

Demonetisation and digital payments

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Abstract

The paper mainly focuses on measures to avoid tax evasion that creates the parallel economy in India. The cause that leads to the tax evasion creates a larger impact on the economy. To reduce tax evasion the government took various measures, the most recent of which includes demonetisation and digital payments. The impact of demonetisation in the economy and the measures to promote digital payments are discussed along with the recommendations made by the respective committees.

Keywords: digital, demonetisation, payments, tax

Introduction

When we talk about taxes and taxation, there are two other terms that are inevitable for the discussion. They are Tax Avoidance and Tax Evasion. Tax avoidance is utilising those options that help tax payers reduce their tax liabilities which are not strictly illegal. On the other hand, tax evasion is the non-disclosure of income to the government in order to avoid the tax liability which is highly illegal.

Objectives of the study

1. To study the causes and effects of Tax Evasion in India.
2. To consider the Latest activities of the Government, its measures on similar grounds such as the announcement of Demonetisation and Promotion of Digital Payments.
3. To study the recommendations of the chief ministers committee and Ratan Watal committee on demonetisation and digital payments respectively.

Scope of the study

1. The study is focused on the impact in the economy and the extent of influence on the revenue to the Government on account of tax evasion, which results in the creation of Black Money.
2. The study also made on the measures taken by the Government to overcome such issues

Statement of problem

Tax Evasion, the voluntary non – disclosure of income to the government with the intension to avoid taxes, not only results in reduced tax revenue to the Government but also, leads to the creation of black money in the economy. The threat of a Parallel economy is identified to have increased to a greater extent in India despite the continuous efforts by the Government. The Government of India has been taking many steps to curb this parallel economy effect, the most recent of which are the announcement of Demonetisation of Rs.500 and Rs.1000 currencies and the subsequent proposal to promote digital payments in almost all sectors including Government areas such LPG supply, payment of taxes and other payments to the Government.

Review of literature

Basavaraj Nagesh Kadamudimatha, Purushottam N Vaidya (2016) ^[1] conducted a study on the topic “Demonetisation- a way to pump out black money in India”. The objective of the study is to analyse the level of black money in the economy and the impact of demonetisation. The study has revealed that demonetisation is a favourable move towards economic growth and 90% of public support demonetisation.

Nikita Gajjar (2016) ^[2], conducted a study on “Black Money in India: Present Status and Future Challenges and Demonetization” with the objective of studying the reasons behind generations of black money and the corruption level. The study is based on the level of black money and their future effects in India. It revealed that existence of black money has a significant effect on social, economic and political levels. Rachna, Priyanka Singh (2013) ^[3], conducted a study on “Issues and Challenges of Electronic Payment Systems”. The main objective was to study the methods of online payments and frauds involved. The study is based on various methods of online payments and the ways to be secure. It was suggested that successful implementation of electronic payments systems depends on security and privacy dimensions perceived by consumers and sellers.

Following are The Details of Various Committees

i) Chief Ministers Committee on Demonetisation

The Chief Ministers Committee on Demonetisation, which is headed by Andhra Pradesh Chief Minister Shri. N. Chandra Babu Naidu was set up on 26th November 2016. This Committee is established to review the ground- level situation following the decision of the Central Government to demonetise high value currency and suggest possible ways to ease problems.

Member constitution

- N. Chandra Babu Naidu, Chief Minister of Andra Pradesh - Chairman.
- Naveen Patnaik, Chief Minister of Odisha.
- Shivraj Singh Chouhan, Chief Minister of Madhya Pradesh.
- Pawan Kumar Chamling, Chief Minister of Sikkim.

- V. Narayanasamy, Chief Minister of Pondicherry.
- Devendra Fadnavis, Chief Minister of Maharashtra.

Shri Chandra Babu Naidu – Chairman

Chandra Babu Naidu, the longest serving CM of Andhra Pradesh, hails from a middle class agricultural family in Naravapalli Village. He holds a Master’s Degree in Economics. He has been taking many administrative measures to promote Information Technology in order to provide better governance. The highlights of his career include his position as the State’s youngest minister at 28. His extremely good initiatives towards the promotion of digital technologies has attracted the CG upon which he has been invited to lead the CMs’ Committee on demonetisation crisis

ii) Ratan P Watal Committee

A committee on digital payments was initiated by the Union Finance Minister with the aim of reducing the use of the black money in the economy. It was notified in September 2016 by the Union Finance Minister. The Committee has recommended that a medium term strategy for accelerating growth of Digital Payments in India with a regulatory regime which is conducive to bridging the Digital divide by promoting competition, open access & interoperability in payments.

