

**OUTCOME OF DEMONETIZATION ON BLACK MONEY***Suman Chandolia**Assistant Professor, Dept.of Economics, University of Rajasthan.*

On November 8, 2016 the government announced a historic measure to demonetize the currency notes of denomination of ₹ 1000

and ₹ 500 (Specified bank notes or SBN) constituting 86.9 per cent of the value of total notes in circulation. Demonetization was aimed at address flushing out of black money. After one year of demonetization impact of the operation are analysis as under:-

**A. Impact on black money**

A system has been primed during demonetization in which the Specified Notes can be deposited or exchanged across bank branches and other places designated by the Reserve Bank of India up to 30 December 2016 (and in exceptional cases, 31 March 2017). There were increases in search and survey action by Income Tax department during the last one year on cash deposited in banks. In these actions Cash seizure, detection of undisclosed income and admission of undisclosed income has increased remarkably.

Sr. No.			Per cent
1.	Search Action	447 to 1152	158
2.	Survey Action	4422 to 12520	183
3.	Seizure	Rs. 712 crore to Rs.1469 crore	106
4.	Undisclosed income detected	9654 crore to Rs. 13920 crore	44
5.	Admission of Undisclosed Income	Rs.11,226 crore to Rs. 15,496 crore	38

Income tax department has launched operation clean money (OCM) on 31.1.2017 to action against persons whose income tax return were not supported with cash deposited the banks. Initially 18 lakh cash depositors were identified

by the IT department whose tax profile and deposits in banks were not matched. The scale of the Operation may be gauged from the fact that **response of 9.72 lakh persons in respect of 13.33 lakh accounts involving cash deposits of around Rs.2.89 lakh crore.**

Online verification has been done. About 14,000 properties of more than Rs.1 crore each where persons have not even filed Income Tax Returns were also investigated.

Point to be added- 1. All SBN deposited in banks as against general perception that around Rs 3lakh crore might not come back to the system.

2. verification of 18 lakh account is not very large sum as compare to banks in which SBN deposited.

3. This exercise has proved that black money generally converted into black assets.

4 .Income Tax Department has not equipped with tools of verification to detect black money

5. Income Tax Department has not sufficient manpower to tackle situation accrued after demonetization.

Benami Transaction ( Prohibition) Act- After November 8 demonetization of Rs 500 and Rs 1,000 to crack down on black money hoarders, Prime Minister Narendra Modi now says the government will go after the benami property holders.

The Benami Transactions (Prohibition) Amendment Act has come into effect and there have been some new provision added to curb the deposit of black money in others account to make it white.

A Benami Transaction under the act is defined as a transaction which is a property is held by or transferred to a person, but has been provided or paid by another person.

Under the act, an individual cannot re-transfer the Benami to the actual owner. If any such transfer happens, it will be treated as null and void. There will be no action taken if the Benami property has been declared as part of the Income under Income Disclosure Scheme of 2016.

The definition also reads,

- i) a transaction been made under a fictitious name
- ii) the owner is not aware or denies knowledge of the ownership of the property
- iii) the person providing the property is not traceable.

### **Exempted Transactions**

The act states that there are certain transactions that are exempted under the Benami Transactions (Prohibition) Amendment Act 2016. These transactions could be any one of the following

- a) property held by a karta of a Hindu undivided family (HUF) for other members of the family or by an individual in the name of the spouse or children or by siblings who appear as joint owners in any document

b) property held by a person in a fiduciary capacity for another person, for example, a trustee, executor, partner, director of a company or a depository.

c) Contract for transfer of property which has been executed partly under the Transfer of Property Act, 1882.

Money for the transaction should have come from the known sources if the property is owned by karta of a Hindu Undivided Family, spouse, parents and siblings. It is important to understand that the term property is not just limited to Real estate but covers all sorts of tangible or intangible, movable or immovable and corporeal or incorporeal property.

### **Benami Act and Demonetization**

The Income Tax Department has declared that it will impose penalty of 7 years imprisonment for an individual who will deposit money in others account during the 50 day window period. Further, the department is also looking to impose charges on the individuals under the Benami Act Transaction Act against someone who violates banks. The action could include penalty, prosecution and jail term of maximum seven years.

Act reads, "Such an arrangement where a person deposits old currency of Rs 500 and Rs 1000 in the bank account of another person with an understanding that the account holder shall return his money in new currency, the transaction shall be regarded as benami transaction under the said Act." An individual who deposits the old currency into someone's bank account will be the beneficial owner and the bank account holder who has received the money in his bank account will be termed as Benamidar.

