

Demonetisation - An Analytical Perspective

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Abstract: This working paper is based on a study by the faculty of the COER and COER-SM on various aspects that affected the nation due to Demonetisation. Researchers in this paper are trying to evaluate the research objectives with the help of various literatures available. In their paper an attempt has been made to understand different factors with an analytical perspective. Finally an effort is being made to bring out the positive outcomes of the subject. The objectives which the Study Team has set for itself are as follows:-

- To study the Pre Demonetisation status of Indian Economy
- To understand the effect of 86% Money circulation in higher denomination notes i.e., 500 and 1000/- getting demonetised.
- To understand and analyse the Black Money existing in the system based on the following:
 - o Sources of Black Money
 - o Estimation of Black Money
 - o Role of governance and authorities in controlling the Black Money.
- Money Laundering and Parallel economy
- To Evaluate the Cash Economy
- To understand the role of Digital Economy in minimizing the Cash Economy and its practicality.
- Impact of Tax – Income Disclosure Scheme and related Yojanas'(Jan Dhan Yojana, Garib Kalyan Yojana)
- Cyber Crime and IT Act
- Role of Ministry of Finance
- Demographical factors and its impact on acceptance of technology
- To study the Status and impact on
 - o Real Estate Sector
 - o Terrorism

Keywords: Black money, Cyber Crime, Demonetisation, Digital economy, Parallel economy.

I. INTRODUCTION ON DEMONETISATION

Demonetisation is the act of stripping a currency unit of its status as legal tender. Basically, demonetisation is necessary whenever there is a change of national currency. The old unit(s) of currency must be retired and replaced with new currency unit(s). There are multiple reasons why nations demonetise their local units of currency. Some classical reasons include;

- To combat inflation,
- To combat corruption and
- To discourage a cash transaction system, which itself is costly, risky and time consuming.

To curb the problem of 3 B's-Black Money, Blood Money (terrorism, naxals and anti society elements) and Blocked Money. The process of demonetisation involves either introducing new bills or coins of the same currency or completely replacing the old currency with new currency.

Demonetisation in India took place with the two largest denomination currencies of the country. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of ill-gotten and black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of upto 200% of the tax owed was imposed.

The term demonetisation is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the ₹10,000 note in 1938 and again in 1954. But these notes were demonetised in January 1946 and again in January 1978. Since less than 5% of population in India had access

to such bills and most banks never had such currency notes, demonetisation did not have a big impact on the country. In January 1946, banknotes of ₹1000 and ₹10000 were withdrawn and new bills of ₹1000, ₹5000 and ₹10000 were introduced in the year 1954. Government had again demonetised banknotes of ₹1000, ₹5000 and ₹10000 denominations on 16 January 1978 as a means to curb counterfeit money and black money. These previous demonetisation moves, in general, did not affect the common man and the usual market as the demonetised denominations were of considerably high valued during the period of operations.

In the recent past in year 2015, the Zimbabwean government demonetised the Zimbabwean dollar as a way to combat the country’s hyperinflation that was recorded at 231,000,000%. The 3-month process involved expunging the Zimbabwean dollar from the country’s financial system and solidifying the US dollar, Botswana pula, and South African rand as the country’s legal tender in a bid to stabilize the economy.

Another example of demonetisation occurred when the nations of the European Monetary Union adopted the Euro in the year 2002. In order to switch to the Euro, authorities first fixed exchange rates for the varied national currencies into Euros; then the old national currencies were demonetised. However, the old currencies remained convertible into Euros for a while so that a smooth transition through demonetisation would be assured.

The Coinage Act of 1873 demonetised silver in favour of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetised silver as legal tender in the year 1878.

In India, on 28 October 2016, the total banknotes in circulation were valued at ₹17.77 Lakh Crore. In terms of value, the total bank notes in circulation on 31 March 2016 were worth ₹16.42 Lakh Crore of which nearly 86% (around ₹14.18 Lakh Crore) was ₹500 and ₹1000 bills.

II. BLACK MONEY

According to a report by Bloomberg 82% of bank notes rendered worthless this is government’s estimate of unaccounted wealth in the economy.

Demonetisation step was imposed to curb the problem of Black money. Black money is used in common parlance to refer to money that is not fully legitimate in the hands of the owner. This could be for two possible reasons , first, is that the money may have been generated through illegitimate activities not permissible under the law, like crime, drug trade, terrorism and corruption, all of which are punishable under the legal framework of the state. The second and perhaps more likely reason is that the wealth may have been generated and accumulated by failing

to pay dues to the public exchequer in one form or other. At the very outset one thing is clear that a strong intolerant attitude with adequate participation of all the state arms cal produce result and second category where the issue becomes far more complex and may require modifying, reforming and redesigning major policies to promote compliance with laws, regulations and taxes and deter the active economic agents of society from generating, holding and illegitimately transferring the wealth.

The problem of black money is due to perceived interest and taxpayers intentions as well as loop holes in the tax authority. However, to curb this problem and bring a balance one should ensure efficiency in economy, governance and social equity. This sounds bookish and impractical, due to much worse reality in tax evasions and development of parallel economy.

III. GENERATION OF BLACK MONEY

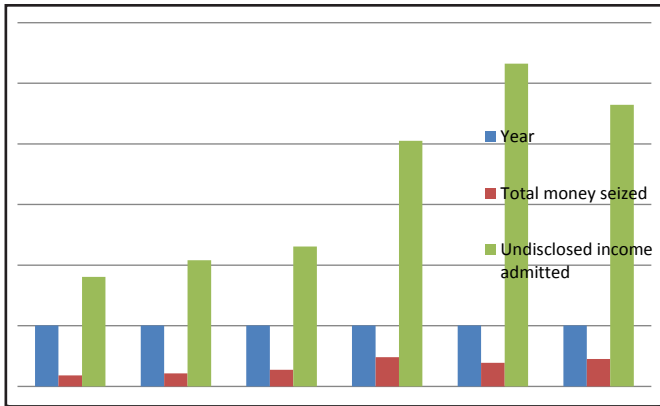
Following factors underlies the social and political and administrative aspects:

- Racketeering
- Trafficking in counterfeit and Contra Band Goods
- Smuggling
- Production and Trade of Narcotics
- Forgery
- Illegal Mining
- Illegal Felling of Forests
- Illicit Liquor Trade
- Robbery
- Kidnapping
- Human Trafficking
- Women Exploitation and Body Trade
- Fraud in Banking
- Fraud in Financial Transactions

Following chart shows Black Money seizures (Bars show money seized by tax authorities in Rs. crs.)

