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Banking Transaction Tax (BTT): Can this Reform Help India to be a Developed Nation

Dr. Meghashree A. Dadhich, Smit Doshi, Ronak Godhat*

ABSTRACT: This paper is an attempt to understand the concept of Banking Transaction Tax, which can be a possible new reform for digital India. After demonetization India has witnessed sharp increase in digital transactions but still tax collection is much lower and this has become a barrier for India to be a developed nation. Banking Transaction Tax (BTT) can be biggest tax reforms since 1947. It will replace all direct and indirect existing taxes. It will be levied on the transaction done through bank or any digital payment services amount of tax will be much lower as 2% which will be deducted from receivers account and to implement this tax system currency above 100/- Rs need to demonetize. Since all the taxpayers which would include the maximum population be required to switch to electronic methods of transaction, the scope of hoarding of wealth in the form of cash and evading taxes through loopholes would not be available. In present tax system scenario tax avoidance and tax evasion is much easy but this system can reduce tax avoidance and tax evasion to huge number. In India, less than 10% of the population pays direct taxes. By scrapping the current tax regime and imposing a tax on all banking transactions, large number of people would come within the tax ambit. This would result in increase of revenue for the government. In the long term, taxation laws need to be simplified. Wherever and whenever possible, positive reinforcement rather than the threat of punitive action must be used to influence attitudes and bring about long lasting behavioral changes. Data is collected through secondary sources such as official websites of Government and primary data is collected through questionnaire.

Keywords: Banking Transaction Tax, Demonetization, Digital Payment

AN OVERVIEW OF BANKING TRANSACTION TAX (BTT)

Indian economy is in need of a tax reform which can decrease the international debt of the nation. Current Indian tax collection is much less compare to its population. BTT is a revenue system that proposes to tax every transaction routed through banks most probably as a percentage of receipt amounts. The tax amount gets deducted as soon as the account is credited with any receipts.

*Smit Doshi, MBA (2019-2021), Department of Management, Atmiya University, Rajkot (Gujarat).

Ronak Godhat, MBA (2019-2021), Department of Management, Atmiya University, Rajkot (Gujarat).

Dr. Meghashree A. Dadhich, Assistant Professor, Department of Management, Atmiya University, Rajkot.

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Banking Transaction Tax (BTT) this reform is much needed to make Indian economy wealthy, Banking Transaction Tax (BTT) will replace direct tax and indirect tax. BTT Will be levied on transaction done through bank and digital payment services amount of tax can be 2% of transactions amount and currency above 100/-Rs. Need to withdraw the reason behind withdrawing currency is to give boost up to the digital transaction in big amount transactions. The tax would be charged on both cheque payments and electronic methods of transactions. The tax would be collected by government and equally distributed between Centre and the respective state where transaction took place. To implement this system government need to abolish all other forms of taxes, except customs on imports. India is speedily adopting the technology that has been observed since last decade, even vegetable sellers have started collecting payments through digital methods and day by day mobile users are increasing. It is very crucial to have an efficient and effective tax structure to increase revenue, reduce economic distortions and creating a competitive economic environment, India also need a new tax reforms to reduce the deficit in balance of payment. Currently due to heavy taxes and its compliances many foreign companies are avoiding to invest money in india.

India has already tested the effectiveness of BTT from 01st July, 2005 till 31st March, 2009 in a very limited manner though, through the implementation of Banking Cash Transaction Tax during that period. Not to mention that the results were encouraging enough to widened the scope of that tax, it had its drawbacks as well. Nevertheless, the idea of BTT has never left the minds of the revenue authorities. We are moving towards a phase where by the introduction of BTT may become inevitable at a stage and discourage cash transactions through penalising high transactions, levy of additional compliances and encouraging digital and electronic transactions with respect to payments and receipts through financial inclusion policies, incentives and legal amendments.

REVIEW OF LITERATURES

Bhishma's Counsel to Yudhishtira; The king should take wealth from his subjects at the proper time. Like an intelligent man milking his cow every day, the king should milk his kingdom every day. As the bee collects honey from flowers gradually, without causing harm to the tree; the king should draw wealth gradually from his kingdom for storing it. (Mahabharata, Book 12: Shanti Parva: Raja Dharmanusasana Parva)

Dr Subramaniam Swamy, a very well-known economist and politician globally, has repeatedly argued for the abolition of the income-tax & suggested the key steps to be taken to ensure a seamless transition to a more efficient as BTT based taxation regime. BTT would be a flat, single-point tax to be levied by commercial banks on all bank transactions, it would be simple to implement and have practically zero compliance cost.

