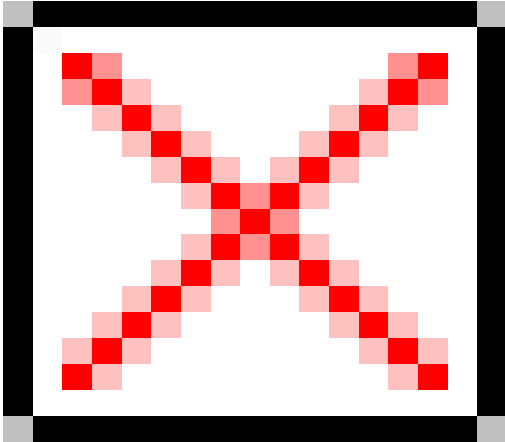


Current Financial Year 2016-17 is not Conventional Year - FM



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Wednesday

THE Union Finance Minister Arun Jaitley said that the current Financial Year 2016-17 is not a conventional year as many major reformative decisions have been taken during the year.

He was speaking at the Pre-Budget Consultative Meeting with the representatives of Banks and Financial Institutions yesterday. Some of the suggestions made at the meeting:

- ++ There is need for recapitalization of banks in the Current Financial Year 2016-17 as well as in the next Financial Year 2017-18. There is need for Full Tax Exemption for NPA provisioning by the banks keeping in view their profitability.
- ++ Post-demonetization, liquidity in banks have improved. This may impact saving deposit rates. This makes senior citizens more vulnerable as their income is adversely affected. So, some sort of exemption need to given to them under the Income Tax Act so that they have a decent income through their deposits.
- ++ In case of GST, there is need for Central Registry for GST compliance by the banks which have branches on pan India basis. In case of digitization, digital acceptance infrastructure is loss making at present. So digital acceptance infrastructure need to be incentivized.
- ++ There is need for exempting Banking Correspondents transactions from service tax.
- ++ Finance Bill should mandate that all wages should be paid by the employers through banking channel or digital mode.
- ++ Many shopkeepers don't sell using digital means as they do not want to pay taxes. So there is need to give some tax rebate to these shopkeepers to use digital means and for better compliance. Same way, consumer may also be given a tax rebate at the year end if his digital purchase is more than a certain amount.
- ++ In digital payments, issues of internet connectivity are there. Hence, each district may be allotted to a particular telecom company to improve internet connectivity.

Demonetisation, not a Reform but a Monumental Tragedy - Chidambaram

THE former Finance Minister P. Chidambaram said yesterday,

"I don't think demonetisation is a reform. It is a monumental tragedy which is anti-poor and has put millions in misery and hardships." The former FM also said:

++ By demonetisation, the Modi government created a myth that all cash is black money and all black money is cash.

++ All cash is not black money; black money is the income that has evaded tax, and there are large sections of the people who have cash but who do not evade income tax.

++ Agricultural income is not subject to taxation, income of charities is exempted, as is the income of religious trusts. Also, the people of Northeastern states do not have to pay income tax and they have cash in hand. Is that all black money? Is the money in the hands of farmer black money?"

++ I think whoever planted the idea of demonetisation did not know elementary economics. He should be asked to enrol in an undergraduate school of economics.

++ It is like a surgeon operating upon a patient without knowing whether the patient has any disease at all, which part of the patient is affected and what kind of surgery is required.

++ If a farmer has some cash in hand, it is not black money, but when he pays, say, Rs 1,000 as fees to a doctor or a lawyer and does not get a receipt, then this Rs 1,000 becomes black money. But if the doctor or lawyer goes to a restaurant and buys a meal and the restaurateur gives him a bill for Rs 1,000, then the same Rs 1,000 note again turns 'white'

++ As long as there is demand for black money, it will be generated; demonetization is no answer for black money. The answer is to stamp out corruption, stamp out the sources which generate black money.

He also tweeted:

++ Desperate govt resorting to desperate measures. Breaking PM's promise of Nov 8 and FM's assurance of Nov 11.

++ RBI makes new rule on deposit, FM contradicts. Who should citizen believe? Neither has credibility.

++ Hoarders have laundered their old notes. The poor and middle class left high and dry.

++ Old notes usable until Dec 15. Why can't we deposit remaining notes until Dec 30 as notified?

