

Demonetization: - Its impact on tax structure, tax collection & bank structure

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Abstract:- To curb corruption, black money, existence of parallel economy, counterfeit currency, terror funding, the Indian government launched Demonetization on November 8th 2016. High value currency notes of denominations 500 and 1000 ceased to be a legal tender from the stroke of midnight of November 9, 2016. These currency notes (also referred to as specified bank notes-SBNs) formed 86% of the total currency in circulation. The objective of this paper is to analyze the macro impact of demonetization on various aspects of the economy- tax structure, inflation, growth rate. This study will help us to know about positive and negative impact of note ban decision taken by Indian government, the effect of demonetization create so many hurdles for the citizen of India. It is the combination of demonetization, goods and service tax, and the real state regulatory authority (RERA) that has seen work in the sector come to a halt.

Keywords:- Demonetization, Indian government, tax collection, macro impact.

I. INTRODUCTION

Indian economy relies mainly on cash. Nearly 78% of all payment transactions happen in the form of cash. The decision to demonetize such a hugely used currency was a set of efforts made by the Indian government to curb corruption, increase rate of savings, acceleration of financial markets and the digitalization of economy. As the scale of operation of Demonetization was wide, the impacts were felt by the whole population. The benefits of Demonetization are long – term but the adverse effects of currency crunch were to be felt in a shorter time duration. Cash squeeze was reported to deflate economic and financial activity coupled with temporary decrease in India's growth rate.

II. IMPACT OF DEMONESTISATION

Tax is a compulsory from an individual to the government. These can be of two types-

Direct taxes

Indirect taxes

Direct taxes are collected directly from individuals. The impact and incidence is on the same person or entity. Indirect taxes are ones in which tax is collected from one individual on behalf on some other person. Thereby, the impact and incidence of tax is on 2 or more different persons.

India is a welfare state. Tax collections are used for social upliftment of poor, needy, downtrodden people of society. Tax evasion and avoidance is not desirable of in India.

III. THE INCOME DECLARATION SCHEME

The IDS or the Income Declaration Scheme (IDS) differed from the Voluntary Income Disclosure Scheme (VIDS) launched by then finance Minister Mr. Chidambaram in 1997. While VIDS was an official pardon (blanket amnesty) scheme, the IDS was non-amnesty.

Finance minister Shri Arun Jaitley announced the Income Declaration Scheme (IDS) as a part of Finance bill, 2016 in Lok Sabha. The scheme was valid between June 1, 2016 and September 30, 2016. The time limits could be increased and decreased by the Central government, If the assessee has not honestly declared his undisclosed income during the previous assessment year, he may declare in the given time period. No random penalties would be charged from him, no prosecution charges would be pressed against them. Tax will be charged at a flat rate of 45%. This scheme was valid for both income as well as wealth tax. If a default is conducted, the assessee would be liable to pay taxes as follows-

- 30-45% income tax rate
- Krishi Kalyan Cess on 25% of this tax
- Penalty on 25% of the tax.
- The declarants were allowed to pay taxes and penalties in three installments-
- The first installment being payable latest by November 2016
- The second installment by March 2017
- The third and last installment by September 2017,

On its twitter handle, The Income tax department asked the people to come forward and declare their un-accounted incomes. Through use of e-filing facility, the tax payers could declare their assets in full secrecy as the details of the same would not be shared with the IDS scheme was closed on September 30, 2016. A low number of domestic unaccounted income holders came forward under this scheme. Though only 64,275 assessee came forward, a total of 65,250 crores was collected under this scheme which is one of the largest tax collections in history yielding Rs. 29,362 crore to the government in taxes. Union Budget 2017-18 has predicted an annual increase of 25.4% in income tax collections over revised estimate (RE) figures for 2016-17. RE figures for 2016-17 show an annual increase of 23.3% over 2015-16 actual estimates. These growth figures are the highest in this decade, and seen at face value, suggest a dramatic improvement in India's income tax base in the past one year. Months after the IDS scheme, PM Modi announced demonetization.

ITR e-filing data from income tax department shows that number of ITR filings increased from 43.3 million to 52.9 million between FY16 and FY17. In absolute terms, the increase is not significantly more than what was achieved between FY15 and FY16. To be sure, the ITR filing and payment process for the previous fiscal year is still underway and income tax returns/tax payments could continue to increase. However, data available till now does not suggest a spectacular increase in India's income tax base due to demonetization.

It is reasonable to assume that a large amount of income tax evasion happens on account of non-salaried classes, as those getting salaries have their taxes deducted at source. The income tax department classifies ITR filings on the basis of type of tax payers. At present there are nine such categories, where ITR 1 and 2 represent individuals or Hindu Undivided Family (HUFs) earnings from salaries, interest, house income etc. These categories account for close to half of ITR filings in the country. The ITR filing data for FY17 does not show any significant change in composition of ITR filings by different categories compared to previous years.

IV. CONCLUSION

The impact of demonetization by government of India rises income tax return by 25%, collections up 41% this also led to the Income Tax department served notices on 1.16 lakh individuals and firms who had made cash deposits of more than Rs 25 lakh in bank accounts but did not file returns. It also unearthed undisclosed income of Rs 7961 crore. The number of returns filed as on 05.08.2017 stands at 2,82,92,955 as against 2,26,97,843 filed during the corresponding period of FY 2016-2017, registering an increase of 24.7 per cent compared to growth rate of 9.9 per cent in the previous year. The economy now has roughly Rs 5 lakh crore less of cash than the amount it would have had if demonetisation had not happened.

V. REFERENCES

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