the entire economy. There are also sectoral interventions required. For instance, in the real estate sector, requiring realistic valuations of properties, lowering stamp duties, and disincentivizing transactions under the table can go a long way in reducing black money flows. By tackling undervaluation—a prevalent practice used to evade high stamp duties—such reforms will make transactions more transparent, stabilize the real estate market, and ensure that transactions are properly documented. In the same vein, levying moderate consumption taxes on high-value luxury goods can reduce cash-based transactions, further closing off avenues for unaccounted wealth. The evidence points to the fact that black money in India must be addressed by taking a holistic, multi-pronged approach against systemic inefficiencies, tax rates, and high-risk behavior. Taxation simplification, sectoral reform, and targeted incentives form a winning package for combating black money, as well as promoting inclusive economic growth. These measures are required not only to deter illicit financial flows but also to align India's economic policies with its vision of transparency, inclusiveness, and sustainable development.

In light of our analysis, it is evident that headline measures alone have been insufficient to dismantle the entrenched mechanisms behind India’s black-money problem. Demonetization and isolated rate

adjustments produced short-lived compliance gains but did not deliver sustained reductions in the tax gap. Our regression analysis confirms that simply enlarging the eligible base, reacting to unemployment fluctuations, or announcing high-profile policy tweaks fails to move the needle without stronger enforcement and clearer incentives. Going forward, India must couple marginal-rate simplification with real-time, data-driven risk scoring and significantly ramp up audit intensity. At the same time, the government should invest in higher-frequency compliance data and develop granular enforcement metrics, such as audit-rate indices and e-filing patterns, to pinpoint which interventions truly change taxpayer behavior. Only by filling these empirical and administrative gaps can reforms be fine-tuned to deter illicit financial flows and build a transparent, inclusive fiscal framework.

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