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DEMONETIZATION AND ITS AFFECT IN INDIA

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ABSTRACT: On November 8, 2016, the Indian government made a difficult decision on the limit of currency notes. Whether it would genuinely remove all of the present dark money was an open question, but it was a logical, well-considered, and well-implemented step to take. Here, I've taken a look at the influence of demonetization on real estate, the economy, the money supply, banks, internet transactions, and so on, using relevant case law as an example. Demonetization has also had a good influence on our country's economy, according to a short 1study. The negative effects of demonetization, as well as ways to mitigate the shock of demonetization on citizens and the country's parallel economy, have also been debated. Note boycott, a policy adopted by the Indian government, has both beneficial and bad consequences.

OBJECTIVES OF THE STUDY:

- 1)To ponder about the note's actual current performance would be a violation of the note's terms of service.
- 2) To learn about the note boycott's potential.
- 3) To see whether the boycott of notes will have an impact on the outcome of the referendum.
- 4) To determine the economic impact of a note boycott in India.

INTRODUCTION

On November 8, 2016, the Indian government made a significant decision on the use of currency notes. The Reserve Bank of India (RBI) has devised a method under which the Specified Notes may be held or exchanged across bank offices and other designated locations till December 30, 2016. (and in excellent cases, 31 March 2016). When all is said and done, the most baffling aspect of this move has been the nature of the tax treatment given to such deposits under the 1961 Income Tax Act ("Act"). Banks may now disclose money reserves of more than Rs. 250,000 (Rs. 10,00,000) to the Central Board of Direct Taxes (CBDT) in accordance with Rule 114B and Rule 114E of the Act along with Annual Information

Reports ("CBDT"). To combat the problem of black money and counterfeit currency, India has reduced the amount of transactions that may be conducted outside the framework. This was not the first time the government of India has tried to get rid of high-value currency via the process of demonetization. When the Reserve Bank of India demonetized Rs 1,000 and Rs 10,000 notes in 1946, this became a reality. Before the Morarji Desai government demonetized these notes in 1978, the administration had introduced higher-category banknotes in Rs 1000, Rs 5000, and Rs 10000 of each new symbol in 1954.

India's Prime Minister, Narendra Modi, claims that the "disease" of corruption and dark

money has taken a deep hold in the country. From November 10 until December 30, anyone with Rs 500 and Rs 1,000 notes may keep them safe at their bank. All lower-value notes and coins, such as the Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2, and Re 1, remained legal tender, while new Rs 2,000 and Rs 500 notes were introduced. When it came to other forms of money transactions such as checks or direct deposit, there was no change. Despite all of this, the government still had to deal with the issue of the underground cash economy, which had become a major problem by the time it was demonetized. India demonetized Rs 1,000, Rs 5,000 and Rs 10,000 notes in January 1978, which was a big deal at the time. The High Denomination Bank Note (Demonetisation) Act of 1978 mandated the transfer. After January 16, 1978, all "high section monetary orders" were no longer valid delicate. Individuals in possession of these notes have seven days till January 24 of that year.— for the exchange of any high-category certified receipts. As opposed to today's Rs 500 and Rs 1000 notes, which are widely accessible, larger denomination currency was more harder to get by back then.

SOME ASPECTS TO KNOW THE EFFECTIVENESS OF DEMONETIZATION: (1)IMPACT OF DEMONETIZATION ON NEXT FINANCIAL YEAR:

According to India's First Chief Statistician, Pranab Sen, the Indian government's target of 7.5% economic growth for the next fiscal year is too optimistic. In his opinion, restricting the use of currency notes has harmed the mechanical industry. The IT sector, which accounts for 45 percent of India's GDP and 80 percent of the country's business, was impacted by the financial crisis.

