

IMPACT OF DEMONETISATION OF Rs 500 AND 1,000 CURRENCY



Surgical strike on black money– Masterstroke by Modi Government:

The era of black colour is finally fading and white colour is resurfacing as the new shine everywhere. This well planned and multi-thronged agenda of the Modi government has now neared its final leg with demonetization of the high denomination currency. Both ends of black money - generation and consumption are controlled with this revolutionary step. Discouraging consumption will automatically discourage generation of black money.

Entire business scenario will undergo significant changes in coming days with some business wiping off completely. GDP and tax collection will increase significantly. Due to increased tax collection, the taxation rates are likely to go down for the common man. Unwarranted expenses which that were so far done out of black money would be minimized and a fair living in the society will emerge. Need based wealth will be created like real estate, gold, jewellery etc. Criminalization of politics will end and positive performance based politics will emerge in the society.

Having a bank account will now be the need of the hour and more money will flow into the banking system. India's global image will increase. Channelized crime will reduce as the funding will be difficult.

Though possibility of fresh generation of black money cannot be completely ruled out, but people dealing in black money have been left paralysed for now. More money is likely to flow in securities market. The overall impact on the economy, politics, society and business is highly positive and is highly appreciated. I have discussed certain issues on black money in my earlier article "An era without Black Money". I now discuss the impact of the event on the common man as under.

HIGHLIGHTS OF THE DEMONETISATION SCHEME:

- The scheme was announced by our Prime Minister in a press release on 8th Nov, 2016
- The currency was demonetized on 9th Nov zero time
- Those who have their bank account, can deposit old notes of Rs 500/1000 in bank or post office account from 10th Nov, 2016 – 30th Dec, 2016 without any limit.
- Those who do not have bank account can exchange their 500/1000 note worth Rs 4,000 (increased to Rs 4,500) per day from bank/post office upto 24th Nov, 2016
- Limit on withdrawal of Rs 10,000 per day and Rs 20,000 (increased to Rs 24,000) per week. This limit shall be increased in coming days.
- No restrictions of any kind of non-cash payment by cheque, demand draft, debit or credit cards and electronic fund transfers.
- In first few days, there will be a limit of Rs 2,000 (increased to Rs 2,500) per day per card on ATM withdrawals, which shall be raised to Rs 4,000 later on.
- Those unable to deposit Rs 500/1000 notes till Dec 30th this year, can do so in designated RBI offices till March 31st next year after filing declaration form along with proof and reasons.

I have hereby analyzed impact of demonetization on several categories of assesses as under:

Case 1: Salaried employees:

1. **Salaried employees (salary by cheque):** The persons who received salary by cheque must have withdrawn certain amount of cash from their account to meet their regular needs. Since the event happened suddenly on 8th of the month, hence cash must have remained in hand. In such instances, all you need to do is go and deposit the cash in the bank account preferably from the account from which the cash was withdrawn. The quantum should be less than the amount withdrawn. It is self-explanatory and should not invite any problem.
2. **Salaried employees (salary by cash):** The persons who received salary by cash and the amount is less than Rs 20,833 per month or say Rs 2,50,000/- in a year can deposit all amount to the extent it does not exceed rs 20833/. In case you saved your entire salary upto November which comes around Rs 166664/, it

may be deposited in your bank account on the premise that you have other earning members in the family to serve the house hold expenses. Normally for small amount less than Rs 20833 per month no question is likely to be raised.

3. **No PAN card:** In case you don't have PAN and you want to deposit cash more than Rs 50,000/-, the bank will ask for your PAN number. PAN can be issued with the help of your tax consultant. It can also be done online on your own.

Note: In all cases put together, anybody who is salaried should not deposit cash in his account more than his withdrawals during the financial year 16-17 so as not to invite any query from income tax department.