The amount deposited as the Benami amount in the bank account post demonetization will be taken into control and the accused will also bear the fine which could be up to 25% of the fair market value of the Benami property.

#### 1. Achievement of Benami act

### **B. Impact on Widening of Tax-base:**

Income tax returns filed in the current fiscal year saw an increase of 25 per cent, according to a statement by the Central Board of Direct Taxes (CBDT).

As a result of demonetisation and Operation Clean Money, there is a substantial increase in the number of Income Tax Returns (ITRs) filed.

The number of Returns filed as on August 05, 2017 stands at 2,82,92,955 as against 2,26,97,843 filed during the corresponding period of financial year 2016-2017, registering an increase of 24.7 per cent compared to growth rate of 9.9 per cent in the previous year.

The total number of all returns (electronic + paper) filed during the entire Financial Year 2016-17 was 5.43 crore which is 17.3% more than the returns filed during FY 2015-16.

If the number of individual taxpayers are seen, then one can easily see that the number is on constant rise. For instance, the number of individual tax payers has gone up from 2.22 Cr to 2.79 Cr, a rise of 25%, as on 7th August 2017 as per the official press release of Central Board of Direct Tax.

The data maintained by the IT Department shows that during 1st April, 2017 to 5th August, 2017, 2.79 crore e>Returns of Individual taxpayers were received as against 2.23 crore e>Returns received during 1st April, 2016 to 5th August, 2016. Thus, the additional ITRs received in 2017 works out to be 56 lakh.

During the same period of 2015, 2.00 crore e>Returns were received, meaning thereby, that in 2016, only 22 lakh (rounded off) additional e>Returns were received by the due date of filing

	1st April 2015 to 5th August 2016	1st April 2016 to 5th August 2016	1st April 2017 to 5th August 2017
No. ITR filed by Individuals	2.0 Crore	2.23 Crore	2.79 Crore
Additional ITR filed		23 Lakh (8.7 per cent)	56 Lakh (25 per cent)

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 demonetisation.

### NUMBER OF INCOME TAX RETURN FILINGS HAS NOT INCREASED DRASTICALLY IN 2016-17



The income tax department classifies ITR filings on the basis of type of tax payers (**see details here**). 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.

What added to the confusion was that the ruling government recently redefined the terms “tax base”, “tax payers” and “new tax payer added” which adds the “number of persons from whom the TDS/TCS deductions are made” to the “number of returns” received in a year. This change was effected by accepting the ‘Report of the Committee for recommending standard definitions of certain terms’, chaired by Avadhesh Kumar Mishra.

So, it’s more than slightly confusing as to why the government is going back to the term “number of returns filed” rather than the “number of total tax payers”.

**1.2.3** Table 1.3 below gives the details of non-corporate assessees in different categories of income.

Table 1.3: Non-Corporate Assesseees						(Figures in lakh)
Financial Year	A <sup>8</sup>	B <sub>1</sub> <sup>9</sup>	B <sub>2</sub> <sup>10</sup>	C <sup>11</sup>	D <sup>12</sup>	Total
2011-12	267.68	60.26	21.23	6.57	1.87	357.61
2012-13	276.13	58.21	23.94	6.59	3.00	367.87
2013-14	117.23	135.79	34.24	16.72	0.05	304.03
2014-15	76.32	216.31	46.11	21.80	0.01	360.55
2015-16	55.93	264.47	52.94	24.69	0.01	398.04

Source: Directorate General of Income Tax (Logistics), Research & Statistics Wing. These figures are based on actual returns filed during the respective year.

From the above table, it is clear that the actual number of returns submitted by the non-corporate assesseees during the last financial year is 3.98 crores.

Due to PAN-Aadhaar linkage insistence and other reasons, a vast majority of individuals filed their returns before the deadline of August 5. Even then the number is 2.82 crores as per the press release of CBDT, which is only 71% of the total non-corporate assessee returns filed in previous financial year.

This data clearly indicates there is no big jump like 24% as claimed is going to happen in the number of returns to be filed within this assessment year.

