



*Northern India Chartered Accountants Students' Association*  
*of*  
*NIRC of the ICAI*

**SEMINAR ON DEMONETISATION**



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Presented by

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# SCRAPPING OF EXISTING RS. 500 & RS. 1000 NOTES

## Section - 26, Reserve Bank of India Act, 1934 - Legal tender character of notes.

**26.** (1) *Subject to the provisions of sub-section (2), every bank note shall be legal tender at any place in <sup>1</sup> [India] in payment or on account for the amount expressed therein, and shall be guaranteed by the Central Government.*

(2) *On recommendation of the Central Board the **Central Government may, by notification** in the Gazette of India, declare that, **with effect from such date** as may be specified in the notification, **any series of bank notes** of any denomination shall **cease to be legal tender** save at such office or agency of the Bank and to such extent as may be specified in the notification.*

## NOTIFICATION NO. S.O. 3407(E) [F.NO.10/03/2016-CY.I], DATED 8-11-2016

“Now, therefore, in exercise of the powers conferred by sub-section (2) of section 26 of the Reserve Bank of India Act, 1934 (2 of 1934) (hereinafter referred to as the said Act), the Central Government hereby declares that the specified bank notes [read: bank notes of denominations of the existing series of the value of five hundred rupees and one thousand rupees] shall cease to be legal tender with effect from the 9th November, 2016...

# INTRODUCTION OF RS. 2,000 NOTE

## Section - 24, Reserve Bank of India Act, 1934 - Denominations of notes.

24. (1) Subject to the provisions of sub-section (2), bank notes shall be of the denominational values of two rupees, five rupees, ten rupees, twenty rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, five thousand rupees and ten thousand rupees or of such other denominational values, not exceeding ten thousand rupees, as the Central Government may, on the recommendation of the Central Board, specify in this behalf.

(2) The Central Government may, on the recommendation of the Central Board, direct the non-issue or the discontinuance of issue of bank notes of such denominational values as it may specify in this behalf.]

## NOTIFICATION NO. SO 3409(E) [F.NO.10/03/2016-CY.I], DATED 8-11-2016

In exercise of the powers conferred by sub-section (1) of section 24 of the Reserve Bank of India Act, 1934 (2 of 1934) and on the recommendations of the Central Board of Directors of the Reserve Bank of India, the Central Government hereby specifies the denomination of bank notes of the value of two thousand rupees.

# BENEFITS

(as per CG's affidavit in SC)

- Stamp out fake notes being pumped in by Pakistan. Estimated number of counterfeit notes of Rs. 1,000 = 22.4 lakh & Rs 500 notes = 37.5 lakh. (Combined Value = Rs. 411.5 crores)
- Will curb funding of terrorists.
- It will eliminate black money which casts long shadow of the parallel economy on our real economy .
- It will help reduce tax avoidance and bring more transactions into the formal economy.
- Transborder terrorism, Left-wing extremism and domestic terrorism are being funded by black money . High denomination notes have been misused by terrorists and are known to facilitate generation and hoarding of black money.
- There is excessive use of cash in the real estate sector due to large cash transactions in purchase of land and housing property. The real estate prices get pushed up artificially. This reduces the availability of affordable housing for the poor and the middle class. Greater over the board transactions will lead to a decline in real estate prices making housing affordable to all.

# BENEFITS

(As per Government's Statement in Media)

- Deposits in Bank – Increase  
Thus, Lending Capacity – Increase  
Thus, Interest Rate on Loans - Decrease
- Likely to lead to better tax compliance, raise the Tax to GDP ratio and improved tax collection.
- Inflation is expected to lower due to moderation of demand.
- Moving towards cashless economy
- Rs. 500/1000 notes not deposited with will lead to write off of Liabilities in RBI's Balance Sheet.  
(DISCUSSED LATER)

## Impact on RBI's Balance Sheet and its Implications...(1/3)

- The RBI balance sheet as of Nov 4<sup>th</sup> is given below:

Liabilities	Rs. Bn	Assets	Rs. Bn
Notes in Circulation	17,742	Foreign Currency Assets	23,156
Deposits	5,743	Gold Coin & Bullion	1,368
- Govt.	1	Govt. Securities	7,562
- Scheduled Commercial Banks	4,095	Loans & Advances	468
- Others	1,647	- Govt.	43
Other Liabilities	9,217	- Scheduled Commercial Banks	371
		- Others	54
		Other Assets	147
<b>Total</b>	<b>32,702</b>		<b>32,702</b>

- To understand the impact on RBI's balance sheet, we first put out some numbers and assumptions:
  - Value of notes in circulation as of Nov 4, 2016: **Rs. 17,742 bn**
  - Value of 500/1000 notes in circulation (@86.5% of notes in circulation): **Rs.15,347 bn**
  - Assuming 20% of the 500/1,000 notes are not tendered back ("black money"): **Rs.3,069 bn**
  - Amount flowing back to banking system after demonetization: **Rs.12,277 bn**
  - Durable deposits (assuming 20% of the money deposited in banks is not withdrawn as cash): **Rs.2,455 bn**

## Impact on RBI's Balance Sheet and its Implications...(2/3)

- The impact on RBI's balance sheet is likely to be as follows:
  - We have assumed ~Rs. 3 trillion will disappear from the system. So currency in circulation will come down by the same amount
  - We have also assumed that the remaining Rs.12 trillion will get deposited with banks. However, of this 80% will be eventually withdrawn while 20% will remain with the banks as deposits
  - Thus currency in circulation will further come down by Rs.2.4 trillion (80% of Rs.12 trillion)
  - Thus, total decline in currency in circulation = Rs.3 Trillion + Rs.2.4 Trillion = Rs. 5.4 Trillion
  - Banks will get durable deposits of Rs.2.4 Trillion (20% of Rs. 12 Trillion). Thus, Scheduled Commercial Bank deposits with the RBI will increase by Rs.2.4 Trillion
  - **Thus, the net effect is that RBI's liabilities will decline by Rs. 3 Trillion**
- **New RBI Balance Sheet**