(2) THE REAL ESTATE IMPACT OF DEMONETIZATION:

Month-to-month housing bargains in India's major cities like Delhi, Gurgaon, Hyderabad and Bangalore decreased by about 40 percent between November and December of last year. Typical month-to-month housing sales before demonetisation were 19,000 units in July and 18,000 units in October. During November and December, the regular monthly offers were

lowered by 40% and 49%, respectively. A significant drop in property advertising prices, especially for auxiliary or resale property, was expected after the government proclaimed the demonetization process to begin on November 8th. Despite the fact that the demonetization had a negative impact on November and December, the beginning of the second quarter showed that October month had the highest performance, and half of the total transactions in the second quarter came from that month alone. In order to entice customers, the land developers offered additional freebies such as adornments, electronics, automobiles, event bundles, and machineries in exchange for the purchase of dwelling units. To secure the part's value, developers gave a guarantee of rental confirmation and a buyback plan to buyers.

On the parallel economy, it has an impact.

This is expected to - expel dark cash from the economy, as the owners won't be in a position to store it in the banks, - Temporarily slow down the course of an extensive volume of fake money, and - check the subsidising for hostile to social components, for example, smuggling, terrorism, and so on.

(2) Affect on the supply of money:

(3) Until the new 500 and 2000 Rupees notes are widely accepted in the market, cash supply must be reduced in the near term. There will be a long-term decrease in cash supply if black money (which is not phoney) does not re-enter the financial system. Cash supply will increase when the new notes enter the market and the confusion is corrected.

THE IMPACT ON THE PRICES:

To keep interest rates in check, the price level must be lowered. Costs have fallen as a result of a reduction in demand: Price reductions for consumer items are necessary, if only to achieve the desired level of control via the increased usage of credit cards and checks. There is a general expectation that prices in the real estate and property market would collapse, especially for those properties where a large portion of the exchange takes place in cash rather than via bank transfers or check exchanges. As engineers adjust their expenses

in the longer future, however, this division's costs may rise again (likely charging more on check instalment).

(9) EFFECT ON VARIOUS ECONOMIC ENTITIES:

Until the new notes are widely circulated, certain segments of the general population may face short-term disruptions in their exchanges because of cash transactions. They include:

- Agriculture and associated segment
- Small business owners

- SME
- Service Industry
- Households

Governmental Entities

Professionals such as woodworkers, utility specialists, and so on

- Stores of all kinds. These sectors of the economy need more frequent use of cash because of the types, frequency, and dollar quantities of the transactions they entail. Thus, these groups are projected to be the most impacted by the introduction of new currency notes after the demonetization process.

(10) EFFECT ON BANKS:

Those 500 and 1000 rupee notes that are no longer legal tender should be kept or sold at banks, according to the government's directive (subject as far as possible). As a result, more money will be saved in the bank's Savings and Current Accounts. This will increase the banks' liquidity, which may be utilised for further loans. In any event, there will be withdrawals in the second stage to the extent that families have grabbed these assets for crisis reasons.

(11) EFFECT ON ONLINE TRANSACTIONS AND ALTERNATIVE MODE OF PAYMENT:

With the decline in the value of the dollar, there will be an increase in the use of other forms of payment. Increases in demand are expected for a variety of electronic payment methods, including E-wallets and apps, online

transactions using E-accounts, and the use of plastic cash (Debit and Credit Cards). In the long term, this should lead to the strengthening of these frameworks and the necessary basis.

There is a good chance that this new policy will have a long-term favourable impact on the economy.

- The formal economy will benefit in the long run as black cash hoarders lose out.
- White collar workers may benefit from a short-term drop in land prices.

In the long run, the Government's decision to implement the GST and this action will make the system more accountable and efficient. From November 10th to December 30th, 2016, old Rs. 500 and Rs. 1000 notes may be stored in bank or postal station accounts with no limit. There will be a daily and weekly withdrawal cap of Rs. 10,000 and Rs. 20, 000, respectively. In the days to come, we'll go into further detail about this tipping point.