**1.7 Number of Effective Assesseees**

PAN Category	AY 2012-13	AY 2013-14	AY 2014-15	AY 2015-16	AY 2016-17**
Association of Person	1,24,010	1,41,019	1,59,520	1,79,539	1,85,235
Body of Individuals	5,688	6,222	7,020	7,465	8,035
Company	6,54,766	7,07,771	7,48,237	7,68,268	7,64,410
Firm	9,95,648	10,44,646	10,94,509	11,60,540	11,83,586
Government	94	208	338	483	708
Hindu Undivided Family	9,31,387	9,64,512	10,02,644	10,54,642	10,28,580
Artificial Juridical Person	9,897	10,197	10,576	11,114	11,074
Local Authority	5,459	6,064	7,160	7,552	8,063
Individual	4,43,46,852	4,97,52,118	5,39,58,653	5,78,37,733	5,92,73,878
Trust	1,93,781	2,06,219	2,17,660	2,31,144	2,28,392
<b>Total*</b>	<b>4,72,67,582</b>	<b>5,28,35,976</b>	<b>5,72,06,317</b>	<b>6,12,58,480</b>	<b>6,26,91,961***</b>

\*The data is based on the number of income-tax returns entered in the System plus number of cases where tax has been deducted at source from the income of the taxpayer but the taxpayers has not filed the return of income.

\*\* Provisional

\*\*\* Returns for AY 2016-17 can be filed till 31.03.2018.

This data is including the “number of people who filed returns” plus “number of people from whom TDS/TCS are deducted” as per the new definition approved by CBDT (See the note at the bottom of the table). We should take note that the total number of returns are nothing but a subset of this data of number of effective assesseees.

But all this increase cannot be attributed to demonetisation because there is some natural trend increase in new taxpayers. Instead, this impact by measuring the increase in taxpayers in the post-demonetisation period relative to the increase in the same period the previous year is estimated.

### C. Impact on Direct Tax Collections

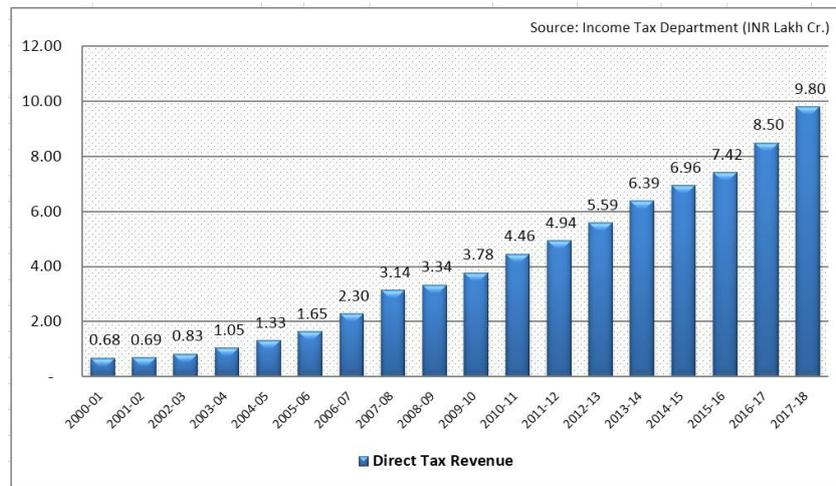
Substantial rise was also seen in direct tax collections during the same time period, with advance tax collections of personal income tax growing by 41 per cent.

The main point to understand here is that all cash that is deposited in banks are not undisclosed income of the person. In this regards, the onus is on the assessee to prove that he has not misreported the fact while giving justification to online verification or hide facts while making deposits of the Specified Notes.

At the same time, the Income Tax department cannot summarily, and without any coherent reasons, reject the explanations offered by the assesseees.

Time given for rely to online verification was not sufficient.

From the point of view of direct taxation, the story seems a bit different.



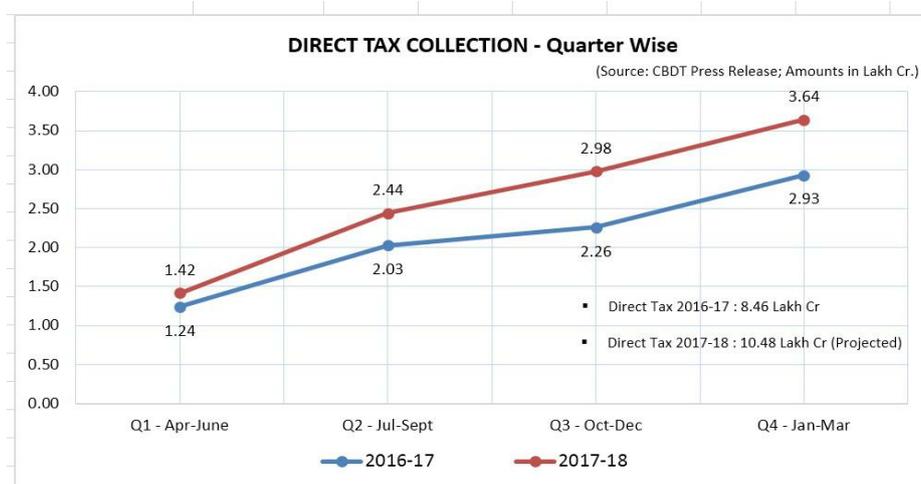
If we analysis direct tax collection since 2000-01 it is observed that the average rate of growth in direct tax collection for past seventeen year was 17%. However, if the same is seen for past 8 years, it was only 10.65% or for past 5 years, it was only 8.74% or for the matter of past 3 years, it was further down to 6.89%. After demonetization, however, it has gone up drastically to 15.3% for one year, considering the provisional figures as presented in the Union budget.

