

**Finance Ministry: Demonetization immensely beneficial to Indian Economy and People****Finance Ministry: Demonetization immensely beneficial to Indian Economy and People**

The Government of India decided to cancel the Legal Tender Status of Rs.1000 and Rs.500 denomination currency notes on 8<sup>th</sup> November 2016 with several objectives: (i) flushing out black money, (ii) eliminate Fake Indian Currency Notes (FICN), (iii) to strike at the root of financing of terrorism and left wing extremism, (iv) to convert non-formal economy into a formal economy to expand tax base and employment and (v) to give a big boost to digitalization of payments to make India a less cash economy.

The Reserve Bank of India (RBI) has reported in their Annual Accounts that Specified Bank Notes (SBNs) of estimated value of Rs. 15.28 lakh crore have been deposited back as on 30.6.2017. The outstanding SBNs as on 8<sup>th</sup> November, 2016 were of Rs. 15.44 crore value. The total currency in circulation of all denominations as on 8<sup>th</sup> November, 2016 was 17.77 lakh crore whereas total currency in circulation as on 4<sup>th</sup> August, 2017 was 14.75 lakh crore. The Government had expected all the SBNs to come back to the Banking system to become effectively usable currency. The fact that bulk of SBNs have come back to the Banking system shows that the banking system and the RBI were able to effectively respond to the challenge of collecting such a large number of SBNs in a limited time. At the same time, the effective currency in circulation today is only 83% with full remonetisation having taken place.

A significant portion of SBNs deposited could possibly be representing unexplained/black money. Accordingly, 'Operation Clean Money' was launched on 31st January 2017. Scrutiny of about 18 lakh accounts, prima facie, did not appear to be in line with their tax profile. These were identified and have been approached through email/sms. More than 9.27 lakh responses were received giving information on 13.33 lakh accounts involving cash deposits of around Rs.2.89 lakh crore. Advance data analytics tools were deployed which further identified 5.56 lakhs new cases and about 1 lakh of those cases in which either partial or no response was received in the earlier phase. Besides, about 200 high risk clusters of persons were identified for appropriate action. The Income Tax Department (ITD) conducted searches on various entities, leading to seizure of cash and admission of undisclosed income. Since November 2016 and until the end of May 2017, a total of Rs. 17526 crore has been found as undisclosed income and Rs. 1003 Crore has been seized. The investigation/scrutiny is going on.

As a result of demonetization drive, there is a substantial increase in the number of Income Tax Returns (ITRs) filed. The number of Returns filed as on 05.08.2017 registered an increase of 24.7% compared to a growth rate of 9.9% in the previous year. Advance tax collections of Personal Income Tax (i.e. other than Corporate Tax) as on 05.08.2017 showed a growth of about

41.79% over the corresponding period in F.Y. 2016-2017. Personal Income Tax under Self Assessment Tax (SAT) grew at 34.25% over the corresponding period in F.Y. 2016-2017.

Transactions of more than 3 lakh registered companies are under the radar of suspicion while one lakh companies were struck off the list. The government has already identified more than 37000 shell companies which were engaged in hiding black money and hawala transactions. Around 163 companies which were listed on the exchange platforms were suspended from trading, pending submission of proof documents. The Income-tax Directorates of Investigation have identified more than 400 benami transactions up to 23 May, 2017 and the market value of properties under attachment is more than Rs. 600 crore.

As a result of demonetization of SBNs, terrorist and naxalite financing stopped almost entirely. No high quality FICN was found / seized by intelligence operations, including at the Indo-Bangladesh Border since demonetisation. Further, it also adversely affected the hawala operators and *dabba* trading venues.

Demonetization drive led to significant change of saving habits and formalization of assets market. Considerably more funds came into the organized financial markets, whereas earlier households were parking much of their savings in unproductive physical assets. The savings in the form of investment in equity mutual funds, life insurance premia etc., increased. The total assets under management (AUM) of Mutual funds (MFs) rose by 54% by the end of June 2017 from March 2016. As on 16 August 2017, the number of Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts stands at 29.52 crore with rural accounts comprising 60% of it. Thanks to demonetization led efforts, zero balance accounts under PMJDY declined from 76.81 % in September 2014 to 21.41% in August 2017.

The impressive revenue collection under GST is also partially attributable to demonetization drive. The total revenue of GST remitted upto 29 August, 2017 is Rs.92,283 crore that too with only 64.42% of assesses having completed the payments. The number of *new* taxpayers who have registered with the GSTN upto 29 August, 2017 is 18.83 lakhs.

As part of fillip to digitalization, about 52.4 crore unique Aadhaar numbers have been linked to 73.62 crore accounts in India. As a result, every month now, about 7 crore successful payments are made by the poor using their Aadhaar identification. The government now makes direct transfer of Rs. 74,000 crore to the financial accounts of 35 crore beneficiaries annually, at more than Rs. 6,000 crore per month. Now with the BHIM App and the Unified Payments Interface (UPI), a secure and seamless digital payments infrastructure has been created so that all Indians, especially the poor can become part of the digital mainstream. Digital payments have increased by 56% from 71.27 crore transactions in October 2016 to 111.45 crore transaction till the end of May, 2017. Within reach of the country is what might be called the 1 billion-1 billion-1 billion vision i.e. 1 billion unique Aadhaar numbers linked to 1 billion bank accounts and 1 billion mobile phones. Once that happens and it would happen quite soon, all of India will become part of financial and digital mainstream.

Some people had expected a very large shock to economic growth on account of demonetization. Their expectations have been belied. India has continued to be on path of one of the strongest growths in the world. The two big measures of demonetization and introduction of GST were humongous measures which had changed structural and ethical foundations of Indian economy. Government has been able to manage the transition extremely, effectively and with the least pain. With demonetization's short term effects having played out completely, it is the long term positive impacts which will be still working its way to contribute beneficially to India's economy and well-being of its people.

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