To exchange old Rs. 500 or Rs. 1000 notes, you must provide identification at any bank, post office, or subpost office. Up till the 24th of November, the farthest this may go is Rs. 4000.

- There is no restriction for non-monetary instalments through checks, request draughts, charge or Master cards, and electronic store exchanges..

ATMs will not function on November 9th, and in certain areas, November 10th as well. In the first several days, each card would be limited to a daily spending limit of Rs.2000. In the future, this will be increased to Rs.4000.

The fight against black money and the reduction of corruption will be aided by demonetization.

A few days after Adi Godrej's statement, the situation has improved and the economy would benefit from the implementation of demonetization. Also, the Chairman of the Godrej gathering claimed that the gathering will fight against black money and also reduce pollution. A significant amount of money has entered the economy, and more is pouring in on a regular basis, according to him, which is a positive indicator for the economy.

POSITIVE EFFECT OF DEMONETISATION:

In every economy, dark cash is believed to be a cancer. The creation of every country is scuppered by a parallel economy. In India, it is estimated that the total amount of black money is Rs. 3 lakh crore. Considering that the total amount of money that may be used is simply Rs.17 lakh crore, it is enormous. If demonetisation is successful, all the black money will be brought into the open or destroyed.

According to the Indian Statistical Institute (ISI), the aggregate total of fake money in India is Rs.400 crore at any particular point in time. An estimated Rs 70 crore worth of fake currency being smuggled into India every day, according to this estimate.

86 percent of India's money supply is made up of 500 and 1000 currency notes, which is a proven fact. Furthermore, the banks benefited from the demonetisation of these notes, which were valued at 500 and 1000 rupees. Up till the 18th of November, the Reserve Bank has declared that banks had received Rs 5.12 trillion in shop purchases. This cash reserve has the potential to boost the Indian economy by 0.5-1.5%. SBI, India's largest open-sector bank, claimed it has received Rs.1.27 trillion in cash deposits.

Demonetisation has had a major impact on hawala exchanges, which have been badly affected. It is possible to launder money by trading it for fake currency. Tax evasion and terror funding are made easier because to money laundering training, according to studies. Now that black money has been eliminated from the market, money laundering activities have come to an end.

Anywhere in the Kashmir Valley that demonetisation is likely to have an immediate impact, it is here. A shortage of money has caused the four-month-long turmoil in Kashmir to subside. The separatists should be paid Rs

1,000 crore a year by Pakistan for inciting violence in Kashmir, according to an in-depth assessment. Money laundering is used to swap the money. Money laundering was a thing of the past after Demonetisation. Because of this, there is no basis for the separatists at this time. Finally, the Indian cash syndicate operating both within and outside the country has come to an end thanks to demonetization.

Demonetisation also brought relief to the Kashmir valley's stone-pelters. In light of Demonetisation's severe impact on dissidents' ability to raise funds, they can no longer look to young people to incite rebellion against the armed forces or the state.

Insurgents from the North East and the Over Naxalites are the gangs whose only source of oxygen is black money. They're the worst victims of the demonetization process. They describe this as a "Money-related Emergency" in this way. A annual revenue of more than Rs.500 crore is estimated from fear subsidising, non-governmental organisations (NGOs), imitation, coercions, and neighbourhood taxes. Recruiting, weapons, food, medicine, and safe homes are all part of the massive budget.

All of these piles of cash are now worthless because of the demonetisation process. However, naxals are also using villagers to deposit the money in their records, which is a new development. Any additional affidavits of such monies must be kept by the expert. It's also worth noting that after demonetisation, crimes including robbery, grabbing, and dacoity spiked in major cities like Delhi, Pune, and Mumbai, according to recent reports.

Demonetisation's negative effects include:

Inflation and interest rates have been lowered:

This is an intriguing response to India's plan for demonetization. Obviously, we've all heard that the Rs 500 and Rs 1,000 notes have been abolished as legal cash and replaced with new notes and schemes. Limits have been placed on the amount of money that may be exchanged for another currency (Rs 4,000, shortly to be lowered to Rs 2,000), however there are no limitations on the amount of money that can be stored in an account. Obviously, the more

money that is deposited, the more likely it is that the transaction will be subject to tax scrutiny.