Year	Total money seized	Undisclosed income admitted
2007	364.64	3612.89
2008	427.82	4160.58
2009	550.23	4613.06
2010	963.5	8101.35
2011	774.98	10649.16
2012	905.61	9289.43

Demonetisation is validated to curb the black money by increasing the seizures. Similarly in the past 50 days many IT raids have been done by various authorities discussed in this paper to catch the black money holders.



IV. INSTITUTIONS DEALING WITH THE BLACK MONEY

Both State and Central government jointly works on this:

- A. *CBDT* - Central Board of Direct Taxes is part of the Department of Revenue in the Ministry of Finance. It provides essential inputs for policy and planning of direct taxes in India, it is also responsible for administration of direct tax laws through its Income Tax arm. It is a statutory authority functioning under the Central Board of Revenue Act 1963.
- B. *CBEC* - Central Board of Excise and Customs is a part of the Department of Revenue under the Ministry of Finance, Government of India. It deals with the tasks of formulation of policy concerning levy and collection of customs and central excise duties, prevention of smuggling, and administration of matters relating to customs, central excise and narcotics to the extent under the CBEC's purview.
- C. *ED* - The Enforcement Directorate has been entrusted with the investigation and prosecution of money-laundering offences and attachment / confiscation of the proceeds of crime under the Prevention of Money Laundering Act 2002 (PMLA). The officers of the ED undertake multifaceted functions of collection, collation and development of intelligence, investigation into suspected cases of money laundering, attachment / confiscation of assets acquired through the commission of scheduled offences, and the criminal prosecution of the offenders in the court of law. The ED also enforces the provisions of FEMA, aimed at promoting the development and maintenance of India's foreign exchange market and providing, inter alia, for action against persons / entities involved in international Hawala transactions. The ED has a pan-Indian character with field offices spread over various states and regions.
- D. *FIU* - The Financial Intelligent Unit - IND was established with the objective for coordinating and strengthening efforts for national and international intelligence by investigation and enforcement agencies in combating money laundering and terrorist financing. It is the national agency responsible for receiving, processing, analysing, and disseminating information relating to

suspect financial transactions. It is an independent body reporting to the Economic Intelligence Council headed by the Finance Minister. For administrative purposes, the FIU-IND is under the control of the Department of Revenue, Ministry of Finance.

- E. *CBI* - The CBI, functioning under the Department of Personnel, Ministry of Personnel, Pension and Public Grievances, Government of India, is the premier investigating police agency in India. It handles a broad category of criminal cases including cases of corruption and fraud committed by public servants, economic crimes, and other specific crimes involving terrorism, bomb blasts, sensational homicides, kidnappings and the underworld.
- F. *SFIO* - The SFIO functions under the Ministry of Corporate Affairs and takes up for investigation complex cases having inter-departmental and multidisciplinary ramifications and substantial involvement of public interest, either in terms of monetary misappropriation or in terms of persons affected.
- G. *NCB* - It is assigned the task of counter measures against illicit drugs traffic under the various international conventions and protocols, and also assists concerned authorities in foreign countries and concerned international organisations dealing with prevention and suppression of this traffic.
- H. *CEIB* - Central Economic Intelligence Bureau maintains constant interaction with its Customs Overseas Investigation Network (COIN) offices to share intelligence and information on suspected import / export transactions. The COIN offices gather evidence through diplomatic channels from the foreign custom offices and other foreign establishments to establish cases of mis-declaration which are intricately linked with tax evasion and money laundering.
- I. *NIA* - National Investigation Agency is a specialised and dedicated investigating agency setup under the National Investigation Agency Act to investigate and prosecute scheduled offences, in particular offences under the Unlawful Activities (Prevention) Act, including Financing of Terrorism.
- J. *SPA's* - State Police Agencies and Economic Offences Wing (EOW) of the Police functioning under the administrative control of states (provinces) is entrusted with the responsibility of investigation of serious economic offences and offences having inter-state ramifications. It is also mandated to interact, assist, and guide the district police on matters related to financial crimes and preventive and detection measures.

Above stated institutions monitors economic and their links with other criminal activities provides comprehensive network of checks and balance against generation of Black Money.

V. CURBING BLACK MONEY

To curb the problem of Black Money various institutions as stated above have been created. However, the federal structure of governance and their vertical reporting systems within their respective ministries and departments may have resulted in less than optimum coordination of data, information, and actions and a strengthening of this aspect may be an important way forward in the fight against generation and accumulation of black money. A comprehensive analysis of the factors leading to generation of black money in India along with the various measures attempted to counter it till date makes it apparent that there is no single panacea that can rid society of this menace.

We can still strengthen the gap with following measures to tackle the problem of Black Money.

VI. SUBSTANTIAL CONTRIBUTION IN TAX ADMINISTRATION

In one of the reports of Indian Institute of Public Finance and Policy (IIPFP) the out total amount of black money, 48% is generated from evasion of personal income tax alone, 28% from under reporting of production and 18% from under registration of immovable property so that these three main components exhaust around 94% illegal income generation.

Evasion of Tax by the tax payer is primary issue which results into ill-gotten money and unaccountable. But we need to understand the other side of the coin also, if we take a small example that, Mr. A is earning ₹1 Lakh per month and TDS (Tax Deductible at Source) is deducted on his income, he spends his remaining income to purchase day to day requirements, purchases a vehicle, visits restaurant and cinema hall etc. etc. In all the activities he is paying different type of taxes, which has lead to double taxation burden on him. When we talk about substantial contribution in tax, somewhere it is the need of day to check and reestablish the need of tax bearer also. Measure need to be incorporated like GST (Goods and Services Tax) where the tax bearer pays onetime tax and relieves himself from paying multiple taxes at different level. By doing this one will become responsible and will not avoid tax.

VII. GLOBAL AWARENESS

India is participating world level summits to create an awareness on economic problems and associated issues. The financial crisis of 2008 and the resultant need for protecting revenues further strengthened the need for coordinated global efforts to tackle the challenges posed by tax haven-mediated arrangements for evading tax. So India is propounding transparency, it has pushed the G20 forum to exert pressures on countries that do not conform to the international standards of transparency. In this step India is making continuous efforts to talk to different parts

of world has been initiated and action is imparted like, in April 2009 (London Summit) India played a major role in developing international consensus for taking action against tax havens, in September 2009 summit at Pittsburg, the G20 has came up with different measures to combat the tax haven problems. Similar efforts have been in other summits also. Advantage from global awareness gives a way to more countries sign it, the task of information exchange will get increasingly facilitated. It is likely to be an important instrument for cooperation in the area of assistance in tax collection. By enabling development of automatic exchange of information, this convention supports India's call for standardising automatic exchange as a global standard. A unique feature of such convention is the facility for serving of notices issued by one tax administration through another tax administration. It is also hoped that the convention will facilitate tax examination abroad. There are many International Cooperations that helps in curbing the problem.