Vision of the Committee

The vision of the Committee is to set a roadmap for digital payments to grow substantially over the next three years. An ordinary Indian should have the choice to be able to safely, reliably and conveniently transact money digitally at a price which is adorable and at a places where needed. Over the next three years, it is the vision of The Committee to reduce the cash to GDP ratio from about twelve percent to six percent over the next three years.

Composition of the Committee

The committee constitutes a team of 11 members under the chairmanship of Ratan P Watal. The team also includes

- HR Khan, Former Deputy Governor, Reserve bank of India
- Neeraj Kumar Gupta, Secretary, Investment and Public Asset Management
- R.Chandrasekaran, President, NASSCOM
- Ashwani Kumar, CMD, Cema bank and Chairman, Indian Banks Association
- Naveen Surya, MD,Itz cash and Chairman,Payments Council of India
- Dr. Shubho Ray, President, Internet and Mobile Association of India
- Rani Singh Nair, Chairman CBBT
- Dr. ABP Panday. Director General, UIDAI
- Chandan Sinha, Executive Director, Reserve bank of India
- Dr. Saurabh Garg, Joint Secretary IC, Economic Affairs

Ratan P Watal

Mr. Ratan P Watal, IAS has been the Secretary of Department of Expenditure at Ministry of Finance since November 2013. He is a post graduate in economics. He has handled many cases and headed many committees and has submitted the report of the data analyzed. He has headed the committee on promotion of digital payments.

Tax Evasion

Tax evasion is defined as the process through which the tax payer avoids paying the taxes which he is liable to pay. He does not disclose his income to the tax authorities and avoids paying taxes. It is an unlawful activity that the person employs to minimize the taxes. It is an act which curbs the revenue to the government and leads to the creation pf black money.

Causes of Tax Evasion

- a) **High tax rate:** The high tax rates discourage the people to disclose their income as they have to pay a major part of it as tax. Thus, tax evasion begins.
- b) **Bribery:** The income therefore received by the officials by the way of bribery cannot be accounted and it is not disclosed by the officials as their income and therefore the amount undisclosed is not taken for tax calculation. This accounts for tax evasion.
- c) **Loopholes in the tax structure:** The loopholes in the tax structure can create space for the tax payers to escape from paying their taxes. This way, many avoid taxes in the name of ‘tax avoidance’ but what they actually do is tax evasion.
- d) **Tax burden:** The multiple tax system in the economy puts the burden on the tax payer to pay many taxes to the Government. Therefore he avoids disclosing the income as he has to pay most of the part as tax.
- e) **Illegal income:** The income earned illegally through the ways like smuggling, betting and other illegal ways are not disclosed by them in their books and therefore not shown for tax calculation. Therefore creates black money.

Demonetisation

India’s demonetisation on November 8, 2016 is not an unprecedented action in the economic history as there were two previous instances in 1946 and 1978. The aim of the action is four fold (i.e.) to curb corruption, counterfeiting the use of high demonetisation notes for terrorist activities and accumulation of black money. Though the recent demonetisation was said to be aimed at the abolition of Hawala Money, it has a definite impact on the black money holders due to the strict measures followed subsequently by the Income Tax Authorities.

Objectives of demonetisation

1. Curbing of Parallel Economy.
2. Make the Corrupt lose their unaccounted money.
3. Bank account to every family – every citizen.
4. Online monitoring of cash less transactions.
5. To identify & remove the counterfeit notes.
6. A check to terrorists using Hawala Money.
7. To make a gate way for digital economy.

Digital payments

Digital Payments also referred as electronic payments or e – payments facilitates the transfer of funds digitally, without involving hard cash. This is achieved by online exchange of funds in various modes such as e – banking, e – wallets, mobile banking, etc.

Various modes of digital payments were recommended by the Chief Ministers’ Committee to reduce the hardships created by the announcement of demonetisation. Also, the adoption to digital payments is expected to disable black money in the form

of hard cash. To transact digitally, both the sender and the receiver must have the digital modes. The Government and tax authorities prefer and promote digital payments, as they can have a track on the transaction which could reduce the use of unaccounted cash which are not disclosed to the tax authorities.

Modes of digital payments

There are many modes of making digital payments securely. The most commonly used modes of digital payments are

Internet banking

Internet banking also known as e-banking is a method through which payment is made from one person to another through the website of the financial institutions. They include methods like NEFT, RTGS, ECS, IMPS.