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He also said that BTT is likely to generate the required tax revenue and have buoyancy too.

Ms. Sushmal, Dr. namita srivastava (2014) Said that proposed taxregime BTT is against the canon of Equity. Even with all the differences, most experts feel the need for a modification in the current tax system Arthakranti suggested that the disposable income out of one's salary gets directly reduced by 10-20 % at source. However, the 2% BTT would allow 98% of the salary to remain as disposable income.

SCOPE OF STUDY

After reviewing the literature and reading different opinion of experts and researchers everyone has one common point that India need a new tax system than prevailing system because our current system and current tax collection is less and Indian tax system has made very big effect on inflation as currently in India indirect tax is vary from 5 % to 28% which makes product and service costly. In every year budget there is some changes in tax slabs but this changes doesn't make any difference in the collection of taxes. After reviewing the literature affect of BBT on corporate companies were positive and on salaried whose salary is above 700000 Rs. has shown positive effect and salary below 700000 shows negative effect. Since now whatever effect observed on individual and corporate companies was compared with direct taxes only here BTT is replacement of direct and indirect taxes both so need to compare with both direct as well as in direct taxes.

BTT shall be a part of a big whole reform. Following maybe the further proposals that maybe:-

1. India needs a tax reform which can increase the tax collection by decreasing tax burden on individual;
2. Scrapping all direct and indirect taxes excluding import and customs duty;
3. Recalling and scrapping high-denomination currency notes;
4. Ensuring that all high-value transactions are made only through banking systems like cheque, DD, online and electronic;
5. Fixing the limit of cash transactions and stopping taxation on cash transactions;

OBJECTIVES OF STUDY

Since long India economy is facing crisis in tax system due to that India is running behind in race of developed nation. To be a developed nation India need a sufficient tax collection and systematic system for tax collection.

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1. To explore the current trend moving towards BTT maybe inevitable.
2. To compare the current tax collection with Banking Transaction Tax.
3. To explore the attitude of salaried and businessman towards Banking Transaction Tax.

DEVELOPMENTS TOWARDS FINANCIAL INCLUSION

The rural economy of india largely deals in cash. The mainstream banking system has reached rural India in a very staggered manner, keeping majority of india still not connected with the banking Operations. Right from seeds to fertilizers, the whole agrarian sector is largely dependent upon hard cash for day-to-day transactions. Digital India will be a favorable move as to ensure financial inclusion. The following trends may pretend the implication of BTT in near future:

1. Demonetization of high value currency notes overnight in November 2016.
2. Implementation of GST followed by e-waybill generation and now e-invoicing.
3. Reduction in the amounts of cash limits for payments of expenses and settling loans through amendments in income tax.
4. Introduction of TDS on transactions which are not in the nature of income or expense for anyone –TDS on withdrawal of cash from Banks.
5. Reporting of specified transactions related to cash by all types of persons through tax audit reports or annual information reports.
6. Linking of all bank accounts with PAN and Aadhaar mandatorily.
7. A specific scheme for opening of bank accounts–Jan Dhan Yojna.
8. Introduction of Unified Payment Inter face as a mode of instant payment.

RESEARCH METHODOLOGY

Research is a way of thinking: examining critically the various aspects of our day today professional work; understating and formulating guiding principles that govern a particular procedure; and developing and testing new the ories that contribute to the advancement of practice and profession. Research is the systematic study of facts with intent to seek knowledge on the basis of which certain decision can be made or valid conclusion may be drawn.

- a) **RESEARCH DESIGN:** Research design constitutes the blue print for the collection, measurement and analysis of data. There are total three type of research, exploratory, descriptive and casual. Here we have used descriptive research design to understand attitude of salaried and businessman towards Banking Transaction Tax & exploratory research design to compare the current tax collection with Banking Transaction Tax.
- b) **SAMPLE SIZE:** It indicates the numbers of people to be surveyed.

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Though large samples give more reliable results than small samples but due to constraint of time the sample size taken here is total 43 responses out of which 21 is businessman 22 is salaried.

- c) **SAMPLING METHOD:** The responses have been collected as per convenience sampling method, which is a classification of non-random sampling method.
- d) **METHODS OF DATA COLLECTION:** Study is based on primary data and secondary data. Primary data has been collected from salaried and businessman, data was collect via well structured questioner (Google form). Secondary data is collected from websites & research paper.