- Multilateral Convention on Mutual Administrative Assistance in Tax Matters.
- Financial Action Task Force.
- UN Convention against Corruption.
- UN Convention against Transnational Organised Crime.
- UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.
- International Convention for the Suppression of the Financial of Terrorism.
- Egmont Group for International Intelligence gathering regarding Money Laundering and Terrorism Financing.

The concept of Vasudhaika Kutumbham should be spread to deal with the problem of Blood Money that involves in anti social activities all over the world.

VIII. LEGISLATIVE FRAMEWORK

A number of proactive steps have been taken in order to create an appropriate legislative framework for preventing the generation of black money and for its detection.

- Prevention of Money Laundering Act, 2002 (amendment 2012).
- Lokpal and Lokayukta Act.
- Prevention of Corruption Act.
- The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill 2015.
- Benami Transactions Prohibition Act, 1988 (amendment 2016).
- The Real Estate (Regulation and Development) Act, 2016.

Some of the directives are discussed in the following section of this paper.

IX. INSTITUTION TO WORK AGAINST DEALERS OF ILLICIT ACTIVITIES

Many institutions listed above have created to deal with the menace of black money. However, implementation and involvement of dedicated offices should be done seriously with the cause of removing this menace from economy.

X. DEVELOPING SYSTEM FOR IMPLEMENTATION

System should deal with this problem to nail down from bottom. Mass level implementation should be put into the system. Every individual should be motivated to fight back for social cause. Recently government has initiated be a police and win award plans to curb the menace of black money. Many IT raids have been taken place in this line. Some of them have been quoted in the coming sections.

XI. STRENGTHENING THE TRADITIONAL SOCIAL VALUES

Society plays a vital role in combating with decades old problems of black money as it has become a real threat through illegal activities, corruption, tax evasion, regulations which are complex, social and cultural mind set with weak policy and implementation have further augmented the problem. In India corruption is seen every nook and corner, it is deep down among majority of us that generates illegal unaccountable funds. By building moral values and imparting ethics and creating patriotism among large society will assist to curb the problem of black money.

XII. BLACK MONEY AND MONEY LAUNDERING

As we have already explained earlier the black money is generated through tax evasion or by illegal sources of income. Now the question is how to bring back this type of money back in the financial system without being caught by the Enforcement Directorate or the Income Tax Department. For this, money laundering is the only way which is widely used by the black money holders all around the globe.

Money laundering is the process of changing large amounts of black money obtained from crimes into origination from a legitimate source. In other words, Money Laundering is the introduction of illegally gained assets into the legal financial system with the aim of covering up its true origin. In India, the annual income created from unlawful drug trade, one of the biggest felonious initiatives is very high. This is not only a commercial spectacle; but having party-political, societal and traditional magnitudes too. The profane connection between politicians and administrators on one hand and the industrialial / business world on the other end fuels black economy in India.

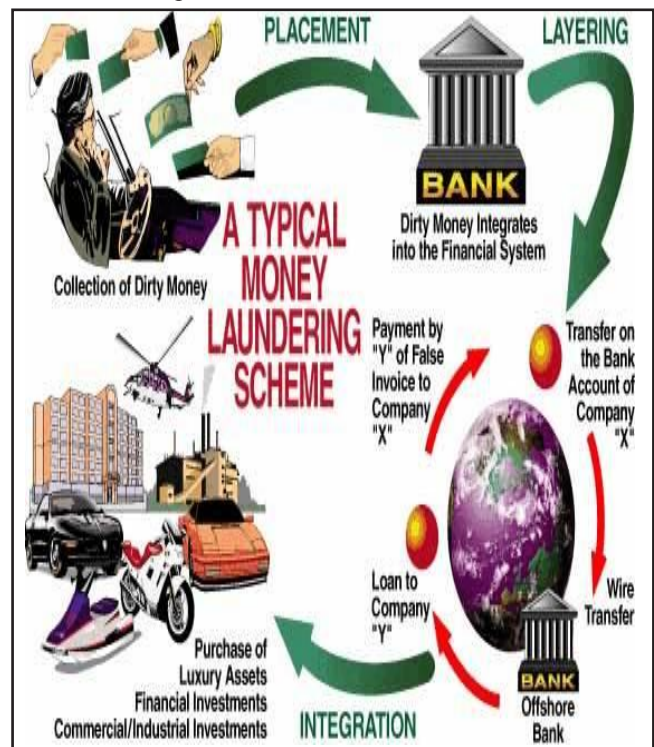
A Large percentage of illegitimate incomes are consequently valeted through the alternative payment system called “Hawala”.

Hawala is an Arabic word which means transfer of money or information between two persons using a third person. This mechanism usually does not leave any paper trail and thus is a nightmare for the investigative agencies. The profits generated from Hawala transactions are secretly invested in different sectors of economy to launder them.

A. How it Works?

Money laundering process has three stages: *Placement, Layering and Integration*.

- i. In *Placement* stage, the launderer introduces his illegal profits into the financial system. This is often in the form of cash bank deposits. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account.
- ii. The second stage *Layering*, involves sending the money through various financial transactions to change its form and make it difficult to follow. It consists of putting funds, which have entered the financial system, through series of financial operations to mislead potential investigators and to give the funds the appearance of having legal origins. This is the most complex step in any laundering scheme, and it’s all about making the original dirty money as hard to trace as possible.



- iii. At the third stage; *Integration*, the money re-enters the mainstream economy in legitimate-looking form - it appears to come from a legal transaction. The funds may be re-introduced in the economy through, for instance, the purchase of luxury items or through investment in assets such as shares in a company or real estate.

B. Prevention of Money Laundering Act (PMLA) 2002¹

The Prevention of Money Laundering Act, 2002 came into force with effect from 1st July, 2005. The Act was amended by the Prevention of Money Laundering (Amendment) Act 2009 w.e.f. 01.06.2009. The Act was further amended by the Prevention of Money Laundering (Amendment) Act, 2012 w.e.f. 15.02.2013. The Prevention of Money Laundering Act, 2002 [PMLA] mandates that the investigation of the offence of money laundering be linked to the Scheduled Offences investigated by the concerned Central or State Law Enforcement Agencies. The scheme of PMLA thus necessitates inter-agency coordination to take effective action against persons who are found by the Law Enforcement Agencies to be involved in criminal activity. Such action under PMLA entails attaching and confiscating tainted assets, and prosecuting persons/entities for the offence of money laundering.