Mobile banking

The transactions which are carried on through the remote devices like mobile phones, tablets installed with the applications of the financial institutions are called mobile banking. The various financial institutions provide their own applications to carry on their transactions securely.

Banking cards

Banking cards are provided by the banks to the account holders secured by a PIN. These cards can be used to purchase online, pay bills online which is carried on with two level authentication (i.e) PIN and OTP to ensure secure payments. These cards include credit card, debit card, prepaid cards. These cards can also be used to make purchases at shops through PoS to pay digitally.

Recommendations of the Committee and Their Impact

1. Recommendation of the Chief Ministers Committee

The Chief Minister Committee on demonetisation headed by Shri.Chandrababu Naidu has recommended the ways to tackle the liquidity crisis of the demonetisation. The committee has recommended promoting digital payments, to create awareness among the people and educate them with the benefits of cashless economy.

Table 1: Impact of demonetization

Sector	Impact (Short term)
Money and interest rates	Cash circulation declined. Bank deposits increased. The interest rates on loans decreased.
Stock of black money	The amount of black money has decreased to a larger extent as the black money holders are not able to change the hard cash with them.
Tax collection	The tax collection to the government increased.
Digitalization	The payment through the digital means increased.

2. Recommendations of Watal committee

- The committee has recommended many ways to boost the digital payments.
- It has suggested inter-operability of payments system between banks and non-banks, up-gradation of digital payment infrastructure and institutions.
- It also recommends a framework to reward innovations for leading efforts in enabling digital payments.
- It has recommended to use Aadhaar and mobile numbers to make digital payment.

- It has also recommended to upgrade payment systems like RTGS and NEFT to operate on 24x7 basis in due course of time.
- It has also suggested promoting digital payments within Government.
- The committee has recommended implementing disincentives for usage of cash.
- The recommendations include the promotion of USSD based payments.

Table 2: Impact of digital payments trend in 2016

Month (2016)	RTGS	NEFT	Mobile Banking	Use of Debit Cards At POS	Use of Credit Cards At POS
April	8.33	111.84	48.67	118.28	72.83
May	8.71	117.50	61.73	133.97	78.48
June	8.83	118.91	63.17	118.20	76.31
July	8.26	113.81	67.47	129.20	79.44
August	8.56	118.55	71.76	130.53	83.95
September	8.47	120.15	72.63	125.19	77.93
October	9.01	133.21	78.08	140.59	88.86
November	7.88	123.05	85.39	234.79	97.60
December	8.84	166.31	89.61	321.54	111.45

Source: RBI

- The cashless payments in India have increased by 22% on October 2016 when compared to October 2015.
- The mobile banking has increased by 369% as compared to October 2015.
- The UPI was introduced on August 2016, with 3 lakhs transactions worth 90 crores on November 2016. It has increased to 1.4 million transactions worth 480 crores on 25th December 2016.
- The USSD had 73 lakhs worth 7000 transactions on November 2016 which has increased to 60000 transactions worth 6.6 crores on December 25, 2016.
- The payments through e-wallet were 17 lakhs and it has increased by 267% to 63 lakhs on December 7, 2016 from November 8, 2016.
- The Ru pay payments have increased by 316% from 3.85 lakhs to 16 lakhs on December 7, 2016.
- A target of 2500 crore transactions is fixed by the ministry of finance in the budget of financial year 2017-18.

Findings

- There are many number of taxes collected in India which is a complex tax structure.
- The act of demonetisation of higher currency notes has a impact for short term which reduces the liquidity of the economy.
- The demonetisation has been implemented to withdraw the currency of high denomination and reduce the fake notes in circulation.
- The digital payment after the demonetisation has shown an increasing trend to meet the short term impact of demonetisation.
- The deposits into the bank have increased after demonetisation by a larger amount therefore decreasing the bank lending rates.
- Demonetisation affects the consumption pattern in the economy.
- The market forces like demand and supply decreases due to liquidity crisis in the economy.

- The new notes of Rs.2000 denomination have created the crisis of rendering change during any purchases.

Conclusion

The recent initiative of demonetisation by the government had a larger impact in the economy. The action against the black money holders had a positive impact thereby leading to the promotion of digital payments. Even though demonetisation has created a crunch in the circulation in the economy, it was a positive move towards disclosing the black money and reducing the parallel economy. The growth of digital payments has created a way to transact with accounted cash with the future prospective of abolishing the unaccounted income.

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