

# DEMONETIZATION: A POSITIVE IMPACT ON INDIAN TAXATION SYSTEM

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## ABSTRACT:

*Demonetization has impacted the Indian Taxation system by making digitalization of payment and collection system. There is a drastic increase in income declaration, payment of tax, filing of return, search and seize procedure of Government. The present paper will reveal the change entered in Indian Taxation system after announcement of demonetization. The study is more focused on post demonetization impact on income tax return filing and tax collection and advance payment of Income Tax which has revealed that income tax growth increased from 8.2% in financial year 2015-16 to 26.8% in financial year 2016-17 and it is 21.0% in financial year 2017-18. The corporate tax growth in the corresponding years were 5.7%, 7.0% and 16.3% respectively.*

**Keywords:** Demonetization, GST, Income Tax, Return, Filing of Return, Taxation System

## Introduction:

“The economy of India is revealed with poor tax compliance from a large informal segment.” But from past one and half year it is revealed that after announcement of demonetization in India there has come a positive change in taxation system of our country. The major change of Demonetization 2016 can be seen in that a huge number of people have adopted digital payments part of their lives moving towards a cashless economy. The Economic Survey of India 2017-18, released before the announcement of General Budget 2018 in Parliament that emphasized that all the negative impact of Demonetization of Rs.500/- and Rs.1000/- currency notes has ended. After a deep review Economic Survey of Demonetization has revealed that the cash-to-GDP ratio has stabilized. It suggests a return to equilibrium:

- (i) The Economic Survey of exports and imports data revealed that the demonetization effect is over now. It is claimed that a rapid increase of export growth to 13.6 percent in the third quarter of Financial Year 2018 and a drastic decrease of import growth to 13.1 percent is in direction with global trends. This is revealed that the demonetization and GST effects are approaching. It has also been seen that services export is also becoming fruitful.
- (ii) It has been revealed by Economic Survey after implementation of GST and enforcing demonetization; the income tax collections have touched new level of increase “from about 2 percent of GDP between 2013-14 and 2015-16, they are likely to rise to 2.3 percent of GDP in 2017-18, a historic high.”
- (iii) The Economic Survey configures that India's GDP is expected to grow at 7 to 7.5 percent in 2018-19 which is an increase from its prediction of 6.75 percent growth this fiscal year.
- (iv) The statistics revealed from Economic Survey, that Demonetization had led to Rs 2.8 lakh crores less cash (Equivalent to 1.8% of GDP) and Rs 3.8 lakh crores less high denomination notes (Equivalent to 2.5% of GDP) in the Indian economy.

**Objectives:** The objective of this research paper is to understand the effect of Demonetization on Taxation system of India. The paper will specifically reveal its positive impact on Income tax collection and payment of GST.

**Methodology:**

- This study is based on Secondary data.
- The data is collected from different newspapers, articles in magazines and websites.
- The study is Exploratory in nature.

**Implementation of Demonetization on revealing Black Money:**

1. The important impact of Demonetization is revealed that people disclosed their income by depositing money in their saving accounts, the government had received a good amount

of tax revenue which can be used by it towards the betterment of society by providing good infrastructure, educational institutions, hospitals, roads and many facilities for poor and needy sections of society.

2. A major achievement of demonetization can be seen in that government of our country is found successful in tracking black money. The government claimed that large sums of black money were kept hidden by tax evaders and demonetization has helped it uncover the huge amount of unaccounted cash. According to estimation announced by Reserve Bank of India during the demonetization campaign, people had deposited more than rupees 3 lakh crores worth of black money in the saving accounts of banks.
3. The Government's agenda behind demonetization was to take over a large sum of black money which was being used for feeding terrorism, gambling, and increasing the prices of those assets classes which requires huge funding such as: real estate, gold and other social evils. Demonetization is acting as an effective tool of measurement of such activities. Now all such activities are expected to get reduced for some time. If it is relied on claims then it should take a number of years for people to generate that amount of black money again. Hence, it helps in putting an end for the circulation of black money for encouraging illegal activities to earn black money and using that black money to do more illegal activities.
4. The demonetization impact can also be witnessed from the decrease in circulation of currency by 20 percent in economy. A huge number of taxpayers has increased in the list and a bunch of shell companies have been identified.

