DEMONETIZATION & IT’S IMPACT ON INDIAN TAXES

Ms. Shalaka Prakash Chavan

❖ INTRODUCTION

Demonetization is the act of a currency unit of its status as legal tender. The November 8 announcement by Government to Demonetize high value notes has in one stroke junked 86% of the currency in circulation and holders of the discontinued notes can deposit them in banks before the end of the year and withdraw money in new currency. The money has to be accounted for and taxes paid 50% on voluntary disclosures of unaccounted money and 85% for any failures.

❖ Keywords: Demonstratization, Types & Changes in Direct And Indirect tax.

❖ OBJECTIVES:

There are two objectives of study:

1) To analysis impacts of Demonetization on Indian Taxes.

2) To explain the effects of Demonetization on Income tax in financial year 2017-18.

3) To Study the Changes in Indian Tax system after Demonetization.

4) To highlight the types of tax in India.

❖ Research Methodology:

This paper is basically descriptive and analytical in nature. In this paper an attempt has been taken to analyses the impacts of Demonetization on Indian tax system in year 2016-17. The data used in it is purely from secondary sources according to the need of this study.

❖ Demonetization & it’s impact on Indian taxes:

The impact of Demonetization on tax revenue and collection is already visible. There was a 26.2 percent increase in central indirect tax collection till November 30, And Direct Tax
collection increased to the extent of 14.4 percent against a growth rate of only 8.3 percent previous year. Till 19 December 2016, the net increase in direct tax was 13.6 percent after factoring in refunds. Excise Duty was up by 43.5 percent, Service Tax by 25.7 percent, And Custom Duties up by 5.6 percent.

**TAX COLLECTION ALSO HIT BY NOTE BAN**

Growth in excise and service tax collections has moderated in November, in a reflection of the slowing economic activity in the country after demonetization of high-value currency notes.

<table>
<thead>
<tr>
<th>Growth rate (2016-17)</th>
<th>(Year-on-year, in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service tax</strong></td>
<td><strong>Central excise</strong></td>
</tr>
<tr>
<td>Jul 24.96</td>
<td>Jul 53.85</td>
</tr>
<tr>
<td>Aug 12.44</td>
<td>Aug 36.36</td>
</tr>
<tr>
<td>Sep 13.34</td>
<td>Sep 36.36</td>
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<tr>
<td>Oct 68.75</td>
<td>Oct 40.91</td>
</tr>
<tr>
<td>Nov 13.33</td>
<td>Nov 31.82</td>
</tr>
</tbody>
</table>

Source: Ministry of finance

- **Types of Taxes:**

Taxes are of two distinct types, direct and indirect taxes. The difference comes in the way these taxes are implemented. Some are paid directly by you, such as the dreaded income tax, wealth tax, corporate tax etc. while others are indirect taxes, such as the value added tax, service tax, sales tax, etc.

1. **Direct Taxes.**
2. **Indirect Taxes.**
1) Direct Tax:

Direct tax, as stated earlier, are taxes that are paid directly by you. These taxes are levied directly on an entity or an individual and cannot be transferred onto anyone else. One of the bodies that overlooks these direct taxes is the Central Board of Direct Taxes (CBDT) which
is a part of the Department of Revenue. It has, to help it with its duties, the support of various acts that govern various aspects of direct taxes.

- **Impact of Demonetization on direct Tax:**

  1) Direct tax collection in the month of November stood at Rs.35,000 crore, a drop of 30% from 50,000 crore in October, Ministry of finance data show.

  2) Direct tax collections growth is 15.8% after Demonetization.

  3) Direct Tax collected was Rs 4.12 Lack crore. However, Direct tax collected during April 2016 to October 2016 period was 3.77 lack crore. This shows the Direct Tax collected last month was Rs.35,000 crore.

  4) Similarly, during April-September 2016 period, Direct Tax collection was Rs3.27 Lack crore. Which means, the tax collected in the month of October was Rs.50,000 crore.

  5) Because of Demonetization the short-term capital gains tax is fixed at 15%.

  6) Securities Transaction Tax is tax payable on the value of securities transacted through a recognized stock exchange. As of Demonetization it is 0.1% for delivery based equity trading.

  7) After the Demonetization the applicability of long term Capital Gain tax (LTCG) depends on whether securities transaction tax (STT) was paid at the time the sale of shares.

  8) A majority of Direct Tax collected after November 8, in this situation Mumbai Corporation tax collection has been Rs11,913 crore in November which way better than the Rs.3,185 crore it collected last November.

  9) After Demonetization for Financial year 2017-18, The government has fixed different taxes slabs for varied groups of individuals, namely general taxpayers, senior citizens (people aged between 60 to 80), and very senior citizens (people aged above 80).

- **DEMONETISATION’S EFFECTS ON INCOME TAX.**
1) The demonetisation of high-value currency announced on November 8, India's Income Tax Department has detected undisclosed income of over Rs 4,807 crore and seized new notes worth Rs 112 crore.

2) Since the demonetisation intended to eliminate black money, counterfeit currency and terror financing, the tax authorities carried out 1,138 search, survey and enquiry operations and have issued 5,184 notices to various entities on charges of tax evasion and currency dealing through hawala channels.