Two prominent agencies administers the proper implementation of PMLA:

- The Directorate of Enforcement in the Department of Revenue, Ministry of Finance is responsible for investigating the cases of offence of money laundering under Prevention of Money Laundering Act, 2002.
- Financial Intelligence Unit - India (FIU-IND) under the Department of Revenue, Ministry of Finance is the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement agencies and foreign FIUs.

C. Did Demonetisation Hit Money Laundering?

Recent move by the government of India on demonetisation of high valued currency notes, though a novel step, yet has raised varied question on future black money, impact on economy and more importantly inconvenience caused to the poor people.

It may also be noted that the, rich black money holders have overnight found other unethical and some illegal routes to convert black money into white. Those are²

- Back dated sales of gold, midnight sales on the date of announcement of demonetisation, resulted in one of the main reasons its price increase.
- Pre-dated fixed deposits in co-operative banks and credit societies by nepotism.
- Booking and cancelling railway and air tickets.
- Rise of banknote mafia overnight to exchange notes by taking commissions.
- Using Jan Dhan accounts of poor and farmers for tax free

¹ FAQs on PMLA 2002, Enforcement Directorate of Govt. of India

² Times of India (November 2016), Bangaluru Edition. "Jan-Dhan accounts used to launder money".

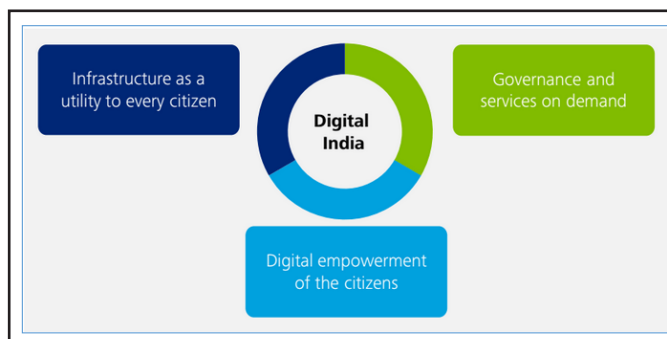
option with certain inducements attached for cooperating. Thus, these offenders have transferred their crime to the poor and needy common people.

- Interest free loans to poor people.

Instead of these different ways, ED and FIU are able to find out money launders and black money holders even after demonetisation also. Most of the recent cases are there relating to black money and its laundering in the name of political parties, leaders, businessmen and rich people. Recently, ED arrested Delhi based lawyer, Rohit Tondon in connection with laundering probe. As per the ED sources, he was caught with ₹13.6 Crore in cash during a raid by the ED sleuth. Tondon was allegedly instrumental in illegal conversion of demonetized currency worth ₹60 Crore with Kolkata businessman and Kotak Bank manager (Delhi).³

VIII. THE DIGITAL INDIA DREAM

When we discuss the cashless economy Digital India project of government envisages Indian population to think big by going digital. This project is going to be authoritative to push the country into its next phase of growth. Digital India initiative is an extended and transformed version of e-Governance project which is in place since mid 1990s. To comprehend the aim of making India a 'Digital Society', Government of India envisioned the scheme of "Digital India." This is to renovate the whole idea of Authority by making it more obvious and reachable to the citizen. This program is being envisioned by Department of Electronics and Information Technology but other ministries are also involved such as Ministry of Communications and IT, Ministry of Rural Development, Ministry of Human Resource Development (MHRD), Ministry of Health, etc.



The government is trying to connect remote areas, villages through high-speed Internet services to digitally enable people but it has multiple issues to deal with it. It's very easy to comment that the recent step of demonetisation will be helpful in the path of digitalized system of economy but in reality government has to do a lot for this; on supply side (administration) as well as on demand side (users).

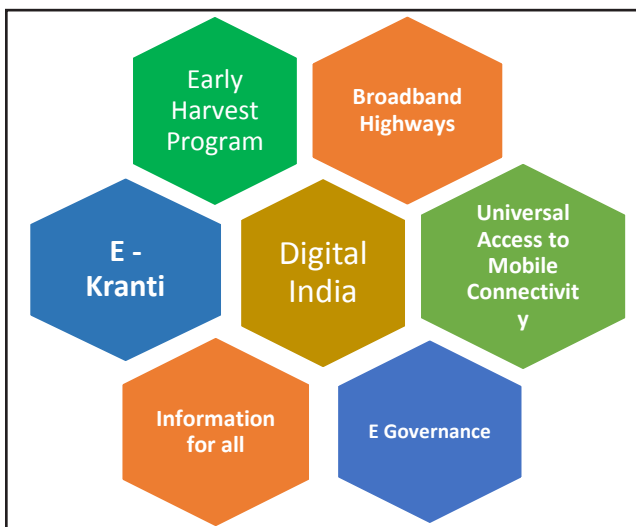
To facilitate this idea of digitalization Government of India has

³ Times of India (December 2016), New Delhi Edition. "ED arrests Delhi lawyer for Money Laundering".

taken numerous steps in recent period of time (since 2015). Those steps can also be known as Key Initiatives or Key Pillars of this program:

The Digital India Project, undoubtedly is one of the outstanding missions as it holds all the government machinery and departments. The main objective is to make a real democracy with the use of digital knowledge. Its aim is to attach more than 120 Crore Indians with the Government with a view to get them benefited in a real time and also get their complaints rectified in relatively short time frame. Besides all these measures / benefits, there are certain challenges which Government has to face during the implementation of this scheme. Challenges are in each segments of the procedures and altering the work stream up to the varying outlooks of the different administration. It is a technical transformation within the most differentiated country where in lack of adequate infrastructure and skills are going to be great challenges to overcome. Few of the changes are as enumerated below:-

- Lack of digital literacy.
- Connectivity to remote areas.
- Inter Departmental Coordination.
- Changing mindset of people.
- Limited sharing of facts in a transparent way.
- Cyber Crime.
- Limited availability of band width.
- Limitations of industry to support the development of infrastructure.
- Existing power situation in the country.
- Capacity in terms of professionals to handle live transformables.



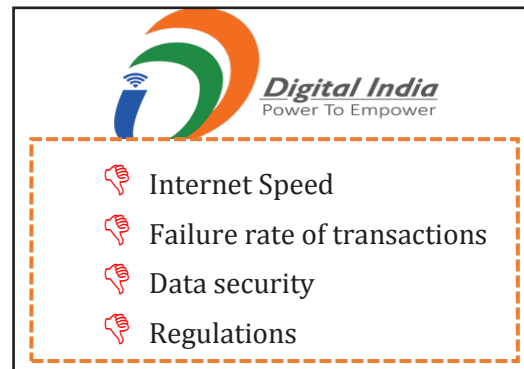
- 2,50,000 gram panchayats and 42,300 villages are to be connected.
- Simplify Govt. business process by e governance.
- Services are to be rendered by electronic mode in primary as well as secondary sectors of economy.

