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## **The Master Stroke**

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## The Indian Economy

India is the fastest growing major economy in the world. The Indian economy is the seventh-largest in the world measured by nominal GDP and the third - largest by purchasing power parity (PPP).

India has a positive long-term growth prospective due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the two largest economies by mid-century. The outlook for short-term growth is also good because the IMF describes the Indian economy as the "bright spot" in the global landscape.

On the other hand, there is also a dark side to the country where it is infested by corruption, counterfeit currency notes and Black money, which cripples the government spending, on key infrastructural and social spending.

## War against Black money

The current government led by Mr. Narendra Modi, which took office in 2014 after winning a historic election, made its intentions clear to wage a war against black money on immediately assuming office. The following steps made its intention clear to tackle some big ticket corruption problems:

1. Constitution of the Supreme Court Monitored Special Investigation Team (SIT) on Black Money.
2. Renegotiation of the Double Tax Avoidance Agreement (DTAA) with Mauritius to impose Capital Gains Tax.
3. Introduction of the "Benami Transactions (Prohibition) Amendment Act, 2016."

The war to weed out small ticket corruption and to tackle the menace of black money began with some humble but far reaching steps taken by various economic and monetary policies, which could be listed as below:

Started with a bank account for all under Jan Dhan Yojana



Then these bank accounts were linked with the Aadhaar.



The implementation of Direct Benefit Transfers of subsidies to these Aadhaar based bank accounts



Added to it were the various data mining and collection tools in the hands of the Income Tax department and



Then the Income Disclosure Scheme, 2016, which was introduced to give an opportunity to those, having illegally stashed wealth to come clean.

Mr. Narendra Modi had once during one of his interviews said (addressing the defaulters about this scheme), *"...You may have made mistakes with whatever intentions. Whether it has been done willingly or unwillingly, here is your chance. Come into the mainstream. I have this plan for people to sleep peacefully at night..."*



And now, the **Master Stroke** by demonetizing the denominations of the currency notes in which most of the illegal transactions were reportedly being carried out in the country.



With effect from midnight 8<sup>th</sup> November 2016, the currency notes in the denominations of Rs.500 and Rs.1,000 were withdrawn.

While enough has already been said and rumored about this demonetization in the last 24 hours, we have tried to capture some basic things that could impact each one of us in the short and medium term. Some of the questions enlisted below are those picked up from the RBI FAQs and some have been framed and answered by us for the benefit of the readers.

### **Short Term Pains for Long Term gains**

#### **1. What is this scheme?**

Notes in denominations of Rs 500 and Rs 1000 cannot be used for transacting business and/or storage of value for future usage.

#### **2. What should I do with the notes that I currently have?**

RBI has made elaborate arrangements for exchange of these notes, which includes the following:

- a) Go to a bank branch and exchange the same for new notes or notes of denominations like Rs.10, Rs.50 and Ra.100 upto a maximum of Rs.4,000. This is the currently fixed limit and maybe reviewed later by RBI or
- b) Deposit the entire money that you have into your bank account before 30<sup>th</sup> December 2016 or
- c) For those who are unable to exchange their specified bank notes on or before December 30, an opportunity will be given to them till March 31, 2017 by furnishing ID proof.

#### **3. Should I go to the bank personally or can I send the notes through my representative?**

Personal visit to the branch is preferable. In case it is not possible for you to visit the branch, you may send your representative with an express mandate, i.e. a written authorization. The representative should produce authority letter and his/her valid identity proof while tendering the notes.

#### **4. I am not in India right now, what should I do?**

If you have specified banknotes in India, you may authorize someone in writing, enabling the person to deposit the notes into your bank account. The person so authorized has to come to the bank with the specified banknotes, the authority letter given by you and a valid identity proof.

#### **5. I am an NRI and hold an NRO account; can the exchange value be deposited in my account?**

Yes, you can deposit the specified banknotes to your NRO account.

#### **6. I am a foreign tourist and I have these notes, what do I do?**

You can purchase foreign exchange equivalent to Rs. 5000 using these specified bank notes at airport exchange counters within 72 hours after the notification, provided you present proof of purchasing the specified bank notes.