In excess of the banking sector:

Everyone is aware of the legislature's decision to ban the Rs. 500 and Rs. 1000 currency notes as part of its demonetisation plan. It's easy to see how this would have a devastating impact on small businesses, independent retailers, landowners, the transportation sector, and manufacturers of durable goods for consumers. Since most transactions in rural and small-town America are conducted with actual cash, this would have a big impact there. The prohibition on Rs. 500 and Rs. 1000 currency notes would have an impact on firms that rely on cash transactions. The liquidity would be affected by demonetisation, but only for the time being.

1.EFFECT ON DIFFERENT SECTORS:

Since the second de-monetisation of money in India since independence (the previous one was in 1978 and restricted to Rs1,000, Rs5,000, and Rs10,000 takes notice of), the scope and breadth of this activity have grown significantly. Despite the government's efforts to alleviate vital necessities, such as hospitals, chemists, tolls, scientific experts, crematoria, and gasoline pumps, there are still areas of misery for the majority of people.

Effects on Parallel Economics:.

Demonetisation of the Rs. 500 and Rs. 1,000 notes was intended to rein in a burgeoning parallel economy fueled by large amounts of unaccounted-for currency across the country. However, the shift has given rise to another kind of business in rural areas like Anekal, which is located on the outskirts of Bangalore.

3: MANAGEMENT OF THE IMPACT OF DEMONETIZATION

Demonstrating Rs500 and Rs1,000 currency notes in India was necessary because of an increase in counterfeit notes and a need to manage the "black salary period," as well as to get rid of a portion of the undeclared wealth contained in these high-sector banknotes. While the experts' strategy and work are great, they must be updated to keep pace with current events if they are to remain relevant.

With effect from 1 April 2017, Section 270A of the Reserve Bank of India Act 1934 has been amended.

There is now an exception to the penalty for concealing income under section 271(1)(c) if the information provided is incorrect.

Because AO typically begin punishment processes after completing an examination under Section 143(3), it is possible that the initiation of punishment measures under section 271(1)(c) will be disputed. CIT, Ahmedabad v. Reliance Petroproducts Pvt. Ltd.[1] said that the Supreme Court stated: "In the event that we recognise the income discrepancy at that stage, the assessed will welcome penalty under Section 271(1) if the claim made by the Assessing Officer is not recognised for whatever reason (c). This is clearly not what the legislative body intended "Nonetheless,. A panel headed by Justice R.V. Easwar has also recommended that no punishment should be demanded for concealment if the assessee has taken a true blue view of an arrangement empowering a claim and so forth or on the basis of any legal decision and if any expansion or restriction is made impromptu on suspicions or without confirmation.

As part of the Finance Act, 2016 and taking effect on 1 April 2017, Parliament abolished and replaced sections 271, 270A, and 271 of the Act, respectively. Punishment is given to those who misreport or manipulate their earnings. If a salary is "underreported," the penalty is half of the assessment due on that underreported wage; if there is distortion, the penalty is 200 percent of the duty due on that amount. It is now appropriate to replace the penalty for "covering of pay" with a more severe one that targets wage "underreporting" and "distortion."

BURDEN OF PROOF:

According to the Supreme Court's previous ruling, it is mostly on the Department to prove that the assessed individual was responsible enough to claim that the income or other erroneous information was covered. Area 271(1)(c), where the weight of confirmation was imposed on the evaluated to establish bona

fidess and blamelessness, was used as an explanation to overcome this translation challenge. Segment 270A allows for penalties to be collected from agents, even while the surveyed compensation is more than the pronounced wage. There is no Explanation under section 271(1) for 'distorting', thus the burden of proof is on the Department to prove it (c).