- Two way communication between people and Govt. with the use of IT and social media.

Hence, linking 250000 Gram Panchayats through National Optical Fiber Network is not an easy assignment. In the same line, improving IT literacy is a great task ahead as it is essential that people must know how to apply the digital facilities. To maintain faith for digital services, safety of data is very important because digital medium is still very insecure and data susceptibility is a big issue especially in financial transactions calling for better fire balling mechanism. Law against Cyber Crime has to be so tough to minimize the risk.

XIV. ARE WE READY...? - UNANSWERED QUESTION

After Demonetisation, the controversial argument is, *Is India ready for transformation to app based cashless economy? Do we have that much infrastructure to handle online accessibility problems?*



As per the current report of AKAMAI,⁴ India is at the lowest rank of 105th in the world as well as in Asia Pacific region in average speed of internet.⁵ A straight concern of the slower internet speed is on transaction failure rates. The slower internet speed than average speed will increase the online traffic and it would suffer the payment and receivables of businesses. As for example, PAYTM, the leading mobile wallet handling regular online transactions. But still, most of the time people are not able to complete their transaction through PAYTM. Now, the blame game starts: company blames the server of related bank or the other technical issues. However, bottom line is the fellow who wants to do digital transactions remain high and dry. These failure rates of transaction can build frustration among users. Therefore, firstly we need a completely sound online infrastructure having good internet speed with an assurance of uninterrupted power supply.

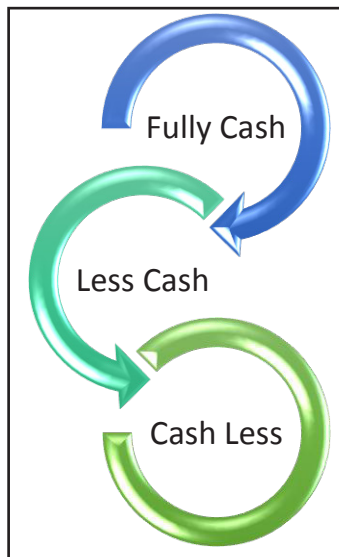
Another side of infrastructure is satisfactory data security and secrecy regulations. Unfortunately, India is lacking with these parameters also. In October 2016, 3.2 million debit cards of

4 Akamai is the global leader in Content Delivery Network (CDN) services.

5 Akamai Quarter Third, 2016 State of Internet Connectivity Report (2016).

premier banks of country were hacked and illegal practices were reported from several locations in China. Therefore, to make people ready for this transformation, Government has to come up with strong rules and regulations for data security, cybercrime and effective online infrastructure facility.

Being optimistic for this move of Union Government, various NGO / CBO should come forward and partner with Banks and Financial Institutions to create awareness and sense of security. Given, the increasing e-literacy in India, it is certain that the people of India would embrace the 'cashless economy' faster than the government would have expected *VISAKA – VITTIYA SAKSHARTA ABHIYAN*.



To spread awareness among people about the cashless economic system Ministry of HRD launched this scheme. Under this, students and faculty will play a crucial role to motivate people for the adoption of this new changing scenario of economy as Cashless Economy with digitalisation. Government has created a web page for this. Students or faculty who voluntarily wants to be a part of this Abhiyan, can register themselves and can also upload their progress report for this Mission.

The consequences will fetch the government much higher revenue in the days to come. But it will take some time to be cashless from fully cash based economy.

XV. CYBER CRIME – IT ACT AND DEMONETISATION

Followed with the above discussed factors - Cyber Crime, the legislation in India dealing with offences relating to the use of or concerned with abuse of computers of other electronic gadgets. The Information Technology Act (IT) 2000 and the IT Amendment Act, 2008 have been dealt with in detail and other legislations dealing with electronic offences. Demonetisation and its impact on digital transactions has ringed the bell of Cyber Crimes as digital transactions involve variety of procedures involved by using electronic devices. Many questions have popped up in this regard that do we have dedicated laws in this direction? Is digital payment options are

secured? Not only this many dimensions needs to be answered like, Cyber Security, Cyber Crimes Investigation, E-Discovery because digital payments require a set of different norms and regulations for proper usage and implementation. According to experts the present regulatory regime in this regard is grossly deficient and it cannot accommodate entire rush at once through digital payments, online and payment banks and there is a need for dedicated laws.

In India RBI usually sets security and privacy standards for banks in the country. However, some of the digital wallets like Paytm, MobiKwik and FreeCharge fall under the category of NBFCs that excluded them from this. But, other financial companies are covered under Section 43 A of the IT Act. The Section 43 A states that body corporate accountable to protect data privacy of data provider. To help companies having operations in India comply with the prescribed requirements, and assessment questionnaire has been separately designed to verify whether companies' practices are compliant to the requirements mandated in the IT AA 2008. This act promotes protection of data.

Today, transaction between the customer and company needs not only the safety of consumers' money but also for the e-commerce company too. A report on Paytm digital wallet says that 35 million transactions by users to either buy goods and services or transfer of funds to another account. FreeCharge have tied up with police forces to pay traffic fines using its platform. Centre for Internet and Society (CIS, Bangalore) has conducted research that some of India's largest technology companies still do not comply with Section 43 A. Expert comments that there is no legal mechanisms available in case of disputes pertaining to digital payments. The compliance to the Indian Cyber Law is more done in breach rather than compliance. So it's a long way to make specific laws that can protect the interest of digital payments.

XVI. LEGITIMACY OF DEMONETISATION

After the announcement regarding the demonetisation of higher denomination notes, at least four petitions (Public Interest Litigation) were filed against the decision of Union Government. This action has been done all over the nation as petitions were filed in Madras High Court, Bombay High Court, Karnataka High Court and Supreme Court of India. These petitions argued that this decision is illegitimate and subjective in law, as such verdicts cannot be taken overnight without any prior notification. All petitions were rejected by Courts other than the petition filed in Supreme Court. The bench of Supreme Court refuses to stay Government's move for demonetisation but asked the Union Government to file an affidavit having detailed information of steps taken to troubleshoot the problems faced by the public.