Case 2: Businessmen

1. **Businessman with a bank account:** If you are a businessman and regular assessee maintaining books of accounts, then cash in hand as per books of account may be deposited in your bank account. Normal cash as per the size of business should not be a problem. But for instance, your business turnover in a year is less than Rs 1 crore say Rs 99 lacs, then your average daily sales should be Rs 33,000/-. Thus, if you have already deposited a sum of Rs 30,000/- on 7th November, then you should be careful to deposit not more than Rs 33,000/- after 8th November. However, if you plan to deposit more than the said amount, you should keep into mind cash balance as per your books of accounts or deposit cash more than normal only after taking your CA's consultation.
2. **Businessman-presumptive taxation:** In case you are into presumptive taxation of 8%, then also you will have to keep above suggestion in mind.
3. **Sales done on 8th November:** In case of sales done by you on 8th November until 12 midnight, you should keep record of all bills, preferably with name and phone number and PAN number of customer. Further, maintenance of proper books of account is required in spite of presumptive taxation. You should also check your stock in hand and then only deposit the cash in your bank account. In all cases, consultation with your CA in case of abnormal cash receipts is advisable.
4. **Accepting debtor's receipts:** In case you have debtors who suddenly emerged to pay their long pending dues, then you may

accept the same freely if it is less than Rs 20000/. If it is more than that, you may accept the same because he may have problem of section 40A(3) of the Income Tax Act. However, there is no problem for you as this is an opportunity to realize your bad debts.

Note: In all cash sale/transactions, you must take care of Form 60/61 as defined in Rule 114B of the Income Tax Rules.

Case 3: Housewives:

1. **Limit of deposit:** The housewives are the innocent lot who got entrapped in this sudden spate of events by default. They usually save money out of monthly amount received from the earning members of their family for any emergency and for serving future needs. They can deposit money upto Rs 2,50,000/ and be scot-free provided they do not have any other matter related to income tax by their family members like filing of return etc.
2. **Housewives with no bank account:** In case they don't have any bank account, then it will be panic situation for them as they would have to stand in serpentine queues and get Rs 4000/- per day exchanged. It is advisable for them to open their bank account taking their family members into confidence and deposit the cash to feel safe and secured. In case they are not able to open their account, because of their family problems then they have the option of depositing the money in the bank account of their trusted family members provided the limit of cash deposit upto Rs 250000/- in aggregate is not breached. This money can then be withdrawn later. I would like to suggest here that the government should open special assistance for such helpless housewives.
3. **Working females with small income:** Normally in urban areas most females are engaged in running boutiques, beauty salons, stitching, tuitions, etc owing to which they must have cash held with them. If they have their bank account, then they should deposit the same in the bank upto limit of Rs 250000/-. Beyond that if they hold money, then they should get their PAN card made and deposit the money in their bank account. Taking advice from CA is advisable in such cases as filing income tax return for the FY 15-16, explaining source of income and getting assessed is required. If proper explanations are available to the satisfaction

of officer, then there is no problem. But in any case, they must be tax compliant in future.

It is advisable for the housewives that in case they do not get support from their family members, then they can make a group of trusted three-four friends who can go to any bank branch and deposit their hard money. I think bank officers also have soft corner for such groups and will cooperate.

Case 4: Farmers:

A normal farmer usually does not have a lot of cash. In fact, he is even indebted to the bank to some extent either with kisan credit card or some other loan. In case if he so desires, he may go to the bank and may deposit the said cash into his bank account and may get fresh loan.

- 1. Farmer without bank account:** If he does not have a bank account, then he can do so under the famed Jan Dhan scheme of the government and deposit the cash into that account and then gradually withdraw from the same and do the needful. Alternatively, he can get the cash exchanged from the counter @ Rs 4000/- per day.
- 2. Farmer with bank account:** A farmer is supposed to generate upto Rs 25000/- per hectare out of his normal crop and up to Rs 1,00,000 per hectare out of special crop. He may deposit the cash proportionately in his bank account accordingly. However, beyond that it may be questionable and he may have to answer and substantiate the source thereof. In abnormal cases, he may go to his CA and take proper advice and do accordingly.
- 3. Sale of Land:** A farmer may have abnormal cash due to sale of his land. He may deposit the cash equal to the registry value in the bank account and if his sold land is out of the aerial distance of the municipal limits as per the Income Tax Act than he need not worry. But if it is not so and his transaction of sale is after 1-6-2016, then he may deposit the same in his bank account, file income tax return, take advice of a CA and bring the unaccounted money into the account.

