



KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION (R)



CA. Raghavendra Puranik
President

CA. Nagappa B. Nesur
Secretary

21st November 2016

To,
Shri. Narendra Modiji
Honourable Prime Minister
South Block,
New Delhi

Our Dear Pradhan Mantriji,

MEMORANDUM REGARDING DEMONETISING OF HIGH VALUE CURRENCY NOTES

The Karnataka State Chartered Accountants Association (R) (in short '**KSCAA**') is an association of Chartered Accountants, registered under the Karnataka Societies Registration Act, in the year 1957. KSCAA is primarily formed for the welfare of Chartered Accountants and represents before various regulatory authorities to resolve the professional problems faced by chartered accountants. We at KSCAA have been serving keenly our fraternity and public by having discussions with them and taking their issues and populating them before right forums in a selfless manner over the past six decades.

At the outset, we congratulate you on the firm steps taken by your government in curbing the ever existing menace of black money. As partners in nation building, we wholeheartedly welcome this move of the government and we pledge our unconditional support to make this initiative successful. Although this move has a lot of benefits in the long run, it has indeed caused certain inconveniences in the short run and may have a cascading effect in the immediate and medium terms. The objective of submitting this memorandum to your good office is to bring to your kind notice the hardships faced by various stakeholders and the possible remedial actions that can be taken by the government to mitigate the same.

Issues & Solutions:

1. Problems faced by below-the-poverty line- working class:

This move of demonetisation has impacted the poor, labourers and the marginal sections of the society. There are many daily wage workers who depend on their wages earned at the end of the day to meet their ends for items like groceries, snacks etc. Many small businesses like road side vegetable vendors, tea stalls, street hawkers, etc. have their business impacted because people are sceptical to spend the available cash with them. People are now making purchases from shops where the payment can be made through debit / credit cards, payment wallets, etc. Due to this, the livelihood of many such small vendors is adversely affected. These people are mainly from the unorganised sectors of the society who, despite your honest and herculean efforts towards financial inclusion, still remain out of it.



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Solution:

- Release of Rs. 200 demonimation note or free availability of Rs. 100 denomination notes at the earliest so as to ease the situation. A general communication to this effect by senior responsible officers would be highly appreciated.*
- The rural people may be educated over TV and radio about the new notes and about the new provisions so that they are not duped by the conmen.*
- Clear directive to be issued to people not to deface by scribbling anything on new notes.*

2. This time of the year is crucial for farmers who grow Rabi crops as it is the time for sowing activity. Already a few parts of the country have been hit by bad monsoon and in places where farmers can grow Rabi crops, if the farming inputs are not provided to them on time the consequences will be disastrous. Should there be a crop failure, inflation will be on the rise. Currently farmers are facing an acute hardship for procuring farming inputs like seeds, fertilizers, etc. due to the cash crunch.

Solution: *We request the government to take necessary steps such as supplying the inputs on credit based on AADHAR, bulk payments to dealers of agri-inputs through banks or through any other means which is practically feasible and at the same time protect the interests of farmers. Also, we appreciate the directive for transactions of agricultural seeds being allowed to be purchased against the old currency.*

3. Social Media messages circulated regarding the taxes and penalty measures: The middle class and the business community now fear harassment by Income Tax officials for the deposits they make into the bank accounts. The public announcement that deposits up to Rs. 2.5 lakhs per person will not be questioned has definitely relieved the genuine small time depositors. With every passing day, expenses are on the rise while incomes have relatively plummeted. This confusion is further confounded by the chaos caused by misleading social media messages. By virtue of these rumours, it is really becoming a puzzle for common man and every rumour about some IT notice or penalty has only aggravated fears in even an honest business person and common citizens.