This clearly explains that income tax was not being declared by many, in spite of rising working class and wages in last 17 years. on If history of direct taxation is analysed it can be seen that something was not right.

Further, if one analyses Direct tax as a component of Total Tax revenue collected as on date, it also shows an irregular trend.

The total tax Direct Tax collected in the financial year 2016-17 was INR 8.46 Lakh Cr., in which the rise in the last quarter from its previous one stood at 29.6%, which may be attributed to the exercise of demonetization.

If the till date collected figures for the Quarter ending in September 2017 are seen, it stands at INR 3.86 Cr, 18% more than the collection for the same quarter in the previous financial year.



On a holistic view, the exercise does seem to have created some short term jolts to the economy but the long term benefits seem to be much favorable, to the government in terms of revenue which can be spent on various social schemes and if the trend continues, to the middle class population as well if government relaxes the limit of the taxable income by certain amount.

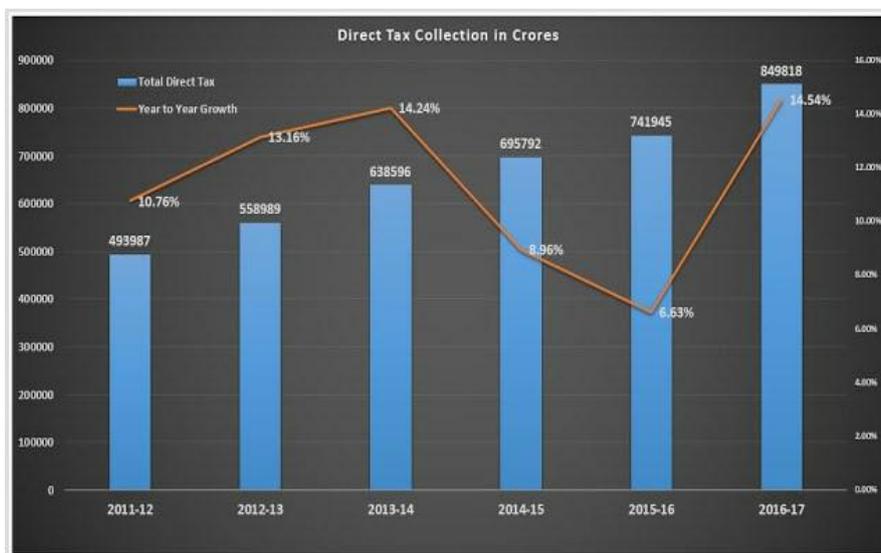
Union Budget 2017-18 has predicted an annual increase of 25.4% in income tax collections over revised estimate (RE) figures for 2016-17.

However 2016-17 income tax collections need to be seen in the context of **Income Disclosure Scheme 2016**, which led to the disclosure of Rs65,250 crore of undisclosed income. At 45% rate of taxation, the scheme would have brought in mostly one-time extra income tax revenue of around Rs30,000 crore.

To be sure, there could still be an increase in tax collection if such elements have been forced to declare their ill-gotten wealth (result of under-reported incomes in earlier tax-returns) kept in cash to tax authorities

But for any such increase to be inferred as a result of demonetisation and not one-off gain due to Income Disclosure Scheme, the trend must sustain itself for a few years rather than being a one-off thing.

It is, however, interesting that the average income reported of the new taxpayers – Rs 2.7 lakh – was not far above the tax threshold of Rs 2.5 lakh, so the immediate impact on tax collections was muted. The full effect on collections will materialize gradually as reported income of these taxpayers grows.”



So the total direct tax collection recorded during the first quarter at 14.8% is only a marginal improvement over the last FY's year-on-year growth component of 14.54%.

