Demonetisation – A Look Back at the last Two Months

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Ethical and developed societies aided by technology have consistently moved towards banking and digital transactions as against the excessive use of cash. Paper currency opens the doors for many vices. When Governments are able to collect more tax from tax evaders, they are in a better position to collect less tax from everyone else. Reducing cash may not eliminate crime and terrorism but it can inflict serious blow on them

More than two months have passed since the Prime Minister announced the decision that high denominational currency notes would cease to be a legal tender. Subsequently those notes have been demonetised. When 86 per cent of a country's currency constituting 12.2 per cent of its GDP, is squeezed out of the market and sought to be replaced by a new currency, there would obviously be significant consequences of that decision. Now that the remonetisation has moved ahead, it would be worthwhile to analyse the rationale behind the decision and its impact.

Steps against Black Money

The present Government had absolute clarity from day one that it would move against the shadow economy and black money. It's first decision was to constitute SIT under the directions of the Supreme Court. The Prime Minister had proposed to the G-20 at Brisbane that international cooperation in sharing information with regard to base erosion and profit shifting should be expedited. The arrangement with the United States furthered this object. The Government completed its agreement with Switzerland that w.e.f. 2019, details of assets held by Indian citizens in Switzerland and vice versa would be provided to each other. Since 1996, the Double Taxation Avoidance Treaty with Mauritius was being renegotiated. The treaty effectively incentivised round-tripping. It was renegotiated. Similar treaties with Cyprus and Singapore have also been renegotiated. The Black Money Law dealing with illegal assets outside India opened a window for disclosure with 60 per cent tax and provides a ten year imprisonment.

The Income Declaration Scheme (IDS) 2016 was highly successful with a 45 per cent tax. The PAN card requirement for cash transaction beyond rupees two lakhs put hurdles on expenditure through black money. The Benami law was legislated in 1988 and never implemented. It was amended and has been put into action. The GST, which is scheduled to be implemented this year, will provide for better indirect tax administration and being a more efficient law will check tax evasion. The demonetisation of high denominational currency notes was the big step in the same direction.

The New Normal

In the year 2015-16, 3.7 crore assesses of the total population of over 125 crores, filed income tax returns. Out of these, 99 lakhs declared income below Rs.2.5 lakhs and paid no taxes; 1.95 crores declared income less than Rs.5 lakhs; 52 lakhs declared income between Rs.5 to10 lakhs, and only 24 lakhs declared income above Rs.10 lakhs. No better evidence is required

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Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana

The Government seeks to promote digital payment methods to encourage consumers and merchants to increasingly shift to these payment modes. To take this initative forward, Lucky Grahak Yojana for Consumers and Digi-Dhan Vyapar Yojana for Merchants was launched recently. The schemes are aimed at encouraging people to move towards significantly higher usage of digital transactions through the offer of incentives. The schemes will be implemented by National Payments Corporation of India (NPCI). Only those transactions that take place through RuPay Cards, (USSD) Unstructured Supplementary Service Data, (UPI) Unified Payments Interface and (AEPS) Aadhaar Enabled Payment System are eligible for these schemes.

to substantiate that both in the matter of direct and indirect taxes India continues to suffer being a hugely tax non-compliant society.

Expenditure required for poverty eradication, national security and economic development have to be compromised with on account of tax non-compliances. For seven decades the Indian "normal" has been to undertake transactions partly in cash and partly in cheque. "Pucca" and "Kachha" accounts are a part of the business language. Tax evasion has been considered as neither unethical nor immoral. It was just a way of life. The Prime Minister's decision is intended to create a new "normal". It seeks to change the expenditure pattern of India and Indians. It is obviously disruptive. All reforms are disruptive. They change the retrograde status quo. The demonetisation puts a premium on honesty and penalises dishonest conduct.

The Adverse Consequences of Cash

Paper currency is a zero interest anonymous bearer bond. It has no name or history attached to it. Crime can take place with or without cash but excessive cash as a medium of exchange is favoured by the underground economy. It results in non-compliance in the matters of tax payments which creates an unjust enrichment in favour of the evader as against the poor and the deprived. Mountains of cash money reach tax havens through the hawala route from the original paper currency. Cash facilitates real time untraceable payments. Cash is the medium which funds bribery, corruption, counterfeit currency and terrorism. Ethical and developed societies aided by technology have consistently moved towards banking and digital transactions as against the excessive use of cash. Paper currency opens the doors for many vices. When Governments are able to collect more tax from tax evaders, they are in a better position to collect less tax from everyone else. Reducing cash may not eliminate crime and terrorism but it can inflict serious blow on them. States have shown that the stores of cash do not disappear on their own till Governments take active steps to reduce the quantum of paper currency.