The legitimacy of demonetisation has been questioned continuously. About 9 to 10 questions were asked by Supreme Court to Union Government. Among all, the most answerable question was; whether demonetization notification of November

8 is ultra vires Section 26 (2) and other provisions of the RBI Act?⁶ Does Section 26 (2) of the RBI Act - under which the November 8 notification was issued - itself suffer from excessive delegation of powers and therefore ultra vires the Constitution?⁷ Besides having many these type of questions, Supreme Court has also admitted that this decision is in the favor of economy. The move of demonetization is simply the execution of powers given by RBI Act 1934 (U/S 26 (2)) to the Government. The only debatable aspect was the pre information or the proposal in the parliament regarding this step has not been taken place.

XVII. DIRECTIVES AFTER DEMONETISATION

After demonetization the most baffling aspect was to deal with the bank deposits in the form of black and white currency. For the effective and efficient implementation of this move the Union Government has taken some decisions regarding the changes in different Laws. In this regard different directives were issued from the concern Ministry to Banks and other financial institutions.

- i. As announced by the Revenue Secretary, Rules 114B and 114E (corresponding to Section 285BA of the Act relating to Annual Information Reports) were amended to enable banks to report cash deposits of over ₹250,000 (previously ₹10,00,000) to the Central Board of Direct Taxes (“CBDT”).⁸
- ii. It is further announced that any cash deposits made from undisclosed sources would attract penalty of 200% of tax payable, even if they are subject to tax at the maximum marginal rate of 30%.⁹

Along with this, Government has also set the limits for Gold purchase after the most panic scene in Gold Prices and Gold investment during the post demonetisation era. Government has made announcement:

- No Tax will be imposed if Gold is purchased out of the disclosed / exempted incomes.
- No attack of gold or jewelry assets to the extent of 500 grams per married woman, 250 grams per unmarried woman, and 100 grams per male member of the family.

Income Declaration Scheme (IDS): It was pitched as a “last chance” for those having black money to come clean. IDS offered a four month window to make declaration till 30 September 2016. The first installment of 25% tax has to be paid by November 2016 and taxpayers are allowed to make the payment for tax and penalty in three installments by 30 September 2017.

A. Tax Amendment Bill 2016

The Taxation Laws (Amendment) Bill, 2016 was introduced in Lok Sabha in August 2016. It strives for amendments in the Income Tax Act, 1961 and the Customs Tariff Act, 1975. The bill has come up with three tier rules for curbing black money after demonetization.

- i. *Pradhan Mantri Garib Kalyan Yojna (PMGKY):* The government has also come up with an income disclosure scheme called the Pradhan Mantri Garib Kalyan Yojana (PMGKY) 2016. The scheme allowed people to deposit money in their accounts till 1 April 2017, by paying 50% of the total amount (30% as tax + 10% penalty + 33% cess). The duration of the scheme will be announced later. The declarant will get immunity from prosecution under any law. Along with this, 25% of the declared income will be locked in for four years with the deposit for PMGKY. This amount will be used for development funding for rural and urban areas.
- ii. *Declaration other than PMGKY:* If a person can declare his income at the time of filing the return of income, he must pay a tax of 75% (60% tax and 25% surcharge on tax).
- iii. *Undisclosed Income Detected by Tax Authority:* If a taxpayer is taking chance with the Income Tax Department and caught, a tax of 85% (60% tax, 15% surcharge on tax and 10% penalty) will be payable by him.

This calculation can be understood with this example. Suppose, A, B and C are the taxpayers. They have equal amount of black money to deposit in Bank after demonetisation, ₹10,00,000. Now, let’s assume that these three taxpayers are opted different three patterns of income disclosure. Their taxable liability will be as follows:

	A	B	C
Black Money	10,00,000	10,00,000	10,00,000
Options	Scheme 1	Scheme 2	Scheme 3
Tax Liability Rate	50%	75%	85%
Taxable Amount	5,00,000	7,50,000	8,50,000
PMGKY Deposit (25%)	2,50,000	-	-
Total Tax	7,50,000	7,50,000	8,50,000
Amount with Taxpayer	2,50,000	2,50,000	1,50,000

XVIII. ROLE OF MINISTRY OF FINANCE IN DEMONETISATION

Role of ministry of finance is very crucial in the economy of a nation in India many Departments like Economic Affairs, Expenditure, Revenue, Financial Services, Investment and Public Asset Management come under the Ministry of finance. Demonetisation decision of high denomination notes ₹500 and ₹1000 was taken on 8 November 2016 with the announcement of this decision major function of Ministry of finance was to

6 The Hindu (9 December 2016). SC’s Ten Questions on Demonetization.

7 i bid “6”.

8 <http://indiakorplaw.blogspot.in/2016/11/demonetisation-and-income-tax-act.html>

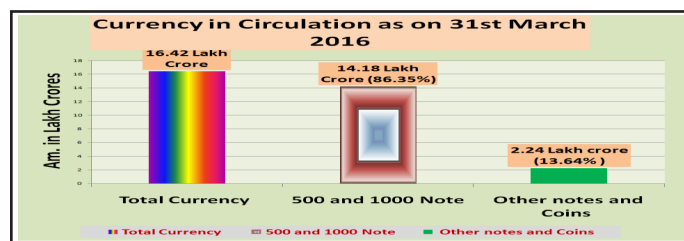
9 ibid “8”.

monitor its effective implementation along with time to time corrective decisions. In order to ensure effective and purposeful implementation of demonetisation many policy measures have been taken these are:

- i. Deposit of old currency note ₹500 and ₹1000 were permitted up to 30 December 2016 only for 50 days from the date of demonetisation decision.
- ii. Time to time change in cash withdrawal limit to maintain balance between supply of new currency and current demand of new currency.
- iii. Utilisation of old currency (₹500 and ₹1000 notes) into few essential areas only like petrol, railway ticket, hospital, foreign currency exchanges for tourists, etc.
- iv. Break on the per day ₹4000 exchange limit to stop illegal old currency exchange of black money holders.
- v. Depreciation of old currency and overvaluation of new currency in the economy.
- vi. Deep monitoring of flow of new currency role of bankers and higher authorities.
- vii. Highly vigilant for exchange of old currency into new without banking route.

XIX. MONEY STATUS AT THE TIME OF DEMONETISATION

With the aim to end corruption, black money and counterfeit currency from the economy the government decided demonetisation of high denomination notes. But it is essential to evaluate stock of ₹500 and ₹1000 notes before demonetisation also cast light on the history of these notes when they were introduced in the economic circulation. ₹500 note and ₹1000 notes were introduced in 1987-1988 and 2000-2001 respectively. Total life of old ₹500 note remains 29 years and it is 16 years for ₹1000 note. No one can deny the fact that the demonetisation on crimes and terrorism has hit hard. However, if it would have implemented correctly, could reduce the current black money. Now to stand in line outside the bank is not much heat, not cold for a common man. Although the festival, the most important time of the marriage and exports due caution needed in the process, even lots of people lost their employment, many small scale industry and tiny industries already stop production, farmers are selling perishable products below selling price. It is very early to declare real results of this demonetisation.