Case 5: Loans given through cash/entry:

1- Loan in cash: The person who has given cash loan of say Rs 2,00,000/- on interest to a businessman (popularly called kacche ka paisa on chitthi) may have several possible arguments. I have analyzed the same from the viewpoint of giver and taker as under:

- **Giver** - I have given valued cash earlier and hence, I want valued cash in return. You might have purchased gold, property or any other asset out of the valued money to increase your wealth and now you want to give old currency back which is not more than a piece of the paper. It's not fair.
- **Taker** - I am returning the cash which I have taken, why should I pay you new currency? It is your black money . Now you deposit the same in your bank account and face tax burden. I have taken it but used in my regular business and to repay the old loans. The old currency once deposited in bank account will come under income tax scanner and costing of the same will not be less than 50 % why I should suffer the same.
- **Giver-** You deposit the same in your bank account. You used the same for your business and earned further black money. You suffer the tax burden, why should I suffer?
- **Taker** - Why I should suffer the tax? I don't have any taxable file. If I had been a tax payer, I would have obtained loan from bank, not from you. In any case, new currency will have its own premium and cost. If at all you want new currency in return, then you must wait at least for three years and that too without interest. Gradually out of my withdrawals, I may arrange the same and return the same to you. If agreed, then I may consider.

Such arguments may trigger but the crux is that if there is cash, it has to be converted and someone will have to suffer taxation which along with the penalty may trigger in the range of 30 % to 90 % in case where the amount is more than 250000/- So, the question comes that how this transaction will be settled. In future, generation of black money of this magnitude will also be difficult so as to return the money therefore the giver will be in a compromising position.

2- Loan given through entry:

- A lot of loan entries are outstanding in the books of businessmen. Returning such entries and asking new currency will be very difficult. For big amounts, it is almost impossible. The only workable solution is to offer the same for taxation and face income tax. The person who has given the entry should write off the same as irrecoverable and forget about it.
- In certain circumstances, the entry provider may ask the entry back in books because it is his assessed money that got value. He may provide new currency to the entry taker and square up the transaction. If the entry provider can arrange new currency even at a discount of 10-15%, then he should square up the transaction because in any case his money is white money which he generated after the tax effect of 30%.
- The entry taker should also take new currency and gradually offer the same for taxation and to stay in peace.
- Both the parties may negotiate and may agree to sacrifice upto 50-50 and settle the transaction.

Case 6: Sales by shopkeepers on 8th November, 2016:

1. **Sale on 8th November – different customers:** Let's say there is an electronic goods shop where sale of goods took place after 8 pm of 8th November. Customers want to purchase television worth Rs 40,000/- with old currency notes. There are 10 televisions and all are subject to sale to different customers. The shop keeper may sell the television issuing bill of 8th November in cash and deposit the same in his regular bank account.
2. **Sale on 8th November – single customer:** In the above case, if a single person wants to buy all 10 televisions, then the shopkeeper may do so provided the person quotes his pan number and the shopkeeper complies with the provisions of rule 114B of the Income Tax Rules and maintains regular books of account. However, since he deposited more than Rs 2,50,000/- therefore it is most likely that he may face income tax department enquiry.
3. **Fabricated sales:** In case there is no actual buyer, shopkeeper may show that all his televisions are sold and deposit his own black money in the bank account. In this case, if there is any instant enquiry from department than his stock will increase and

he may have to face the consequences.