Currency Increase & De-Monetization

SEVEN

months before actual demonetisation, the State Bank of India's Economic Research Department had warned about the possible fall out of the Demonetisation, in its magazine "***Ecowrap***" on April 07 2016. This is what the Research Team said,

Cash with public has increased notably. The common perception is that FY17 being an election year people are hoarding cash. However, had this been true, even FY14 should have shown the similar trend. In fact, that year witnessed a decline. Also in FY12, when Punjab and Uttar Pradesh went to polls, currency in circulation actually witnessed a significant decline. Does this mean that elections in Punjab and Uttar Pradesh are relatively more transparent than say other states like Bihar (reason for possible increase in currency in 2015)?

We believe election may be only a small reason, but the bigger reason could be the trend in demonetization. There are suggestions in public domain and even analysis that are suggesting that higher denomination notes may be replaced. We believe, as a result of that people may be using more of high value currency to purchase safe haven assets.

This apart, there has been an increased overdraft of nearly Rs 170 crores that has been provided by the banks to the PMJDY account holders which may also be responsible for this sudden spurt in currency.

However, demonetization if is being contemplated, a road map needs to be created. It needs to be done in steps and be balanced with creation of necessary electronic and digital infrastructure in the country coupled with creating awareness and financial literacy for ensuring that the man on the street is not put to undue hardship.

THE ADVANTAGES & DISADVANTAGES OF POSSIBLE DEMONETIZATION

There has been suggestion that is doing the rounds that higher denomination notes of Rs.1000 and Rs.500 be demonetized. This is expected to yield the following benefits:

++ Demonetizing Rs.500 and Rs.1,000 currency notes will bring a huge amount of the funds kept in these denominations into the banking channels and will facilitate a reduction in domestic black money transactions.

++ As holding cash in small denominations is cumbersome, the informal services payments made in day to day life, people will shift towards electronic modes of payment thereby making it increasingly easier to track financial transactions, thereby leading to better service tax and income tax collections.

However, should we accept this logic, we need to take a hard look at the logistical challenges that will emanate.

First of all - demand for banknotes and coins increased in FY15, notwithstanding the use of technology driven non-cash modes of payment.

Notes of denominations of Rs.500 and Rs.1,000 together accounted for approximately 85% of the total value of banknotes in circulation at end March 2015.

Despite the presence of high denominations, RBI had spent Rs.37.62 billion in printing notes in 2014-15. If the notes of these two denominations are withdrawn, the cost of printing notes for RBI would also multiply.

At the branch level, the cost of handling cash would zoom and there would be complete chaos as the funds kept in these denominations will be flushed into the banking channels.

Operators of automated teller machines say that demonetizing Rs.500 and Rs.1,000 notes will throw up huge challenges as ATM machines will hold lesser amounts than their current capacity. An ATM machine typically holds 10,000 bills and if these were to comprise only notes of Rs.100 the rate of replenishment would go up. This will increase costs and inconvenience to customers. Besides, transaction time at machines would also rise because maximum amount that can be withdrawn at one go would be Rs.4,000 since machines are designed to dispense only 40 notes at a time.

Along the entire supply chain for supply of cash, banking system will bear the highest cost primarily because of high fixed costs of ATM machines, counting, recounting, recycling, transport and storage of larger volumes of cash.

SCENARIO ANALYSIS

If the Rs.500 and Rs.1000 denomination notes are removed, in order to maintain the same amount of liquidity, the number of other denomination notes will have to be increased. A hypothetical scenario analysis in which in lieu of Rs.500 and Rs.1000 denomination currency notes, Rs.5000 denomination notes are introduced so that Rs.100 and Rs.5000 notes contribute 2/3rd and 1/3rd of the total value in circulation shows that the ATM replenishment frequency still increases to 3.57 times per day (a high transaction ATM which runs out of cash once a day will fall short of currency several times a day. This is so because cash replenishment agencies will take a couple of hours to respond, customers will be affected because of the downtime). The costs also shoot up by Rs.15 billion.

CONCLUSION

++ The news of the demonetization of currencies of denomination 500 and 1000 has been doing the rounds for a while, and this may be a plausible reason for increase in currency with public. The rationale for this is that people are taking out cash and buying other assets such as gold so that when the currency is demonetized they do not face a problem.

++ Our considered view, therefore, would be that should demonetization be seriously contemplated, a road map needs to be created. It needs to be done in steps and be balanced with creation of necessary electronic and digital infrastructure in the country coupled with creating awareness and financial literacy for ensuring that the man on the street is not put to undue hardship.