#### **Implementation of Demonetization in Filing Income Tax Return:**

The government offered the tax evaders many opportunities to declare the earning in Income Declaration Scheme and get the black money converted in White money; according to which a taxpayer was given option to pay 50% as tax without disclosing source of income. This 50% tax included 30% tax on declared income plus 33.33% surcharge on tax i.e., 10% plus a penalty of 10% of declared income total 50% of the income. A person was also required to deposit an amount equal to 25% of declared income in the Pradhan Mantri Gareeb Kalyan Yojana, 2016 account on or before 30<sup>th</sup> April 2017. These deposits were required to maintain for a period of 4

years. Hence, those who made these deposits will get that income back after 4 years but without any interest. The declaration in Form No. 1 under PMGKY was required to be filed. In return of this it was revealed that:

- The total number of returns filed including electronic as well as paper return was 5.53 crore in Assessment year 2016-17 ; which was considered 17.3% extra than Assessment year 2016-17.
- The number of electronic returns of Individual taxpayers filed got a hike of R. 57 lakh considered as a rise of 25.3 % for the assessment year 2017-18.
- There was a huge addition in the list of tax payer for the assessment year 2017-18; which was found as 1.26 crore new addition in taxpayers.

#### **Implementation of Demonetization in Collection of Income Tax:**

- Demonetization impacted the collection of tax by giving a boost in Self assessment of tax with the growth of 34.25% in tax payment for the assessment year 2017-18.
- There was a drastic change seen in payment of advance tax which shown the increase of 41.79% for the assessment year 2017-18.

#### **Implementation of Demonetization in Seize and Search procedure of Undisclosed income:**

- It was found that a large number of persons admitted their undisclosed income which were found more than 38% of undisclosed income as Rs. 4270 Crore.
- There was seen a boost in number of searches which was more than 155% of groups as increase of 685 groups.
- A hike of seizures was also seen with Rs. 767 crore.
- The government also shown increase in conduction of surveys with an increase of 8098 surveys then assessment year 2016-17.

- The 188% Increase in the number of survey resulted in 44% increase in the detection of undisclosed income; which was found an increase of Rs. 4266 crore.

### **Findings of the Study:**

- The phenomenal increase seen with the impact of demonetization as: In financial year 2013-14, the count of Income Tax returns filed was 3.8 crores in comparison of 6.86 Crore in financial year 2017-18 which is a increase of filing a return from 19% to 25%.
- The drastic increase in Income Tax collections has been seen from the financial year which was rs. 6.38 lakh crore in financial year 2013-14 and has lead to increase with Rs.10.02 Lakh crores in financial year 2017-18.
- The positive impact of demonetization can also be revealed that about 1.8 million depositors have been identified for the enquiry of undisclosed income deposited in their saving accounts. The number of New Returns filed post demonetisation increased in the past two years by 85.51 Lakhs and 1.07 crores.
- In assessment year 2018-19 there is also found an increase of 44% in personal income tax assessee and 17% in corporate tax assessee in payment of advance tax.
- A rapid increase in Income Tax collections revealed in 2 years of Pre-demonetization which was 6.6% and 9% and 2 Post-demonetisation years in which the collections increased by 15% and 18%.
- The GST was implemented in financial year 2017-18 from 1st July, 2017 i.e. Post demonetisation. Its positive impact can also be revealed from the very first year, the number of registered assesses has increased by 72.5%. The original 66.17 Lakh assesses has increased to 114.17 Lakhs.

### **Conclusion:**

The paper revealed the the positive impact of the Demonetisation which has resulted the more formalization of Economy with more money in the financial system with higher tax revenue etc. It has revealed that net collections of direct tax has increased by 17.1% in financial year 2017-18.

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