4. **Jewellers:** Certain jewelers have sold huge amount of jewellery against cash and deposited the same in their bank. In such case, subject to their stock, books of accounts and PAN, if it is more than Rs 200000/- per bill etc he has not violated the rules. Although, he may have to face the department queries.

In all, every shopkeeper may show part as cash sale of stock and part as recovery of old debtors to manage his books of accounts and deposit money in bank account according to his size and nature of his business. Cash deposit beyond the capacity of one's revenue per day is not suggested.

Other FAQ's based on daily queries :

Question: I am an architect. I earned a sum of Rs 10 lac in cash in the current financial year of 2016-17 till 8th November 2016 besides my regular cheque income of Rs 20 lac. I am a regular assessee and tax compliant upto 2015-16. What do I do?

Answer: You can cover the said cash income in your books of account if any for the current financial year 2016-17 and deposit the said amount of Rs 10 lac in your bank account. Automatically this income will also be a part of your regular income for the FY 2016-17. However, you may be tested for the source of such income by the income tax department and if you fail then you may face penalty of 200% on the tax amount of Rs 10 lac.

Question: In the above example if I have an accumulated cash balance of Rs 25 lacs out of the books which I earned in earlier years. Whether I can cover the same in my regular income for the current financial year.

Answer: In this case also, you will have to face tax and penalty consequence.

Question: I am a **small businessman of kirana and provisions**. My all business is in cash. I have **cash balance of Rs 10 lacs**. I earned this income over a period of last 10 years. I have not filed any tax return and do not have any PAN. What do I do?

Answer: If you have a bank account then deposit the same in your bank account and face the enquiry of income tax department. You may also file your income tax return for the FY 15-16 upto 31-3-2017. The department will give you an opportunity to substantiate your above Rs 10 lacs. With the help of CA, you may prepare your case history and business carrier graph. In case you are able to satisfy the officer then you may not be liable for any penalty.

In case you are supported in your family business by your wife and children then you may deposit some amount say upto Rs 250000/- in their account also. In any case, you should seek guidance from your CA. I think you earned the money and saved the same over a period of 10 years therefore the department may cooperate with you.

Question: We are businessmen dealing in semi whole sale cloth and selling goods on credit. There are debtors of Rs 20 lacs in the books. Suddenly some **debtors want to pay cash** of Rs 10-12 lacs in the old currency against their debt. But I am under **presumptive taxation scheme** and do not get audited my accounts as well as do not file any balance sheet. What do I do?

Answer: You may accept cash and deposit the same in the bank account. Maintain regular books of accounts in spite of presumptive taxation u/s 44AD. On enquiry, face the queries of the department under advice of a CA, produce all sales bills copy of ledger account of debtors, their identity etc and get assessed. I think if your genuineness is established, there should not be any problem.

Question : I am an NRI lady. I received cash gift on occasion of birthday, anniversary or on bidai from India from my parents. I kept that money with me in foreign country. The amount is Rs 135500/- . What do I do.

Answer : whenever you come India before 30 th December you deposit the same in your NRO account in India. or any of your friend relative etc who is visiting India before 30 th December then send money alongwith your authority letter in favour of branch manager and deposit the said money in your bank account. Otherwise this INR will have no value now as no forex dealer will convert the same. Hence, you should take immediate action.

Question : I have Rs 10 lacs in cash. Some people are asking me to convert this cash at a discount of 40 %. What do I do?

You may do so if you like. But if your entire cash is to the tune of Rs 10 lacs, then deposit the same in your bank account and show it as your current year income. You shall get departmental notice. You will have to pay tax rate based on slab rate which may be around Rs 125000/- In case you are subject to penalty of 200% thereon then also the impact will be Rs 375000/-

which is in less than RS 400000/- being the discount amount. And your money becomes accounted and white. Hence, it is advisable for you to follow the correct path.

Quantum of cash in the system – How much cash remains unaccounted?

