



DEMONETISATION: AN IMPACT ON TAX COLLECTIONS IN INDIA

Mrs. Sarla Yadav

Assistant Professor, Department of Commerce, Faculty of Commerce & Management, Indira Gandhi University, Rewari, Haryana.

Abstract

Demonetization is a process in which the legal status of the money is withdrawal from the circulation. It involves the introduction of new notes of same denomination or completely replaces the old denomination with the new denomination. After the ban the time is given to change old notes. On 8th of November 2016 our Prime Minister Narendra Modi announced the ban on notes of 1000 rupees and 500 rupees in the country. It is a very courageous step taken by NDA government for the betterment of economy of our country. This step is taken to deal with black marketing, to end the terrorist funding and to attack the black money holders. This study is based on post demonetization tax collection. The main objective of this study is to analysis the impact of demonetization on tax collection in India. For this study direct tax and indirect tax is taken to analysis the impact.

Key Words: Denomination, Courageous, Demonetization, Terrorist Funding, Collection.

Introduction

Demonetization is a process of invalidation the currency of a country by its government. It means the demonetized currency will lost its legal tender value and the note could not be used for transaction in future. In India on November 8, 2016 demonetization was announced by Prime Minister Narendra Modi for 500 and 1000 rupees notes. The new currency which replaced the old one is of denomination of 500 and 2000. This step is taken to attack on black money holders. It brought enormous changes in all sectors of the economy as well as tax collections in the economy. Tax is the main source of government revenue which is use for development of a country. Demonetization saw a positive impact on tax collection in India. According to Central Board of Direct Taxes (CBDT), income tax returns filed increased 25% post demonetization and direct taxes and indirect taxes also positively increased after demonetization.

History of Demonetization In India

The sudden move to demonetize Rs. 500 and Rs. 1,000 currency note is not new, it has happened two times before. This is the third time when demonetization has been done in India. In January 1946 Rs. 1,000 and higher denomination notes were first demonetized. This step was taken to deal with black marketing in the country. After that the higher denomination banknotes of Rs. 1,000, Rs. 5,000 and Rs. 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. In October 1987 the Rs. 500 note came into circulation. The Rs. 1,000 note made a comeback in November 2000. This is happened third time on 8th November 2016 when the notes of RS. 1,000 and Rs. 500 were demonetized and new notes of Rs.500 and Rs. 2000 were introduced from the 10th November 2016.

Review of Literature

Sunil (2017) Attempts to get an insight about the demonetization, various issues involved, measures adopted by the government to overcome from the demonetization affect. He concluded that most of the sector has its impact but all the issues relate to either very short period or short period only and in the long term, Indian economy will emerge as one of the strongest economy in the world as a result of demonetization.

K. Veerakumar(2017) tried to find the impact of demonetization on general public. He found out that people were depositing currency notes in excess of specified limits directly into bank accounts which have showed the deposition of unaccounted income, subject to higher tax and other penalties.

Dr. Kadambini Katke, Abhay Kamat and Manish Kalal(2017) analyzed the impact of demonetization on car industry. Their objective was To Study the demonetization impact on Indian auto industry. They wanted to understand customer buying behavior in the car industry post demonetization they opined that the government's demonetization programme has not been good for this industry and had a negative impact on the sales of automobiles in November, 2016.

Ms. Asra Fatima (2017) analyzed the effects on GDP and the Indian Economy due to demonetization. The aim of the study was to know how far demonetization works for the benefits of the public. She concluded that demonetization could not solve all the problems of India as the government expected. She opines that the government had taken is right which is going to give a positive impact on economy and country in the long run.



Ms. Shalaka Prakash Chavan (2017) studied the impacts of demonetization on Indian Taxes. He tried to explain the effects of demonetization on Income tax in financial year 2017-18. He further studied the changes in Indian tax system post demonetization. In his study effect of Demonetization is clearly visible with tax collection figures seeing double –digit growth.