IMPACT OF BANKING TRANSACTION TAX

A. To study the effects of banking Transaction Tax on Salaried People.

Net Salary Income	Benefit under 80C	Tax as Per current tax system	Tax as per BTT @ 2%
250000	0	0	5000
500000	0	0	10000
750000	150000	23400	15000
1000000	150000	54600	20000
1250000	150000	98800	25000
1500000	150000	156000	30000
2000000	150000	304200	40000

- To check impact of banking transaction tax on salaried people here different net salary is taken into consideration.
- People those who have salary up to Rs. 500000 for them Banking Transaction Tax seems to be an increase in tax burden but whenever they will spend this money they will get benefit of Indirect tax, they don't need to pay indirect tax which they are paying in Current tax system.
- In current ongoing system those who have income more than Rs.600000 usually take benefit of 80 C to save a tax, After the benefit of Rs.150000 under section 80C Banking Transaction Tax seems beneficial
- Overall Banking Transaction Tax is beneficial for salaried people.

B. Comparison of current tax system and Banking Transaction Tax collection

Currently Indian taxation system has direct and indirect taxes mainly Income Tax is known as direct tax and Goods and service tax is known as indirect taxes, here need of comparison to check the impact on collection of tax.

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Income Tax & Other Direct Tax Collection			
Year	2017-18	2018-19	2019-20
Amount in Crore	1002037	1137685	1233720
GST Collection			
Month	2017-18	2018-19	2019-20
	Amount in crores	Amount in crores	Amount in crores
April	154000	103458	113865
May		94016	100289
June		95610	99939
July	21572	96483	102082
August	95633	93960	98202
September	94064	94442	91916
October	93333	100710	95379
November	83780	97637	103491
December	84314	94726	103184
January	89825	102503	110818
February	85962	97247	105363
March	92167	106577	97590
	894650	1177369	1222118
Total GST & Income Tax Collection			
Year	2017-18	2018-19	2019-20
	Amount in crores	Amount in crores	Amount in crores
Income Tax Collection	1002037	1137685	1233720
GST Collection	894650	1177369	1222118
Total Collection	1896687	2315054	2455838

- Data of direct taxes and indirect taxes shows to total collection of Rs.1896687 Crore in F.Y.2017-18, Rs 2315054 Crore F.Y.2018-19 and Rs.2455838 Crore in F.y.2019-20
- Figures of direct and indirect taxes have shown an increasing trend after implementation of GST and demonetization.
- Still this figures are not a sufficient for a developing country like India and to fill this gap India needs new tax reforms.

Since last three years India is moving forward towards digitalization and India has observed rapid growth in digital transaction. Usage of digital wallets, net banking, and mobile banking has seen to be more common these days. As per mckinsey digitalization will change the face of Indiaby2025.

Here is the data of bank transaction which includes RTGS, NEFT, IMPS, UPI, Transaction through debit & credit card, Paper based instrument (cheque or demand draft) & All other forms of digital payment.

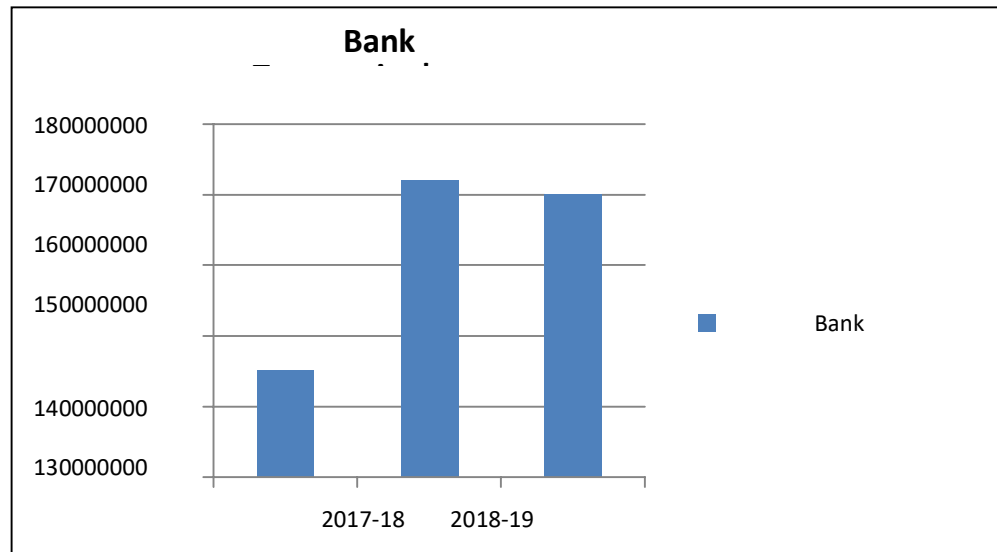
Bank Transactions Data			
Particulars	2017-18	2018-19	2019-20
Payment systems	Amt in crore	Amt in crore	Amt in