According to sources there is nearly 17.5 lac crore cash currency in our country. Out of the same 85-86 % is in the form of 500/1000 currency notes. That amounts to nearly 14.87 lac crore worth money in this form in the system. According to me, at least 2 lac crore is likely to remain unaccounted till 30th December. This would mean a great success of the entire exercise of the government in the direction to trigger blackmoney free economy. Accordingly, it may raise the GDP of the entire nation. However, this may take time because many business will vanish, others will tumble but ultimately the business of honest man will stand to gain.

Benefits to the country:

1. In the long-term, benefits of GDP growth will outweigh the short-term transitional impact.
2. Tax collection will increase and accordingly more money will be available to the government for development expenses.
3. Corruption will decrease and may gradually be looked at as a surprise by common man and the coming generation.
4. Because of series of steps taken by the government, ultimately generation of new black money out of new currency will be very limited and it will be very difficult to trigger any leak which involves big cash.
5. Surge in digital payments will be seen even for small value transactions. E-wallet firms such as Paytm, Mobikwik, etc will gain exponentially from cash curbs.
6. Banks will stand to gain in long term as they will attract higher deposit (savings) balances and transaction volumes, lower cash handling costs and strengthening of digital payments ecosystem.
7. After RERA and other measures, real estate transactions may see real value and stamp duty guideline concept may be scrapped down completely.
8. Politics will trigger on actual performance. Funding of political parties through black money will minimize and disbursement

of cash benefits to weaker sections of society for influencing voter's decision may also disappear.

9. Funding of terrorist activities including Maoist movements, and Criminalization in politics will also fade gradually.
10. Internationally, the country's index of black money free economy will increase. Commodity price fluctuations will be controlled or minimized.
11. The international image of the country in terms of FDI, collaboration, investments etc will increase.
12. The parking areas of black money like property, gold, bullion, etc will be discouraged and consequently the related business will see sea change in their overall segment.

Why honest businessman should be happy?

An honest businessman who was always struggling with tax evaders engaged in undercutting of prices will now have a level playing field. Since such tax evaders are in deep trouble now, it will be the first choice of a consumer to deal with honest businessmen.

Assessment of the scheme:

The agenda of the government has been crystal clear- to free the economy from the evil of black money. The road map was properly planned via multi-level strategy. Gradually, over a period of two years all the leakages were plugged which I discussed in my earlier article "**ERA WITHOUT BLACK MONEY**". Ultimately, after closure of all windows and doors of the black money, it was most likely that the floor will be wiped out by the government which is accomplished by demonetizing the high denomination notes. This unprecedented move of such a large scale has carried out under closed wraps, taking all by surprise and awe, the confidentiality, no rumor of such an event, and the implementation of the whole exercise highlights the transparency and clear focus of the government. In the past, such type of activities have been often leaked from government department to provide benefits to the big and influential.

The implementation of scheme could have been tackled without giving any opportunity to people, media and opposition to create hype. Since, lacs of people are involved in the whole exercise, this kind of chaos was likely and anticipated. On the ground, some mismatch in the execution of scheme like less availability of cash, non-working of ATMs at some places, long queues, filling of forms are practical difficulties which is observed. However, these are all immaterial as within a week everything will get normalized and the overall

exercise will be remembered in the history of the country.

Possibility of future generation of black money

In future, due to various measures already taken and due to GST model of indirect taxes, the generation of black money will be difficult and expensive affair.

But generation of black money may be termed as grass on the ground. The grass grows and gets greener by default owing to favorable environment. Similarly, black money may also generate in future due to compatible situation but the volume will be very low. However, over a period of 5-10 years down the line it may again pile up.

The most important areas of governance in future will be to identify points of generation, creating vigil mechanism, taking instant action, and creating stringent penal measures so as to discourage generation of black money in the society. Educating citizens to do cashless transactions, provision of cashless transaction at both ends - receiver and giver will pave a way towards society to get rid from the evil of black money.

CA MAHENDRA BADJATYA

E-mail: info@camkb.com, jainok@hotmail.com