Liabilities	Rs. Bn	Assets	Rs. Bn
Notes in Circulation	12,218	Foreign Currency Assets	23,156
Deposits	8,198	Gold Coin & Bullion	1,368
- Govt.	1	Govt. Securities	7,562
- Scheduled Commercial Banks	6,550	Loans & Advances	468
- Others	1,647	- Govt.	43
Other Liabilities	9,217	- Scheduled Commercial Banks	371
		- Others	54
		Other Assets	147
<b>Total</b>	<b>29,633</b>		<b>32,702</b>

## Impact on RBI's Balance Sheet and its Implications...(3/3)

- We know that RBI's liabilities will decline by Rs.3 trillion. Now two options are available to the RBI to ensure that assets match liabilities:
  - **Option 1:** The RBI gives Rs. 3 trillion to the Govt. as “special dividend”. In this case, Govt. deposits with the RBI increases by that amount and thus total RBI liabilities match total assets
  - **Option 2:** RBI cancels old debt of government on its balance (its assets decline by Rs.3 trillion) or creates a contingency reserve (its liabilities increase by Rs.3 trillion)
- If Option 1 plays out, then the drag on growth is likely to be short-lived and we are likely to see a sharp rebound in economic activity in FY18 as govt. is likely to undertake significant fiscal stimulus
- If Option 2 plays out, then the drag on growth could extend beyond two quarters



# CERTAIN ISSUES

- Constitutional validity of Demonetisation
- What is the validity of demonetised currency notes accepted after 8<sup>th</sup> November ?
- Issues under Income Tax Act, 1961
  - Reporting of Cash Deposit under AIR
  - Whether 200% penalty on mere cash deposit
  - Can Section 270A be amended retrospectively ?
  - Notice on cash deposit exceeding Rs. 2.5 lakhs
  - Media reports of new amendment under Income Tax Act, 1961
- Issues under the Benami Transactions (Prohibition) Act, 1988

# **USE FOR SOME SPECIFIED PURPOSES**

**NOTIFICATION NO. S.O. 3408(E) [F.NO.10/03/2016-CY.I], DATED 8-11-2016 [AS AMENDED TILL 24-11-2016]**

## **Only Rs. 500 old note could be used**

Can be used until the 15th December, 2016 for :

- (a) for payments in Government hospitals and pharmacies in Government hospitals with doctor's prescription;
- (b) at railway ticketing counters, ticket counters of Government or PSU buses and airline ticketing counters at airports;
- (c) for purchases at consumer cooperative stores operated under authorisation of Central or State Governments up to a limit of Rs.5000 at a time (after provide identity proof);
- (d) for purchase at milk booths operating under authorisation of CG or SGs;
- (e) for purchase of petrol, diesel and gas at the stations operating under the authorisation of PSUs;
- (f) for payments at crematoria and burial grounds;
- g) for making payments in all pharmacies on production of doctor's prescription and proof of identity
- (k) for payments on purchase of LPG gas cylinders;

- (l) for making payments to catering services on board, during travel by rail;
- (m) for making payments for purchasing tickets for travel by suburban and metro rail services;
- (n) for making payments for purchase of entry tickets for any monument maintained by the Archeological Survey of India;
- (o) for making payments towards any fees, charges, taxes or penalties, payable to the Central or State Governments including Municipal and local bodies;
- (p) for making payments towards water, electricity charges;
- (q) for payments towards court fees;
- (r) for making payments towards purchase of seeds from the centres, units or outlets belonging to CG or SG, PSUs, National or State Seeds Corporations, Central or State Agricultural Universities and the Indian Council of Agricultural Research, on production of proof of identity.
- (s) for making payments towards school fees up to a limit of Rs. 2000 per student in the CG, SG, Municipality or Local Bodyschools;
- (t) for making payments towards fees for the CG or the SG colleges;
- (u) for making payments towards pre-paid mobile top-up up to a limit of Rs. 500 for every top-up;
- (v) for making payments at the toll plazas under NHAI including concessionaires, with effect from 3rd December 2016:

# WITHDRAWALS

(a) Current / OD / CC per week - Rs. 50,000/-

Savings per week - Rs.24,000

Traders registered with the APMC markets or mandis - Rs. 50,000/-

(b) From ATMs (not calibrated to dispense new Rs.500 and Rs.2000 notes - Rs.2,000 per day per card

From ATMs (calibrated to dispense new Rs.500 and Rs.2000 notes - Rs.2,500 per day per card

(c) Farmers allowed to draw upto ₹ 25,000/- per week in cash from their loan (including Kisan Credit Card limit) or deposit accounts subject to their accounts being compliant with the extant KYC norms.

(d) for wedding expenses - Rs. 2,50,000 subject to following

- (i) Withdrawal only from balances existing as at November 08, 2016.
- (ii) Only from KYC compliant accounts.
- (iii) Date of marriage is on or before December 30, 2016.
- (iv) Withdrawals can be made by either of the parents or the person getting married.  
(Only one of them will be permitted to withdraw).
- (v) A detailed list of persons to whom the cash withdrawn is proposed to be paid, together with a declaration that they do not have a bank account, where the amount proposed to be paid is ₹ 10,000/- or more. The list should indicate the purpose for which the proposed payments are being made
- (vi) Application form cum declaration with ID proofs of bride/groom
- (vii) Evidence of the wedding, including the invitation card, copies of receipts for advance payments already made, such as Marriage hall booking, advance payments to caterers, etc.

# THANK YOU



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