Graph 1

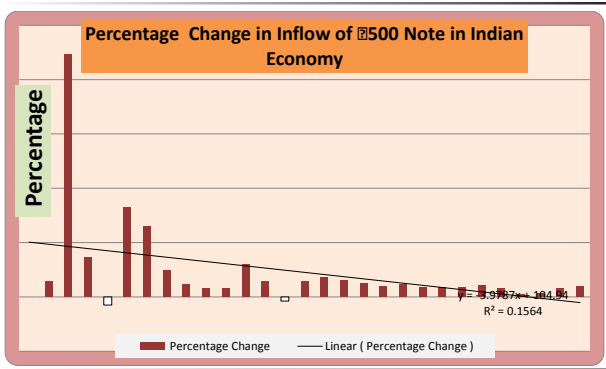
TABLE I: INFLOW OF ₹500 NOTE IN INDIAN ECONOMY

Inflow of ₹500 Note In Indian Economy (Amount in ₹Billion)		
S. No.	Year	Inflow of ₹500 Note in the Economy
1.	1987-88	1.8
2.	1988-89	2.3
3.	1989-90	12.57
4.	1990-91	21.77
5.	1991-92	18.54
6.	1992-93	49.1
7.	1993-94	113.03
8.	1994-95	168.82
9.	1995-96	208.73
10.	1996-97	242.7
11.	1997-98	279.75
12.	1998-99	448.27
13.	1999-00	572.5
14.	2000-01	529.47
15.	2001-02	685.12
16.	2002-03	938.13
17.	2003-04	1229.38
18.	2004-05	1527.28
19.	2005-06	1823.32
20.	2006-07	2254
21.	2007-08	2631.08
22.	2008-09	3083.04
23.	2009-10	3644.79
24.	2010-11	4453.11
25.	2011-12	5128.07
26.	2012-13	5359.5
27.	2013-14	5702.48
28.	2014-15	6563.91
29.	2015-16	7853.75

Source: Indian Economy Report Publish by RBI

A. Compound Annual Growth Rate of ₹500 Note Issue: 33.51%

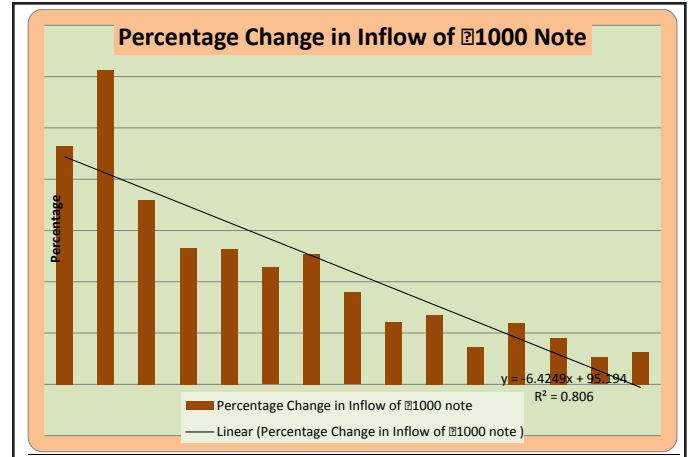
Before demonetisation total currency ₹16.42 Lakh Crores was in circulation out of which ₹14.18 Lakh Crore was in the form of ₹500 and ₹1000 high denomination notes which is 86.35% of total currency in the economy. Remaining 13.64% currency was in the form of coin or note of ₹1, 2, 5, 10, 20, 50 and 100 become very useful after implementation of demonetisation. From 1987-1988 to 2015-2016 ₹500 currency note increased by annual compound growth rate 33.51%.



Graph 2

TABLE II: GOVERNMENT WISE MICRO ANALYSIS OF INFLOW OF ₹500 NOTE

Government wise Micro Analysis of Inflow of ₹500 note (Amount in ₹ Billion)			
Year	Inflow of ₹500 Note	Change from Previous Year	Percentage Change
1987-88	1.8	0	
1988-89	2.3	0.5	27.78
1989-90	12.57	10.27	446.52
1990-91	21.77	9.2	73.19
1991-92	18.54	-3.23	-14.84
1992-93	49.1	30.56	164.83
1993-94	113.03	63.93	130.20
1994-95	168.82	55.79	49.358
1995-96	208.73	39.91	23.64
1996-97	242.7	33.97	16.27
1997-98	279.75	37.05	15.27
1998-99	448.27	168.52	60.24
1999-00	572.5	124.23	27.71
2000-01	529.47	-43.03	-7.52
2001-02	685.12	155.65	29.39
2002-03	938.13	253.01	36.93
2003-04	1229.38	291.25	31.04
2004-05	1527.28	297.9	24.23
2006-06	1823.32	296.04	19.38
2006-07	2254	430.68	23.62
2007-08	2631.08	377.08	16.73
2008-09	3083.04	451.96	17.17
2009-10	3644.79	561.75	18.22
2010-11	4453.11	808.32	22.17
2011-12	5128.07	674.96	15.16
2012-13	5359.5	231.43	4.51
2013-14	5702.48	342.98	6.40
2014-15	6563.91	861.43	15.11
2015-16	7853.75	1289.84	19.65



Graph 3

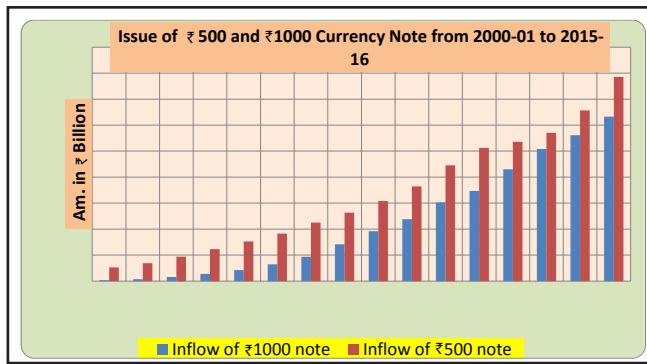
TABLE III: INFLOW OF ₹1000 NOTE IN INDIAN ECONOMY

Inflow of ₹1000 Note in Indian Economy (Amount in ₹Billion)		
S. No.	Year	Inflow of ₹1000 note in the Economy
1.	2000-01	37.19
2.	2001-02	71.79
3.	2002-03	159.71
4.	2003-04	274.73
5.	2004-05	420.82
6.	2005-06	643.46
7.	2006-07	936.76
8.	2007-08	1412.19
9.	2008-09	1917.84
10.	2009-10	2382.52
11.	2010-11	3027.13
12.	2011-12	3468.81
13.	2012-13	4299.00
14.	2013-14	5081.37
15.	2014-15	5612.45
16.	2015-16	6325.68

Source: Indian Economy Report Publish by RBI

B. Compound Annual Growth Rate = 37.85%

If we compare trend lines of percentage change of ₹500 and ₹1000 currency note issued by RBI in Indian economy at the initial stage of penetration of new currency in the economy percentage change year by year is very high for both the currency notes but in log run both are diminishing.