Even so, the Supreme Court of India, after examining area 271(1)(c), concluded that the Explanations included to section 271(1)(c) indicate a strict obligation on the assessed for covering or for giving incorrect particulars while documenting returns and that the question behind the sanctioning of section 271(1)(c) read with the Explanations reveals that t

In previous demonetisation operations, the Supreme Court has rendered rulings on the subject. After *Mehta Parikh and Co. v. Official of Income Tax, Bombay*[4], a three-judge bench of the Supreme Court ruled that if the assessed has a section in their record books demonstrating the receipt of an entire sum of money, the assessed must reveal, if asked, what the source of that money is. According to the document's findings, the Department cannot behave unreasonably and ignore the assessment's explanation. However, it said that even if the explanation is implausible, the Department may disregard this and make an inference that the total refers to salary either from the sources that have been publicly declared or from a previously unknown source. It stated that before the Department rejects any confirmation, it should either demonstrate an inherent shortcoming in the clarification or refute it by putting to the assessed some data or confirmation that it currently possesses, and the Department can't by only dismissing preposterously a decent clarification, change over great evidence into no evidence.

RESEARCH METHODOLOGY:

In the event of demonetisation, cash may be transferred instantly from one bank to another, from one person to another, and from the government to the general public. One of this

magnitude isn't simply going to make the economy cashless or paperless, but it's going to change the way we live our lives. It would also lead to banks being over-leveraged. A radical trade mix-up of the economy would only serve to accelerate the transition to such an application if it occurred at that moment. In any event, this should give you reason to be concerned about the widespread trading and monetization of your personal information. As far as government demonetisation strategies go, this could be the most extreme. It sounds like something out of a science fiction film when the proposal is made to clarify the origins and destiny of the outlawed currency. At some point, a group of a few men and women are aiming to exert control over the lives of billions of Indians. Furthermore, there is no room for black money in it.

CONCLUSION

The Indian government's massive effort to combat black money and currency debasement, Demonetisation, is well worth commending. The administration has made a difficult decision. Demonetisation has as its primary goal the destruction of black money and the consequent reduction in moral turpitude. Legislators in India have made progress in achieving their goals. The vast majority of the black currency has been smashed to pieces. There was a gradual expansion of the bank's measure of trade liquidity throughout the country. If the bank has more locations at that time, it will be considerably more grounded, as well. When a bank is well-established in a country, that area is much more financially secure. As time goes on, banks will be prepared to provide a rising number of loans to individuals and mechanical divisions, allowing our country's economy to grow, businesses to produce, and the nation itself to produce quickly. However, this is just a preview of things to come; the next few months will reveal the real financial health of our country. However, despite the fact that Demonetisation has created so many difficulties for Indian citizens, Because of the demonetisation push, Indian citizens faced a slew of problems at the banks

and ATMs when it came to storing and withdrawing cash.

Due to a lack of available cash, Indians were forced to deal with a shortage of goods they could afford. Due to a lack of liquidity, a few organisations were upset, entrepreneurs and also buyers faced several difficulties. When the Indian government made the decision to demonetize the country's currency, the administration didn't realise that Indians would have to deal with this problem for some time. Regardless, the Indian government has provided several remedies for the country's citizens from time to time. On the other hand, the Indian budget market, the land showcase, the FMCG sector, the auto resources-supported advancements, and so on are all temporarily declining. Demonetisation, according to some financial experts, will have a favourable influence in the future. The federal government has grown to its fullest extent imaginable. There are less lineups at banks and ATMs. One way or another, black money appears. We need to wait and see what the overall impact of the demonetization push will be. In addition, the legislature and the Reserve Bank of India (RBI) failed to come up with a solution that would have alleviated the pain for both individuals and companies. "The moment of pain and troubles is getting over, and the financial activity is being reestablished," Finance Minister Arun Jaitley stated in a recent Facebook post. The agony and aggravation should have ended months ago, not two months later.

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