Objectives of the Study

1. To analyze the post demonetization effect on the collection of taxes in India.
2. To study the effect of demonetization on corporate tax, personal income tax, other direct tax and indirect tax.

Purpose of Demonetization

1. To remove the black money from the economy.
2. To increase the tax collection and number of taxpayers.
3. For the prevention of fake currency.
4. For preventing of terror funding.
5. To reduce corruption.
6. To make cashless economy.

Research Methodology

The study is based on secondary data which has been collected from the website of income tax department of India. Various books, newspaper, journals and websites were used for the study. Impact of demonetization has been analyzed on the tax collection of the government. Percentage change has been taken to judge the change in the year of post demonetization and comparisons have been made from the previous years.

Types of Tax

There are two types of taxes:-

1. **Direct tax:** Direct tax is a tax which is directly paid by an individual or organization for example- income tax, corporate tax etc.
2. **Indirect tax:** Indirect tax is a tax which paid by the tax payer through dealer to the government for example – service tax, excise duty, custom duty, value added tax etc.

Table: 1, Impact of Demonetization on Direct Tax (Rs. In crore)

5 yearly direct tax collection					
Financial Year	2012-13	2013-14	2014-15	2015-16	2016-17
Corporate Tax	356326	394678	428925	453223	484924
Personal Income Tax	201840	242888	265772	287637	349270
Other Direct Tax	823	1030	1095	1079	15624
total	558989	638556	695792	741945	849818

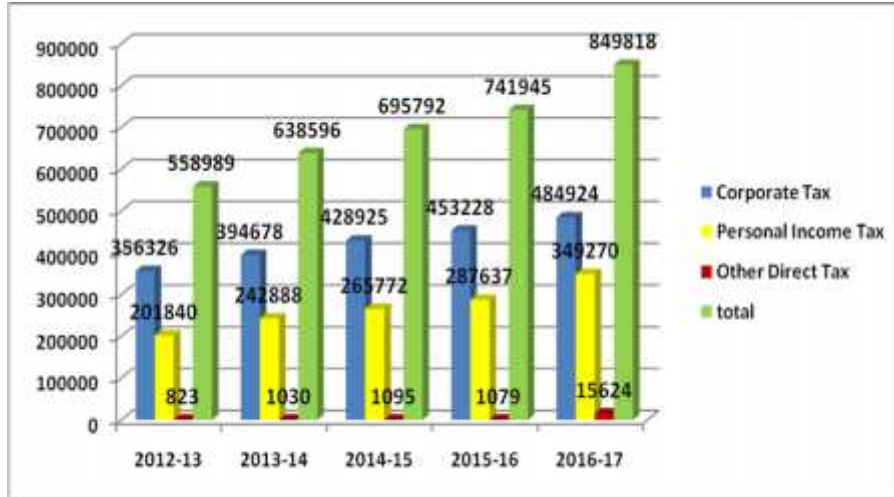


Figure 1

Table 1 and figure 1 shows five yearly direct tax collections in India. Direct tax collection of the government is a sum of corporate tax, personal income tax and other direct taxes. All amounts taken in crore. Effect of demonetization on all these taxes has been analyzed. In the bar chart all the taxes have been shown through different color codes (corporate tax- blue, personal income tax- yellow, other direct tax-red and total direct tax- green). The change in the above said taxes is as follows:-

1. Corporate tax: Percentage change has been taken as a measure for the valuation of change in taxes from the previous years. There is a percentage increase from 5.67 % in 2015-16 to 6.99 % in 2016-17. It depicts that post demonetization there is a positive increase in corporate taxes than the previous year.
2. Personal income tax: There is a percentage change from 8.22% in 2015-16 to 21.42% in 2016-17. There is a huge change in personal income taxes from the previous year.
3. Other direct tax: There was a negative percentage change of 1.46% in 2015-16, but post demonetization there is a drastic positive percentage change of 1348 % in 2016-17.
4. Direct tax: Direct tax is the sum of all the taxes explained above i.e. corporate tax, personal tax and other direct taxes. As seen in all the above cases that there is a positive percentage change in the tax collection, similarly there is a positive impact on the total direct taxes as well. There is a percentage increase from 6.63% in 2015-16 to 14.53% in 2016-17.

