

DEMONETISATION: A SURGICAL STRIKE ON BLACK MONEY HOLDERS!

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Introduction

Demonetization is the process of replacing the old currency with new one as the mode of payment. Demonetization in India is being exercised by abruptly withdrawing Rs.500 and Rs.1000 notes from public use in order to clamp down on black money, fake currency menace, terror funding and corruption on November 8, 2016.

The man behind this idea of demonetization in India was Anil Bokil who propounded the concept of Artha Kranti – a five point action plan designed to end corruption in India with specific focus on black money.

In India the honorable Prime Minister Narendra Modi demonetized Rs.500 and Rs.1000 notes on Nov 8, 2016.

Rs.500 & Rs.1000 notes accounted 86% of India's total supply of cash.

History

First demonetization held in India was in January 1946 and again in 1978 with demonetization of Rs.1000 notes.

The Rs.1000 note of Mahatma Gandhi series were prior circulated in 1946 and Rs.500 in 1987 which were demonetized from midnight 8 Nov, 2016.

There was a need for demonetization to discourage cash system, combat inflation, corruption and to make Indian government rich in data about parallel black economy in India. The major reasons which led to demonetization were cash hoarding, tax evasion, fake currency, undeclared income, black money and illegal activities like terrorism, drugs, corruption and smuggling. So to keep a check on following activities government introduced demonetization which mainly aims at -

1. Tackling black money in Indian economy.
2. Lower the cash circulation in country.
3. To eliminate fake currency and doggy funds which were used by terror groups to fund terrorism in India.

Taxes

It is the income of the government in terms of money which is used for the development of the country. Many countries like Saudi Arabia, Omen etc. does not impose any taxes on their citizen because they have sufficient money through the exporting of oil. Taxes enable the government to carry out certain services like in building infrastructures, in maintaining them, in maintaining public security department and lot more.

Black money

Black money is basically the income earned but not disclosed to the Income Tax Department. It is illegally earned income by hoarding, smuggling, tax evasion and export and import of illegal items. It is use in various immoral activities such as corrupting and demoralizing social and political life, use to bribe government officers and lead them to the path of corruption and dishonesty.

Although the Indian government can't control the black money, though government announced several schemes and policies to fight against it time to time. Some are, Income Declaration Scheme is a way for people who had not disclosed income or paid taxes thereon in the past, the person making a declaration under the scheme would have to pay up to 50% of the undisclosed income, and another policy is Demonetization.

The Problems faced by people after Demonetization on November 08, 2016:-

Challenges faced by bank-

1. To ship enough money into economy.
2. ATMs are too be reconfigured.
3. Overload to employees.
4. Difficulty in handling large mass of customers.

Problems faced by government-

1. To overcome criticism.
2. To bring cash less mode economy.
3. To avoid illegal practices.

Effect on stock market-

1. BSE sensx opened with the massive loss.
2. Lots of investors withdraw their capitals from stock market.
3. Rupee appreciation in foreign exchange market is also expected.
4. It also affected pharmapheutical stocks.

Problems faced by general public-

1. Forced to make stand in long queues for hours for money.
2. Exchange for Daily necessity item became difficult.
3. Affected daily life routine to a large extent.

What to Do With Old Notes?

1. Exchange them using voter's ID and Adhar card at any government offices.
2. Deposit them in the bank account.
3. Use them at petrol pumps, government hospitals etc. for the first 72 hours after the announcement.

Reactions of Opposition-

The opposition was in a strong protest against the demonetization they even claim that new moves will not stop counterfeiting and bribery or check the generation production of the black money. AAP and Trinamool Congress addressed a joint rally in Delhi forcing government to roll back demonetization. They even called it a legal conspiracy.

General Announcements and Affect on The Country-

ON NOVEMBER 8-

PM announced demonetization by disallowing the use of Rs.500 and Rs.1000 notes. And further announced that for the first 72 hours, Rs.500 and Rs.1000 notes were only accepted in government hospitals, fuel stations, purchasing medicines, booking tickets for trains, airlines and buses and for paying utility bills.

Initially Rs.4000 were allowed to exchange through banks while Rs.2000 can be withdrawn through ATMs and Rs.10000 per day and Rs.20000 per week from the bank.

ON NOVEMBER 9-

Banks and ATMs were remain closed and government suspended highway toll till NOVEMBER 11 and extended the working hours of banks till 8 P.M.

ON NOVEMBER 11-

ATMs were opened for the first time but due to unavailability of cash ATMs went dry in few hours. Government announced and extended the use of Rs.500 and Rs.1000 notes till NOVEMBER 14 midnight.

ON NOVEMBER 13-

Government extended the exchanged limits to Rs.4500 and extended the limit of cash withdrawal from ATMs to Rs.2500 and weekly limit of withdrawal was extended to Rs.24000.

ON NOVEMBER 14-

The cash withdrawal limit was extended for current account holders to Rs.50000 per week.

ON NOVEMBER 17-

Government lowers the exchange limit to Rs.2000 from Rs.4500 and for wedding cash can be withdraw up to Rs.2.5 lakhs. Farmers can withdraw up to Rs.50000 per week and toll exemption was extended till 24, NOVEMBER midnight.

ON NOVEMBER 18-

No respite from long queues in front of banks and ATMs. GDP growth was lowered by 0.3-0.5% until now 55 died.