Graph 4

TABLE IV: DESCRIPTIVE STATISTIC OF ₹1000 AND ₹500 NOTE ISSUED BY RBI FROM 2000-01 TO 2015-16

Descriptive Statistics of ₹1000 and ₹500 Note issued by RBI from 2000-01 to 2015-16			
₹1000 Note		₹500 Note	
Mean	2254.465625	Mean	3337.902
Standard Error	534.6915857	Standard Error	568.1171
Median	1665.015	Median	2857.06
Mode	N/A	Mode	N/A
Standard Deviation	2138.766343	Standard Deviation	2272.468
Skewness	0.679210006	Skewness	0.514418
Range	6288.49	Range	7324.28
Minimum	37.19	Minimum	529.47
Maximum	6325.68	Maximum	7853.75
Sum	36071.45	Sum	53406.43
Count	16	Count	16
Largest (1)	6325.68	Largest (1)	7853.75
Smallest (1)	37.19	Smallest (1)	529.47

XX. DEMOGRAPHICAL FACTORS AND ITS ACCEPTANCE OF TECHNOLOGY

Primary indicators of demographical factors in an economy includes composition of male and female, age group, education levels, income level. There is mixture of feeling among these variables. Rural and semi-rural citizens in India are very cash dependent; lots of people depend on and regularly use cash for their transaction. Fewer than 20% of India’s approximately 2,15,000 ATMs for instance are in rural centres. So any idea of moving to cashless transactions any time soon is a pipe dream. Unfortunately many commentators live and work in rural areas and they can buy even ₹100 worth of vegetables in a local supermarket and pay by credit card. Less than 5% of Indians have a credit card. In April 2015 there were only 21 million credit cards. In initial days of demonetisation a huge swathe of economic activities were disrupted. Marriages, funerals,

festivals, purchases of essential goods, discretionary household consumption were postponed or cancelled. Low income group is affected adversely immediately. This class hardly uses debit or credit card. They also keep hardly any money in banks. They keep most of their money in cash in their home in the higher denominations. They have to, therefore, rush to the ATM and stand in the queue to withdraw their money to run day to day affairs. However, slowly the economy has recovered with various sub steps taken by the government.

XXI. REAL ESTATE SECTOR AND DEMONETISATION

There are some of the mechanisms through which black money is circulated and utilized and profits received are further invested in other sectors to generate further money. Due to rising prices of Real Estates, the tax incidence applicable on these transactions in the form of stamp duty and capital gains tax can create incentives for tax evasion through under reporting of transaction price. With the Demonetisation Cash payments were affected where high denomination notes are involved. With digital payment options the transactions will be monitors through FIU i.e., Financial Intelligent Units and reported back to the authorities. Slump has seen in the transactions of Real Estate Section. To curb the menace of black money BTPT will support the economy. Benami Transaction (Prohibition) Act, 1988 states that certain types of financial transactions are prohibited, in which property is transferred to one person for a consideration paid by another person, these feature relates to purchase of Real Estate and consideration amount is paid by Cash. Although this is illegal, due to structural deficiency liquid cash still is used. However, updated versions were passed in 2011 and 2016 will comprehensively enforce the prohibitions and Digital Payment system will active FIU’s to act upon wrong doers.

XXII. TERRORISM AND DEMONETISATION

On behalf of the National Investigation Agency (NIA), ISI (Indian Statistical Institute, Kolkata has conducted a study in which it states that ₹70 Crores fake notes are pumped into the economy every year. Demonetisation move was expected to hit the terror financing severely.

As per the study done by the Indian Statistical Institute, Kolkata in 2015, different agencies have their own estimates based on the recoveries made by them. NCRB - National Crime Records Bureau states that law enforcement agencies have seized 1,78,022 pieces of fake ₹1000 notes i.e. ₹17 Crore fake notes. Similarly, in 2015 as many as 2,99,524 pieces of ₹500 fake notes were seized.

Many reports states that the supply of these fake notes are done by neighbouring countries. Global research has now found that terrorists seldom use tax dodgers or hawala agents of target countries as they are known to be local vendors.

Many documents were studied to know the impact of demonetisation on terror financing. Majority of them say that

cashless economy need not be terror-free. One of the reports conducted by CNBC in November 2014 on the top cashless societies, report finds that Belgium is the world's top cashless society with 93% non-cash consumer payments and 83% debit card users. France stands second, third being Canada followed by UK, Sweden, Australia, Holland, the US, Germany and South Korea. However, it is sad to note Belgium and France were at the hit list of worst victims of indigenous and transborder terrorism.

According to US Treasury Department's National Terrorist Financing Risk Assessment (2015) innovative terror financing is using legal façade to pump in fake notes and create anti social activities in target countries.

To monitor these new innovations of terrorist groups in India is a limitation with structural inadequacy and bureaucratic inelasticity to keep pace with innovative terrorism.

XXIII. CONCLUSION

Analysis is done different dimensions to evaluate the impact of demonetization.

A. Preparedness of India

Demonetisation step was initially accepted positively with open hearts by Indians. However, due to implementation limitations, liquidity crunch different segments of society have reacted separately. India has accepted computerisation in banking sector and adopted completely. However, way back in the beginning of computerization there were mixed feeling and people always react to any new change. But now most of us are computer savvy. We have accepted technology in our lives. Whether it is smart phone, debit cards, digital transactions. So every cloud has silver lining.

B. Impact on Various Sectors

In this paper we have tried to evaluate different sectors and sections of society like Black Money, Parallel Economy, Money Laundering, Money Status, Economic Impact, Demographical, Real Estate, Terrorism.

C. National Awareness, National Endeavour and Nation into Confidence

Any act that is good for nation needs wide awareness and endeavour of nation. One should consider nation into confidence before the major step. Reactions recorded by mass some time depend on individual bias. So at large let us see the big picture and positive outcome of demonetisation.

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