#### **7. I have some cash with me; can I straight away go and deposit it to my bank account?**

You are allowed to freely deposit as much cash into your bank account. However, you have to ensure that such cash is out of your legitimate source of income, which was offered to tax earlier or on which you

are remitting tax in the current financial year.

**8. How do I know if the cash that I have is legitimate?**

If you are maintaining your books of account regularly, please refer to the books maintained, you will know that. In case your books of account are not maintained, please check with your accountant to update your books and consult your financial advisors on the matter.

**9. What happens if I deposit cash more than what is legitimately explainable?**

The excess amount deposited would be subjected to tax at the highest rate plus the Finance Ministry has clarified in a recent press release that they will consider levying penalty at 200% as per the provisions of the Income Tax Act. Further, it could also lead to invoking prosecution provisions.

**10. How could I avoid getting to penalty and prosecution?**

Government had given an opportunity to come clean by way of Income Declaration Scheme. If however, you have not made use of this scheme, it is unlikely that you will be spared if legitimate explanation cannot be offered to the cash deposited.

**11. I have Rs.50 Lakhs in the books of account as cash and have the same amount of cash in hand. Can I deposit that into my account without any questions from the tax authorities?**

Yes, you can deposit the cash into your account. However, it cannot be assumed that tax authorities will not raise questions on this. If this is sourced out of your known source of income, you should be able to offer proper explanation to the same.

**12. Once cash is available in the books and I deposit, will tax authorities not harass me?**

It has been seen in various instances that tax authorities have continued to harass tax payers even when they deposit cash which is available in the books of account, which are maintained regularly over several years. We can just hope that the Government clearly instructs their field officers not to subject honest tax payers to uncalled-for harassment.

**13. Can I route the cash I have into various accounts of my housemaids, drivers, helpers etc?**

It is strictly advisable not to further resort to any illegitimate steps to cover up the black money. The execution of this scheme is a clear indication that the Government is not in a mood to let go of things easily. Hence, it is appealed to everybody to ensure they desist from doing things like these.

**14. Will this scheme have an impact on the real economy?**

In the short run, this scheme will definitely have an impact on the economy as the spending power of people suddenly comes down. However, in the medium to long run, this should have a positive impact as the real economy grows, Government will have source to spend on social and infrastructure needs, which will increase the cash flow in the economy.

**15. Will the real estate sector have a considerable impact from this scheme?**

It is expected to have a substantial impact on the sale of land, agricultural land in semi-urban areas, where the purchase of land used to happen in a large scale through black money. This however, though should be temporary phase.

**16. Will gold and other precious metals see an increase in its value?**

Due to knee jerk steps adopted by people to convert physical cash into gold in the next 2 weeks, it could see an increase in price. However, price corrections will happen in a short period. Abnormal spending on precious metal will continue to decline as a large part of this spending was out of the black money. Gauging an impact on this over a longer duration is challenging at this stage.

**17. I am a business owner, where there is cash collection on regular basis. Can I collect the old Rs.500 and Rs.1,000 notes ?**

Technically, since the notes are not legal tenders anymore, it cannot be accepted. However, practically it is still being accepted as there is a window available till 30<sup>th</sup> December 2016 to deposit it into the bank.

**18. What should we do in future to avoid such situations?**

Move towards doing all your transaction in legitimate ways and do not resort to generating black money, ensure that you ask for bills for all the purchases that you

make, get yourself used to digitizing your spending practices by moving more towards mobile wallets, debit cards, credit cards and the like. Businessmen should avoid doing and encouraging transactions which will again create black money.

**19. How do I pay for the purchases made through e-commerce websites?**

The payments for the purchases made through e-commerce websites shall be unaffected to the extent of the payments made by digital wallets or via net-banking. In case of purchases made on the basis of cash on delivery, the payments can be made by way of cash if they are still accepting the currency notes.

**20. Is it good or bad for me?**

It depends on which side of the law, you want to be. If you want to be on the right side of law, it is a good scheme to weed out inconsistency in wealth.

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