Apparently, the powers that be did not take the State Bank Research Team seriously.

Income Tax Seizure of 24 Crores worth of New Notes - CBI Investigates

THE

Investigation Department of Income Tax, Chennai seized Rs.24 Crores of new currencies from a Tata Ace load vehicle belonging to one Rishi Kumar in Vellore on 09.12.2016 following the searches and seizure at the premises of J Sekar Reddy, M. Prem Kumar and K. Srinivasulu at Chennai.

J Sekar Reddy, a Government Contractor, Partner of M/s SRS Mining, Chennai operates majority of Government run sand quarries in Vellore and neighbouring Districts, M. Prem Kumar and K. Srinivasulu are business associates of J.Sekar Reddy.

The CBI has booked a case on the grounds that,

Huge quantities of new 2000 rupee currency notes were sent by RBI all over the country to be distributed in lieu of the demonetized notes of Rs.500 and Rs.1000. J.Sekar Reddy and his associates had, with the help of unknown public servants of different banks, converted the unauthorised cash held by them in old currency notes, thereby depriving the public in enforcing their right. The bank officials who were entrusted with the new currency notes to be distributed to the public as per the instructions given to the bank from time to time by the RBI, defying the same and helped the accused persons for a consideration.

Thus J.Sekar Reddy, M. Prem Kumar and K. Srinivasulu, had in conspiracy with unknown Bank officials and public servants converted unaccounted cash held by them in the form of old currency notes to new 2000 rupees currency notes, cheating the Government of India and thereby prima facie committed the offences punishable u/s 120-B r/w 409, 420.IPC and section 13(2) r/w 13(1) (c) & 13 (1) (d) of PC Act, 1988.

Income Tax - Cash Collection of Arrears - Far Below Target - CBDT Chairman Wants Action

THE

CBDT Chairman Mr. Sushil Chandra in a D.O. Letter to the Principal Chief Commissioners points out that the target of cash collection from arrear demand was fixed very modestly at Rs.53,981 crore in the Central Action Plan for 2016-17 as against very large amount of arrears outstanding. However, till the end of November, 2016, only an amount of Rs.19,686 crore has been collected, which represents only 36.47% of the target. A number of Regions are performing far lower than the national average of 36.47%, which itself is quite low. The level of performance in this critical result area of the Department's work is completely non-acceptable. Three quarters of the financial year are already over and not even 50% of the target has been achieved, which itself was fixed at a fraction of the total arrears outstanding.

The Chairman wants the Principal Chief Commissioners to take all measures for stepping up cash collections out of arrear as well as current demand so that not only the target set in this regard is met but significant contribution is also made towards achievement of the overall budget target for their Regions.

He wants all demands classified as Net Collectible Demand (NCO) to be recovered forthwith and efforts also to be made to make recoveries from categories other than NCO as per the Action Plan.

The Chairman directs:

Stay of demand may be granted prudently in the light of Instruction No. 1914 dated 21.03.1996 read with [Office Memorandum dated 29.02.2016](#) on the subject.

1. CsIT (Appeal) may be requested to dispose of such appeals on priority where demand is likely to be confirmed.
2. Post confirmation of demand, the same may be collected swiftly using all provisions of the Income-tax Act for recovery of demand.

The Chairman concludes,

The advancement of the time-barring date to 31st December was intended to provide the assessment units with dedicated time for recovery of demand raised. It is expected that the last quarter of the financial year will be effectively utilized for making recoveries from arrear and current demand and the reasonable target of cash collection fixed for the year will be achieved, if not exceeded and significant collection will be made from the current demand as well .

Why I couldn't deposit money earlier

THE RBI Notification of 19th December stipulates,

"Tenders of SBNs in excess of Rs 5000 into a bank account will be received for credit only once during the remaining period till December 30, 2016. The credit in such cases shall be afforded only after questioning tenderer, on record, in the presence of at least two officials of the bank, as to why this could not be deposited earlier and receiving a satisfactory explanation."

Now, you have to give a written explanation while depositing money in the bank. The explanation given by a citizen (as tweeted) is:

I trusted the words of my Prime Minister and Finance minister that I have time till 30.12.2016 to remit old notes. But they changed their mind.

Until Tomorrow with more DDT

Have a nice day.

Mail your comments to vijaywrite@tiol.in