From the above graph we can see that the direct tax collections showing a steady upward trend from 2011-12 (10.7%) to 2012-13 (13.6%) to 2013-14 (14.24%) during the UPA-2 regime under Manmohan Singh. But during the NDA

regime under Narendra Modi, the year-on-year growth fell to 8.96% in 2014-15, 6.63% in 2015-16 and shows some recovery of 14.54% during 2016-17,

but it is based on a low base in 2015-16. If the direct tax collection followed the same trend in the Singh era, take it as 14% for next three years, it would have touched Rs 9,46,108 crores instead the present collection of Rs 8,49,818 crores.

direct tax component in last financial year.

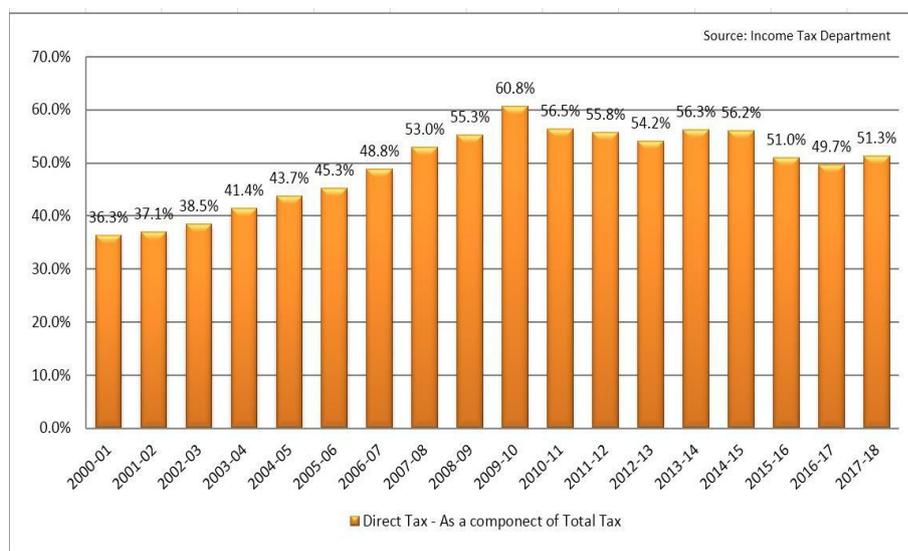
I am not considering the Pradhan Mantri Garib Kalyan Yojana which was announced after demonetisation, which turned out to be a damp squib. According to newspaper reports, the direct tax collected under this head was only Rs 2300 crores though it was expected to collect anything between RS 50,000 crores and Rs 1,00,000 crores. So if we remove the component of IDS-2016, the direct tax increase of year to year even from a low base.

In the near future there are increase in litigation as department has made addition in the bank deposit cases.

Structure wasn't support the demonetisation- Staff shortage

Online verification

CA aren't take into confidence



When the RBI said Rs 15.28 lakh crore, which was 99% of the demonetised money, had come back to the formal banking system, Union Minister of Finance, Arun Jaitley said, "More and more people will now be compelled to come into the tax net."

Changing the goalpost of demonetisation once again from eradicating black money and counterfeit currency to making India a cashless economy and now increasing the tax net.

***"But all this increase cannot be attributed to demonetization because there is some natural trend increase in new taxpayers," it further added.***

Just look at Santosh Kumar, Minister of State in the Ministry of Finance's answer at the parliamentary session on August 4 where he replied, "Yes Madam. The number of income tax payers has increased after demonetisation. During the period of 09.11.2016 to 31.03.2017, 1.96 crore returns were filed as compared to 1.63 crore returns filed during corresponding period of FY 2015-16."

Post demonetisation, the Economic Survey explained, an addition of 5.4 lakh taxpayers or 1% of all individual taxpayers to the system.

If the Economic Survey had taken the 'new tax payers added' instead of 'number of returns filed', they could have reached a figure of negative growth due to demonetisation instead of meagre growth," the report said.

The above inference is based on the figure of effective assesseees for AY 2016-17 (FY 2015-16) published by the CBDT as "Income Tax Department Time Series Data Financial Year 2000-01 to 2016-17" (See Table 1.7 at Page 9).

Taking above two together, there is neither a sudden surge in number of people paying taxes nor amount of taxes that are collected by the government which can be seen as a breakthrough. For that, we have to wait for few more, hoping that the government doesn't change the methodology in between.

#### **REFERENCES**

1. CBDT Press release
2. Economic Survey 2016-17
3. Income Tax Department
4. RBI Report