

Demonetization and GST Effect on Banks

Vishvakarma Rohan
ANURAG GROUP INSTITUTIONS

Abstract- GST and Demonetization are two bold decisions taken by the Indian government to tackle the issues which are existing and to resolve the emerging issues which arises day by day in the Indian economy. GST and Demonetization are likely to be described as game changers of the Indian Economy. GST will require companies to not just be tax complaint but also readjust their structure and supply chain networks. On the other hand Demonetization is leading to boom the cashless payments. These two will render great opportunity for customers to relook at their structure and redesign their supply chains, since the current supply chain has been designed according to interstate taxation. This biggest Tax reform in Independent India, the Goods and Services Tax Act (GST) has brought on a platter, a concept called “Composition Levy” to its taxpayer. One of the fundamental features of GST is the seamless flow of input credit across the chain (from the manufacture of goods till it is consumed) and across the country. The money in the economy is circulating as a network of pipes through which water is flowing. The banking system manages this network, and the efficiency of this system is known as liquidity. The morally and ethically depraved society of today is an outcome of these stark inequalities. Black economy also uses the money it makes, but focuses more on assets and hoarding. It pushes up demand for property and gold. It hoards the cash locally and globally, treating it as a store of value. Evaders will pay taxes on what they bring into the bank. Therefore cash can be a store of value, as the risk of demonetisation is real.

I. DEMONETIZATION

In November 2016, the government of India announced the demonetization of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi series. It also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes. The Prime minister of India Narendra Modi claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism

- The total value of Rs500 and Rs.1000 notes, which were banned on 8 November, 2016, was Rs15417.93 billion, out of which Rs15310.73 billion was returned. This means that around 99.30 per cent of the banned notes were returned. The value of currency

that did not return is far less than what the government expected.

- This is not the first time that demonetisation has been implemented in India. In 1936, Rs.10000 which was the highest denomination note, was introduced but was demonetised in 1946. Though, it was re-introduced in 1954 but later, in 1978, the then Prime Minister Morarji Desai in his intensive move to counter the black money, introduced The High Denomination Banks Act (Demonetisation) and declared Rs.500, Rs.1000 and Rs.10,000 notes illegal.

II. MERITS OF DEMONETIZATION

1. All the people who are not involved in malpractices welcomed the demonetization as the right move.
2. Demonetization was done to help India to become India corruption free as it will be difficult now to keep the unaccounted cash.
3. It will help the government to track the black money and the unaccounted cash will now flow no more and the amount collected by means of tax can be better utilised for public welfare and development schemes.
4. One of the biggest achievement of demonetization has been seen in drastic curb of terrorist activities as it has stopped funding the terrorism which used to get a boost due to inflow of unaccounted cash and fake currency in large volume.
5. Money laundering will eventually come to act as the activity can easily be tracked and the money can be sized by the authority.
6. It will also help to achieve a cleaner society with a low crime rate because it will become difficult for terrorist, smugglers and other racketeers to operate through banking channels.
7. It has driven the country towards a cashless society.
8. Now even the small transactions have started going through banking channels and the small savings have turned into a huge national asset

III. DEMERITS OF DEMONETISATION

1. The biggest disadvantage of demonetization has been the chaos and frenzy it created among common people initially. Everyone was rushing to get rid of demonetised

notes while the inadequate supply of new notes affected the day to day budgets of citizens .banks and ATMs witnessed long queues while small businesses suffered temporary financial losses.

- The situation was even worse in rural India where people struggled to exchange and withdraw cash due to lack due to lack of enough number of banks and ATMs in their vicinity.
- Another disadvantage is that destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetisation.
- Another problem is that this move targeted the black money, but many people who had not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on were not effected by demonetisation. It turned out that more than 99%of demonetised currency came back to the RBI and was accounted for. Therefore, the government’s claim about black money fell on its face.

ONLINE TRANSACTIONS OF BANKS IN INDIA

- In 2016 the transaction was 90 crores.
- In 2017 the transaction was 96.4 crores.
- In 2018 the transaction was 74.948.

DEBIT TRANSACTION OF BANKS IN INDIA

- In 2016 debit transaction was about 155000 cores.
- In 2017 debit transaction was 800000 cores.
- In 2018 debit transaction was 1300000 cores.

CREDIT TRANSACTION OF BANKS IN INDIA

- In 2016 the credit transaction was 26.67 crores.
- In 2017 the credit transaction was 33.76 crores.
- In 2108 the credit transaction was 54 crores.

GOODS AND SERVICE TAX (GST):-

Goods and services tax is the biggest indirect tax implemented on 2017 July, replacing a multitude as central as well as state wise taxes.

Under previous system direct and indirect taxes levied on goods and services fell between 18% to 40%.which have now been restricted to be between 5% to 28% for around 1200 goods and services.

TYPES OF GST

India has chosen Canadian model of dual -GST

CGST: - to be collected by central government (intra-state)

SGST: - to be collected by state government (intra-state)

IGST: - collected by central government then revenue to be shared by central and state government based on destination of goods

IV. INTRODUCTION OF BANKING SECTOR

Indian banking system consists of 27 public sector banks 26 private sector banks 46 foreign banks, 56 rural banks and 1574 co-operative banks

Public sector banks controlled more than 70% of market share Raising disposable income has led to high credit – take of aided by strong economic growth as per estimates during FY06-17 the total supply of money increased CAGR of 9.92 reaching 1.8 trillion USD

NEFT

NEFT	Fees before GST	Fees after GST	Differences
Less than 10000	RS 2.50	RS 2.80	30 paisa
Above 10000	RS 5.75	Rs6.25	50 Paisa
Less than 2lakhs	RS 17.18	RS 17.90	72 Paisa
2 lakhs to 5 lakhs	Rs28.6	RS 29.5	RS 1.2

IMPS

IMPS	Fees before GST	Fees after GST	Differences
Less than 1 lakh	RS 5.75	RS 6.25	50 Paisa
1lakh to 2lakh	RS 17.18	RS 17.90	72 Paisa
2 lakhs to 5 lakh	RS 28.6	RS 29.5	RS 1.2

RTGS

RTGS	Fees before GST	Fees after GST	Differences
2 lakh to 5 lakh	RS 28.6	RS 29.5	RS 1.2
5 lakh to 10 lakh	RS 57.27	RS 59	RS 1.75

V. CONCLUSION

Thus GST will form a virtually unbreakable chain of transactions right from the initial raw material, till the goods are sold to the consumer. Demonetization on the other-hand is a humongous reset button on the parallel economy, where every crook is forced to start afresh. It is like pulling some runners back to the starting line, because they got ahead in the race using unfair means. But nothing stops these runners from using the same means again and darting ahead. But the only things that can stop these runners, or make them slower, are hurdles. And GST will be one such major hurdle. Till now GST's marketing has only been that of "One Nation One Tax". Something which will render defunct, a complex system of taxes which was created over many years, and unite it into one single, business friendly, consumer friendly tax regime. While this is true, GST deserves more credit than this. The only future-oriented effect of demonetisation will be , once a person deposits a huge sum of cash in the bank, the tax authorities are instantly alerted that this person has so much wealth, hence he can remain on the radar in the future.

REFERENCES

- [1] WWW.WIKIPEDIA.COM
- [2] WWW.INVESTOPEDIA.COM
- [3] WWW.ACADEMIC.EDU
- [4] [HTTPS://IRISGST.COM](https://IRISGST.COM)