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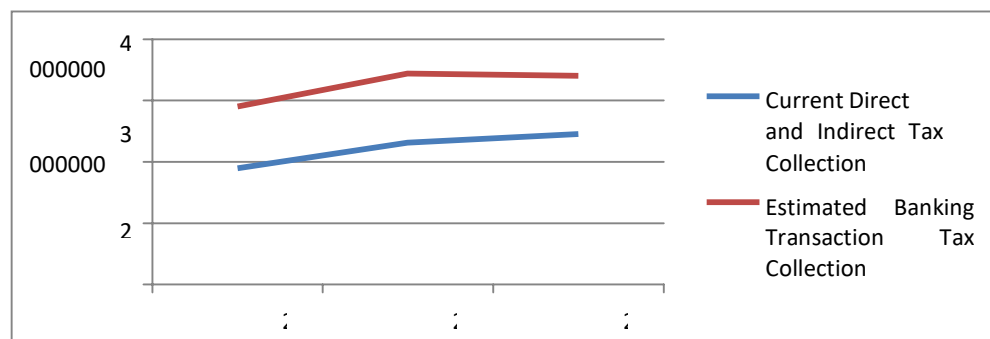
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			crore
1. Large value credit Transfer - RTGS Retail Segment	116712478	135688187	131156475
2. Credit Transfer	18814287	26097655	28572100
2.1 AePS (Fund Transfers)	300	501	469
2.2 APBS	55949	86734	99448
2.3 ECSCr	11864	13235	5145
2.4 IMPS	892498	1590257	2337541
2.5 NACHCr	520992	736349	1052187
2.6 NEFT	1,72,22,852	2,27,93,608	2,29,45,580
2.7 UPI	109832	876971	2131730
3. Debit Transfers and Direct Debits	399300	656232	826036
3.1 BHIM AadharPay	78	815	1303
3.2 ECSDr	972	1260	39
3.3 NACHDr	398211	654138	824491
3.4NETC (LinkedtoBankAccount)	39	20	203
4. CardPayments	919035	1196888	1535765
4.1CreditCards	458965	603413	730895
4.2Debit Cards	460070	593475	804870
5.PrepaidPaymentInstruments	141634	213323	215558
6.Paper-basedInstruments	8193493	8246065	7824821
Total Payments(1+2+3+4+5+6)	145180226	172098350	170130756
Comparison Of Current Direct & Indirect Taxes vs. Banking Transaction Tax (Amount in Crore)			
Year	2017-18	2018-19	2019-20
	(Amount In Crores)		
Total Direct & Indirect Tax Collection	1896687	2315054	2455838
Estimated Banking Transaction Tax	2903604	3441967	3402615



As shown in chart digital transaction has increased in past 3 years
(Figures in Crores)



- Data shows that collection of banking transaction tax is more compare to current direct and indirect tax collection.
- If currency above 100 Rs. is demonetized than bank transaction can get increase.
- Digital payments and transaction through bank have increase with huge numbers in last three years.

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- Banking Transaction Tax estimated collection is 50 % more than the prevailing system taxcollection.

C. To explore the attitude of salaried and businessman towards

Banking Transaction Tax

I. Salaried

Response from Salaried: If the tax system is simplified, equitable and small rate tax system, the motive of tax avoidance can be removed					
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Yes	18	81.8	81.8	81.8
	No	4	18.2	18.2	100.0
	Total	22	100.0	100.0	
If government impose an new tax system in which government will abolished GST & Income Tax and implement banking transactions tax in which approximately 2% will be deducted from receivers account will this system suitable for Salaried					
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Partially Beneficial	11	50.0	50.0	50.0
	Partially Not Beneficial				
	Beneficial	7	31.8	31.8	81.8
	Non Beneficial	4	18.2	18.2	100.0
Total		22	100.0	100.0	

Response from Salaried: No tax returns & No tax compliance					
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Partially Beneficial	6	27.3	27.3	27.3
	Partially Not				
	Beneficial	7	31.8	31.8	59.1
	Not Beneficial	9	40.9	40.9	100.0
Total		22	100.0	100.0	

- In a survey 50 % Salaried said that Banking Transaction Tax is Partially Beneficial Partially Not Beneficial 31.81 % Salaried said banking transaction tax is beneficial and 18.19 % salaried said banking transaction tax is not beneficial.
- 81 % Salaried said that If the tax system is simplified, equitable and small rate tax system, the motive of tax avoidance can be removed.