The Magnitude of the Decision

The Prime Minister's decision to replace the high denominational currency and eventually demonetise it required both courage and stamina. The implementation of the decision carried pain. It can lead to short

BHIM will create Equality

The new indigenously developed payment app 'BHIM' (Bharat Interface for Money) has been launched by the government named after the main architect of the Indian constitution, Bhim Rao Ambedkar. BHIM will curb black money system and create equality in the society BHIM is a biometric payment system app using Aadhar platform, and is based on Unified Payment Interface (UPI) to facilitate e-payments directly through banks. It was launched to stress on the importance of technology and digital transactions. It can be used on all mobile devices, be it a smartphone or a feature phone with or without internet connection.

The payments through the BHIM App can be made by just a thumb impression after the bank account is linked with Aadhaar gateway. The technology through BHIM will empower poorest of the poor, small business and the marginalised section.

The new app is expected to minimise the role of plastic cards and point of sale machines. The app will eliminate fee payments for service providers like MasterCard and Visa, which has been a stumbling block in people switching to digital payments.

The app can be used to send and receive money through smartphones. Money can also be sent to non UPI supported banks. Bank balance can also be checked through the app.

No Charges on Card Payments at Fuel Pumps

Customers or petrol pump dealers will not have to bear any charges on digital payments for fuel purchases according to the Ministry of Petroleum and Natural Gas.

Before the demonetization in November, consumers used to pay the charges on digital payments levied by banks.

Petrol pumps have become a major ally in the government's effort at pushing the country towards a less-cash economy. By quickly adopting digital wallets and fast expanding the use of credit and debit cards at most of its retail outlets, state oil companies have immensely pushed the government's digital agenda while bringing convenience to customers.

term criticism and inconveniences. Drop in economic activity on account of the currency squeeze during the remonetisation period would have a transient impact on the economy. The decision involves high level of secrecy and printing substantial amounts of paper currency, distribution through banks, post offices, banking mitras and ATMs.

The fact that large quantum of high denominational currency has been deposited with the banks does not render this money to be legitimate cash. Black money does not change its colour merely because it is deposited in bank. On the contrary, it loses its anonymity and can now be identified with its owner. The Revenue Department would thus be entitled to tax this money. In any case, the amendment to the Income Tax Act itself provides that the said money, if voluntarily declared or if involuntarily detected, would be liable for differential and high rates of taxation and penalty.

The Situation Today

The period of pain and inconveniences is getting over. Economic activity is being restored. The banks today admittedly have a lot more money available in order to lend for growth. Since this money constitutes low cost deposits with the banks, it is bound to bring down the rate of interest. Both these things have already happened. Lakhs of crores, which were floating in the market as lose currency, have now entered the banking system. Not only has the money lost is anonymity, it's owners, after being taxed, are entitled to put it to more effective uses. The size of the banking transactions and consequently the size of the economy is bound to increase. In the medium and long run, the GDP would be bigger and cleaner. Money entering into the banking system and officially transacted would give an ample scope for higher taxation – both direct and indirect. The Centre and the State Governments would both stand to gain. The economy would also be serviced by both cash and highly digitized transactions.

Source: PIB

DO YOU KNOW?

LEGAL TENDER MONEY

Denomination of a country's currency by law, must be accepted as a medium of exchange and payment for a money debt. While usually all denominations of the circulating paper money are legal tenders, the denomination and amount in coins acceptable as legal tender varies from country to country. This is also called lawful money.

The legal tender money is of two types:

(i) **Limited Legal Tender Money:** This is a form of money, which can be paid in discharge of a debt up to a certain limit and beyond this limit, a person may refuse to accept the payment and no legal action can be taken against. Coins are limited legal tender in India.

(ii) **Unlimited Legal Tender Money:** In this form of money, which can be paid in discharge of a debt of any amount. A person who refuses to accept this money a legal action can be taken against. Paper notes/currency are unlimited legal tender in India.

The 'Legal tender' is the money that is recognised by the law of the land, as valid for payment of debt. It must be accepted for discharge of debt. The RBI Act of 1934, which gives the Central Bank the sole right to issue bank notes, states that "Every bank note shall be legal tender at any place in India in payment for the amount expressed therein".

The recognition or cancellation of the legal tender status is important because paper money derives all its value from the Government's recognition of it. Also, for a piece of paper to function as a medium or exchange and store of value, it needs to enjoy unquestioning acceptance from the public. This can only be ensured by declaring such paper currency notes as 'legal tender' through a fiat, with the RBI or the Centre promising to 'pay the bearer' an equivalent sum if the currency note is presented to them.

Non-Legal Tender Money: It is a form of money, which is generally accepted, but legally is not bound to accept it. Such as cheques, bank drafts, bills of exchange, postal orders etc. are not legal tenders and are accepted only at the option of the creditor, lender, or seller. It is also called the optional money because it does not have legal backing and their acceptance is optional. ❑