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Solution:

- a. *It would be much appreciated if the IT department could allay any unwarranted fears in the minds of the common man by way of disseminating right information through various social media platforms like twitter, facebook, etc.*
 - b. *Generally it is the practice of many households to hold money of the order of Rs. 10-12 lakhs to meet urgent medical expenses, payment of capitation and other fees for schools, colleges, cash gifts to friends and relatives etc. Some relaxation and clear directives on the matter would ease their problems. Issuing clear directive as to the maximum cash to be held by business and individuals with prospective effect would help address this issue. Specifying a minimum limit for scrutiny like cash deposit exceeding 30% of the turnover for business or one time of the declared income in the form of cash deposit be acceptable norm and permitted without any scrutiny from income tax as even today the economy is still predominantly cash-based due to customer preferences.*
 - c. *Income and cash deposits of Rs. 20 lakhs and below be free of tax scrutiny and be tracked on income vis-à-vis deposits and VAT or Service Tax returns by respective departments. This will free the genuine tax assesseees from tax hungry vigilance team. IT department may be instructed to analyse the historical transactions of bank accounts, previously filed IT returns, etc. before serving the notices to people. By doing so we can avoid: (i) People misusing Jan Dhan accounts of others to convert their black money into white money because of the blanket protection from scrutiny of accounts up to Rs.2.5 lakhs. (ii) People with genuine income from genuine transactions like agricultural income, sale of land / building, etc. will not be harassed.*
 - d. *Penalty cannot be imposed on declared income and generally cannot be retrospectively imposed in common parlance. Stringent measures be imposed on high tax evaders and lenience be accorded to others since even today lower middle class public are not well informed and educated on the tax matters.*
 - e. *Jurisprudence principles of One Innocent person should not be punished even if a hundred are left scot free is the basis on which all our laws are framed. Though this is detrimental, still has some validity when you consider the plight of common hapless people and their extent ratio.*
- 4.** We must admit that the resilience and commitment showed by bankers in this hour of challenge has to be saluted. However, working under such extreme pressure for more than a month will not only impact their health but also the quality of work and may give rise to certain lapses in documentation or KYC.



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Solution: We request your good offices to instruct PSBs to hire the services of retired bankers till the end of the FY to assist the existing staff in day to day operations. Any lapse in procedures or documentation may adversely impact the already fragile health of PSBs.

The Way forward:

In the words of our Hon'ble PM, this is the first infant step taken by the government to fight the menace of black money. As a professional body we suggest that the government should take above steps, which would not only strengthen the government's fight against black money but also reduce the inconveniences caused to common man.

Long Term Steps

- Identifying economic sectors which act as a breeding ground for black money and enacting regulatory framework to such sectors to curb the menace of black money. Example – Real Estate. This is one sector which has maximum amount of black money involved mainly because of irrational rates of stamp duty and high degree of variation between FMV determined by the government / local authority and the actual market value (grey market value). Such anomalies must be addressed by holding consultations with industry players, state governments and the general public.
- Issue directives on the cash holding limit for individuals and businesses on the basis of ground realities like public needs and business expediency.
- Online measures under GST registration and instead of inspection visit for business, the same be handed to agency not linked to official departments.
- Rationalisation of Indirect Taxes especially in those areas which are prone to tax evasion so as to incentivise voluntary compliance.
- Rationalisation of tax structure and tax administration.
- Restriction on physical holding of gold and encouraging the gold holders to shift to gold bonds. This would not only reduce the gold imports of our country and reduce our CAD but also bring such transactions into banking channels. However, kindly consider our long standing traditional and emotional sentiments of married women who have **sthree dhan** in the form of physical gold and who are averse to holding the same in electronic form.
- Digitization of land holdings at the individual level and linking it to AADHAR and PAN to target the benamidars and have carve-out provisions for the commoners. The greedy practice is an offshoot recently and the steps are to be taken in consultation with land experts duly aligned with the existing laws.



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We appreciate the proactive steps undertaken by the Government, whilst we request your good selves to swiftly take actions to improve the sentiments of the commoners which is moving slowly into a depressive state.

Last but not least, we present before you the famous lines of the celebrated jurist Nani Palkhivala, who remarked that "the cause of concern about efficacy of the existing law could be a mere aberration warranting just the ironing out of creases without any need for changing the fabric itself."

**Thanking you,
Yours sincerely,**

For Karnataka State Chartered Accountants Association,

CA. Raghavendra Puranik
President

CA. Nagappa B. Nesur
Secretary

CA. Vijay Sagar Shenoy
Chairman
Representation Committee