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- In a survey No tax returns & No tax compliance is not much beneficial to salaried people

II. Businessman

Response from Businessman: If the tax system is simplified, equitable and small rate tax system, the motive of tax avoidance can be removed					
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Yes	18	85.7	85.7	85.7
	No	1	4.8	4.8	90.5
	Can't Say	2	9.5	9.5	100.0
	Total	21	100.0	100.0	
If government impose an new tax system in which government will abolished GST & Income Tax and implement banking transactions tax in which approximately 2% will be deducted from receivers account will this system suitable for Businessman					
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Partially Beneficial Partially Not Beneficial	7	33.3	33.3	33.3
	Beneficial	13	61.9	61.9	95.2
	Non Beneficial	1	4.8	4.8	100.0
	Total	21	100.0	100.0	
		Frequency	%	Valid Percent	Cumulative Percent
Valid	Partially Beneficial Partially Not	1	4.8	4.8	4.8
	Beneficial	17	81.0	81.0	85.7
	Not Beneficial	3	14.3	14.3	100.0
	Total	21	100.0	100.0	

- In a survey 61.90 % Businessman said that Banking Transaction Tax is beneficial 33.33 % businessman said banking transaction tax is Partially Beneficial Partially Not Beneficial and 4.76 % businessman said banking transaction tax is not beneficial.
- 85.71 % businessman said that If the tax system is simplified, equitable and small rate tax system, the motive of tax avoidance can be removed.
- In a survey 81 % of businessman said no tax returns and no tax compliance is beneficial.

BENEFITS OF BANKING TRANSACTION TAX

The implementation of BTT could lead to several positive outcomes. While some of them are populist in nature, others tend to eradicate the menaces which have plagued the Indian economic system since decades. Here are the merits:

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- Burden of tax will get reduce on individual tax payer.
- Tax revenue collection will increase compare to previous system.
- Burden of cost of manpower of Income tax and GST department will reduce.
- Inflation will decrease as particular % of GST will be directly abolished from goods and services.
- Minimum tax rate motivate citizens to pay tax honestly.
- Loans rates will get decrease as banks will have more liquidity.
- Printing of fake currency will get reduce to big numbers.
- Crackdown of black money and currency printing cost can be saved.
- Financial inclusion will increase as more and more people will open their bank account and more and more people will use the banking facility.
- No need of maintenance of books of accounts.
- Greater transparency & accountability through cashless economy.

LIMITATION OF BANKING TRANSACTION TAX

The basic nature of a progressive taxation policy is to create more liability on rich and less on poor. But in case of BTT, a uniform rate of tax will be levied on all transactions irrespective of income bracket under which a person receiving the money falls. This makes BTT a regressive taxation. BTT would also create a cascading effect that is taxing the same income twice, which is most undesirable for businesses. The following will be the challenges of BTT:

- ☐ India is financially illiterate and illiteracy can be barrier for Implementation of Banking Transaction Tax.
- ☐ Demonetization or withdrawal of currency will affect the lower and middle class people.
- ☐ Applicable tax rate will be same for both rich and poor which will effect into inequality.
- ☐ Applicability of new system will create many barriers.
- ☐ Need of server and network which can handle traffic.
- ☐ Cybercrime and bank fraud has increased in present scenario in that case safety and security become biggest challenge.

Financial Inclusion is very less in India and this can be trouble for implementation of Banking Transaction Tax.

KEY FINDINGS

- ☐ India is making a move forward toward digitalization as digital payment and use of banking service has increased.
- ☐ India can increase its tax collection by implementing new tax reforms Banking Transaction Tax.
- ☐ India direct and indirect tax collection has shown an increasing trend in last 3

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years

- ☐ Tax burden increases for low salaried individual.
- ☐ Tax burden decreases on high salaried individual.

SUGGESTIONS

- ☐ Need of development of portal which can accommodate the traffic of individuals in banking system.
- ☐ Literacy needs to increase in India regarding banking facility.
- ☐ Financial inclusions need to increase (opening of zero balance bank accounts)
- ☐ Citizen of nation needs to aware about need of payment of tax payment

CONCLUSION

Taxation should be pare to optimal—it should neither diminish the drive for enterprisenor should it result in huge inequities due to the hoarding of money by a select few. An

unduly high tax rate and low exemption limits are constraining factors on consumption and enterprise. That is why having a transparent and forward looking tax system is critical for any economy. Banking Transaction Tax can be new reform for India but to implement this system India need a proper planning and proper education to its citizens. India needs an increase mobile phone user to increase digital banking and mobile banking .India is progressing at a rapid pace and this progress can be an economic revolution for India and by adopting new tax reforms India can transform its status of Developing Nation to Developed Nation.

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