3) The total undisclosed income admitted or detected till January 5 is over Rs 4,807 crore.

4) According to the official, cash and jewellery worth over Rs 609.39 crore has been seized during the same period, while the new currency seized is valued at more than Rs 112 crore.

5) On December 16, the I-T Department had announced it had uncovered concealed income to the tune of Rs 2,600 crore and had seized a total of Rs 393 crore involving nearly 300 cases.

6) Central Board of Direct Taxes (CBDT) Chairman Sushil Chandra said: "We have conducted searches and seizures in about 291 cases, carried out surveys in 295 cases."
7) The head of India's Income Tax Department also said that 3,000 notices have been issued on the basis of their analysis of deposits made since demonetisation was announced last month.

- After Demonetization New Income Tax Slab Rates for FY 2017-18 (AY 2018-19)

✓ Income tax slab for individual tax payers & HUF (less than 60 years old) (both men & women)

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Surcharge: 10% of income tax, where total income is between Rs. 50 lakhs and Rs.1 crore. 15% of income tax, where total income exceeds Rs. 1 crore.

Cess: 3% on total of income tax + surcharge.
* Income upto Rs. 2,50,000 is exempt from tax if you are less than 60 years old.

✓ Income tax slab for individual tax payers & HUF (60 years old or more but less than 80 years old) (both men & women)

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* Income up to Rs. 3,00,000 is exempt from tax if you are more than 60 years but less than 80 years of age.
Income tax slab for super senior citizens (80 years old or more) (both men & women)

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2) Indirect Tax:

By definition, indirect taxes are those taxes that are levied on goods or services. They differ from direct taxes because they are not levied on a person who pays them directly to the government, they are instead levied on products and are collected by an intermediary, the
person selling the product. The most common examples of indirect tax Indirect tax can be VAT (Value Added Tax), Taxes on Imported Goods, Sales Tax, etc. These taxes are levied by adding them to the price of the service or product which tends to push the cost of the product up.

- **Impact of Demonetization on Indirect Tax:**

The Central Board of Excise and Customs (CBEC), also released Indirect Tax collection data.

1) As per the data, during November 2016, Net Indirect Tax declined by 13.9% as compared to October, 2016. This figures of Indirect Tax Collection upto November 2016 shows that Net Revenue collection are at 5.52lack crore, which is 26.2% more than the Net collection for the corresponding period last year.

2) After the Demonetization Growth in **Service tax Collection** declined to 13% in November as against 68% in October.

3) And in **Excise Duty Collection** grew by 32% in November as against 41% the previous month.

4) With the Demonetization effect settling the Economy, The Nation’s Excise duty and service tax collection scripted slow growth last month.

5) Data Published by the Central Board of Excise and Customs revealed that the Excise Duty collection grew by 32% in November compared with 41% in October and 36% in September.

6) Indirect tax collections in the given month also dropped 13.9% Up to the month of November this year (i.e. Aril-November).

7) Indirect tax collection Growth is 8.3% after the Demonetization.

“Excise Duty and Service tax are very important leading indicators for Economic Activity in the Economy. A Sharp fall in these numbers suggest that Economic Activity has been hit badly during the month of November, especially After Demonetization. Their effect will be seen in other Tax Revenues, like value added tax (VAT), as well. They will show their effect in the falling GDP number for the month of November”, Said **N.R.Bhanumurthy, (Professor at National Institute of Public Finance and Policy)**
But, besides above two conventional taxes, there are also other taxes that have been brought into effect by the Central Government to serve a particular agenda.

3) Other Taxes:

‘Other taxes’ are levied on both direct and indirect taxes such as the recently introduced Swachh Bharat Cess tax, Krishi Kalyan Cess tax, and infrastructure Cess tax among others.

While direct and indirect taxes are the two main types of taxes, there are also these small cess taxes that are also seen in the country. Although, they aren’t major revenue generators and are not considered to be as such, these taxes help the government fund several initiatives that concentrate on the improving the basic infrastructure and maintain general wellbeing of the country. The taxes in this category are primarily referred to as a cess, which are taxes levied by the government and the funds generated through this are used for specific purposes as per the Finance Minister’s discretions.

➢ Impact of Demonetization on Other Tax:

1) The effective rate of Education cess currently stands at 2% of an individual’s income. Till November 2016, 71.1% of the Budget Estimates of Indirect Taxes for Financial Year 2016-17 has been achieved.

2) Swachh Bharat cess is levied over and above the 14% service tax that is prevalent in the present times.

After 8 November impacts, CBEC as well as the Central Board of Direct Taxes seek inputs every year from field offices while formulating tax proposals for the Budget; the exercise has been advanced this year in line with the government decision to present the Budget in early February.

CONCLUSION:

Basically the conclusion of this study is that, Taxes are the government’s way of earning an income which can then be used for various projects that the government needs to indulge in to help boost the country’s economy or its people. Taxes in India are decided on
by the central and state governments with local governments, such as municipalities, also
deciding on smaller taxes that can be levied within their jurisdiction. It must, however, be
remembered that the government cannot impose any tax that it wishes to. All the taxes
imposed by the government must be laws. Demonetization is clearly visible with tax
collection figures seeing double –digit growth.

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