Table:2, Comparison of Change in Indirect and Direct Tax Post Demonetization (Rs. In crore)

DIRECT TAX AND INDIRECT TAX					
Financial year	2012-13	2013-14	2014-15	2015-15	2015-17
Indirect tax	472915	495347	543215	711885	861515
Direct tax	558989	638596	695792	741945	849818

Table2. Show five yearly direct tax and indirect tax in India. According to this table the direct tax is more than indirect tax from 2012-13 to 2015-16 before demonetization, but after demonetization indirect tax collection is more than the direct tax collection. After demonetization the percentage change in indirect tax is negative from 31.05% in 2015-16 to 21.01% in 2016-17 but direct tax increased positively from 6.63% in 2015-16 to 14.53% in 2016-17. Tax collection increased higher than previous years.



Figure 2

Figure 2 shows five yearly direct tax and indirect tax in India. In the bar chart the indirect tax showing in blue color and the direct tax is showing in red color. According to this figure direct tax is more than indirect tax from 2012-13 to 2015-16 but after demonetization indirect tax is more than direct tax in 2016-17. This figure showing that the tax collection is increasing but the direct tax collection is more than indirect tax before demonetization but after demonetization the indirect tax increase more than direct tax.

Conclusion

Demonetization is a greatest move taken by the Indian government to remove black money from the economy. Demonetization impacts on everything in economy as well as the collection of taxes. Tax is the source of government's income. Number of tax payers has increased after demonetization. Demonetization also had a positive effect on tax collection in India. It is first time when advance tax and income tax increased at a racket level 34.8% due to demonetization. This study concludes that the tax collection in India is highly increased after demonetization. The direct tax and indirect tax increase in every year but after demonetization the percentage change in direct tax is higher than previous years.

References

1. Chavan, M. P. (2017). Demonetization & its impact on Indian tax. South -Asian Journal of Multidisciplinary Studies.
2. Dr. Kadambini Katke, A. K. (2017). Impact of Demonetization on Indian Automobile Industry: A Special Reference to Car Industry. International Journal of Scientific Engineering and Research.
3. Dr. M. Prabhukar, G. V. (2017). Demonetization and its effect on Banking Sector". IOSR Journal of Business and Management.
4. <https://www.investopedia.com/terms/d/directtax.asp>. (n.d.). Retrieved from investopedia.com.
5. K, A. D. (2017). A STUDY ON IMPACT OF DEMONETIZATION OVER THE BANKING SECTOR WITH REFERENCE TO VERAVAL CITY. International Journal of Marketing & Financial Management.
6. MS. SAPNA KUMARI, M. N. (2017). IMPACT OF DEMONETIZATION ON THE BANKING SECTOR. IJARIE.
7. Ms. Asra. (2017). Effects of Demonetization in India. SSRG International Journal of Economics and Management Studies.
8. Sunil. (2017). Demonetization at glance in Indian scenario: A conceptual study. International Journal of Applied Research.
9. Syamsundar P. (2017). "DEMONETIZATION - A COMPARATIVE STUDY" WITH SPECIAL REFERENCE TO INDIA. [.researchgate.net/publication/](https://www.researchgate.net/publication/).
10. timesofindia.indiatimes.com > India News. (n.d.). Retrieved from indiatimes.com.
11. Veerakumar, K. (2017). A STUDY ON PEOPLE IMPACT ON DEMONETIZATION. International Journal of Interdisciplinary Research in Arts and Humanities (IJIRAH).
12. www.businesstoday.in/current/economy...effect...tax...collections.../257943.htm. (n.d.). Retrieved from www.businesstoday.in.
13. www.charteredclub.com/indirect-tax-gst/. (n.d.). Retrieved from charteredclub.com.
14. www.livemint.com > Politics > Policy. (n.d.). Retrieved from livemint.com .