ON NOVEMBER 21-

Government allowed farmers to use Rs.500 notes for buying seeds. Until now bank recorded Rs.5.12lakhs crore and exchanged only Rs.33006 crore.

ON NOVEMBER 24-

Queues get shortened. Government extended the deadline of exchanging Rs.500 and Rs.1000 notes till 15th midnight.

ON DECEMBER 1-

Government announced that old Rs.500 notes will be valid till next day for fuel and air ticket purchase. Cash shortage slow down GDP to 6.5%

ON DECEMBER 7-

GDP fell on 15BPS and 76% of junked notes have come back into the system.

Opportunities Given By Prime Minister-

- Foreign Assets disclosure Scheme
- Income Disclosure Scheme.
- Jandhan Accounts.
- Request through Mann Ki Baat.
- Benami Transactions Amendment Act 2016
- PMGKY Scheme.

Reassurance Announced By Prime Minister On December 31, 2016:

- ✓ In 2017 villagers who want to build their homes or expand them will get loans
 - For loans up to 2 lakh- 3%
 - Interest relief; 9 lakh – 9 %
 - interest relief; 12 lakh – 3%
 - Interest relief will be given.
- ✓ 20000 crore in NABARD fund to give loans to farmers.
- ✓ In 3 months, 3 crore kisaan credit cards will be transformed to RuPay credit cards.
- ✓ For small entrepreneur credit guarantee raised from 1 crore to 2 crore.
- ✓ Cash credit limit for small business was raised to 25% from 20%.
- ✓ On online transaction tax will be calculated at 6%.
- ✓ Pregnant women will get Rs.6000.
- ✓ Senior citizens were assured 8% interest up to 7.5 lakh deposits in account.
- ✓ Government launched BHIM app.

Reviews of Society-

- According to a survey on Narendra Modi app, 93% people supported the demonetization out of 5,00,000 people. Only 2%viewed demonetization negatively.

- Over 90% of respondents feels government's move to tackle black money is above four star rating.
- 73% of them gave it five stars rating of brilliant.

Major Benefits

Direct Benefits

1. Fake currency – out of circulation in one stroke.- The greatest change came after demonetization was that fake currency was out of circulation completely which was supported by Anti-Indian Forces.
2. Funding source of terrorist checked.- Terror funding in Jammu and Kashmir had run dry after this bold move.
3. Real estate price to be seen in long run.- It is expected that after demonetization properties are likely to be cheaper. This would come as the relief for those who cannot afford high EMIs on housing loans mainly in metropolitan cities.
4. Reduction in inflation, fiscal deficit and in landing rates.- Due to the huge inflow of deposits and increase in the demand Rs.500 & Rs.2000 notes against the supply of these notes.

Indirect Benefits

1. Kashmir moved to normalcy.- Kashmir back to normal, schools are opened, normalcy in the valley, no schools burnt, you won't find any stone pelters these days.
2. Initial step towards digitization in India.- Use of paper money or coins is prohibited and payment is electronic i.e. done via EFT, EPS with the help of micro chips, smart cards, finger prints and retinal scan. Cashless economy was boosted by currency demonetization.
3. Revenue collection increased by government authorities.- Mumbai municipality's tax collection has been Rs 11,913 crore this month, which way better than the Rs 3,185 crore it collected last November. Surat's municipal revenue increased from a mere Rs 7.19 crore to Rs 100 crore.
4. Simplification in tax policies.- Demonetization helps in lowering the income tax rate, it further assures that there will be no harassment of income tax payer.

Impact Analysis

Short Term Impacts

- 1) Scarcity of cash.
- 2) Violence among people as they attack bank premises and ATMs.
- 3) Tribal areas in isolation and illiteracy have been impacted adversely.
- 4) Frequent use of cash by certain sectors on daily basis which includes hospitals, households, road side vendors etc.
- 5) Farmers may face financial difficulties.

Long Term Impacts

- 1) Fear of high cost associated with tax evasion should lead to higher tax compliance which could lead to reduce overall tax rates by the government.
- 2) Reduce interest rates and inflation.
- 3) Strengthening of currency marginally
- 4) Parallel economy to a great extent consolidates with the main economy.
- 5) Positive bearing on government fiscal deficit.

Conclusion

From the demonetization held in the country various benefits can be seen to the country the value of Indian rupee increased in the international market. Many countries have also performed demonetization successfully for e.g. Zimbabwe, Australia and Libya. The factors responsible for the success are-

Income tax raid-various raid were done to discover black money.

Facility of giving information through phone calls about black money was also introduced.

The data suggested that total cash seizure was over Rs 470crore and is set to go higher now. Rs 14.73 trillion approximate value of banned notes is in circulation.

Despite of various strikes, demonstrations and conspiracies demonetization proved to be a successful policy making other countries likely to go for demonetization.

The cashless society educates the people in the subject of use of electronic cards and online transactions. Though it creates havoc in the society but in long run it can considered as a boon to the society.

Media also played a crucial role not only in educating people about cashless society and benefits of demonetization but also presented a just image of the consequences of demonetization.

Demonetization also helped in putting a check over illegal activities which were happening in the country.

Though it was a bold but it is a beneficial for the country.

Therefore, demonetization is a 1st and a foremost indirect step towards simplified rules and regulations.

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