
**HIGH DENOMINATION NOTES: GOVERNMENT ACTION MIRRORS INDUSLAW PARTNER'S 2014
OPEN LETTER**

The Government of India took unprecedented action at midnight on November 8, 2016 to effectively demonetize Rs. 500 and Rs. 1,000 notes (together “**High Denomination Notes**”) as legal tender, withdrawing them from circulation.¹

Banks in India remained closed on November 9, 2016, and ATM cash machines will remain closed for operations until November 11, 2016, when it is anticipated that Rs. 100 and Rs. 50 notes (together “**Low Denomination Notes**”) will be able for dispensation.

Banks are expected to re-open on November 10, 2016 and will remain open on Sunday November 13, 2016, to facilitate the exchange or deposit of High Denomination Notes.²

High Denomination Notes will be unavailable for distribution from ATMs until further notice, and it is likely that withdrawals from Banks will be limited to Low Denomination Notes until new Rs. 500 and Rs. 2,000 notes are available for circulation to the public.

It has further been notified that banks may fix a limit on withdrawals from ATMs to Rs. 2,000 per day per card until November 18, 2016.

Over the counter withdrawals are limited to Rs. 10,000 per day and Rs. 20,000 per week from November 9, 2016 until November 24, 2016 and will be reviewed thereafter.

Persons may deposit High Denomination Notes with a bank for crediting until December 31, 2016 though depositors will not enjoy any form of tax immunity for such deposits.

INDUSLAW VIEW

We are very pleased to see that the Government of India has taken action to address the problem of *black money* in the domestic economy by withdrawing High Denomination Notes

¹ <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10684&Mode=0>

² https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38539

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from circulation. This move also seems another positive step towards taking India to a cashless (electronic) banking system, and a more inclusive economy.

These actions coincidentally reflect the general recommendations made by one of our partners, who submitted an open letter to the Finance Minister in June 2014 in his personal capacity.

We enclose a copy of that letter in the annexure to this press release for your further information.

Whilst we do acknowledge some hardship will be caused for those citizens of India that are still “un-banked”, we sincerely believe that this disruption will be temporary and laud this measure as another step towards helping India reach its full potential as a global economy.

We sincerely hope that these measures will bring about greater transparency and accountability, reduce corruption and encourage cashless (electronic) transactions as India moves towards an inclusive electronic banking system.

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ANNEXURE

COPY OF THE ORIGINAL LETTER

Ranjan William Chakrabarti

Advocate (India) | Solicitor (England & Wales)

The Finance Minister

Ministry of Finance North Block

Rajpath

New Delhi 110 001

1 June 2014

Dear Mr. Jaitley,

RE: Black money in the Indian economy

Firstly, I would like to congratulate you on your recent appointment as Finance Minister.

I would like to propose the following simple solution to addressing the problem of black money within the Indian economy.

1. Abolishing existing currency notes

The Government of India announces that in six months time, all existing bank notes in circulation will become worthless.

2. Exchange of existing currency notes

All individuals and other entities will be able to exchange their existing currency notes for new currency notes only by depositing such money into a bank account.

3. Crediting of cash

The crediting of cash into a bank account necessarily means that the cash balance that an individual or other entity holds will become electronically recorded and therefore known to the banking and taxation authorities.

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4. Reissue of new currency notes

Depositors will have the option to either withdraw their balances in the form of new currency notes, or maintain their balances within the banking system.

5. Withdrawal of cash

It does not matter if depositors subsequently withdraw their cash, since there will be an electronic record of the deposit, and therefore, a benchmark for future taxation. Depositors will therefore withdraw and spend their cash at their own future risk.

6. No alternative to depositing cash

It will be impossible to avoid the only rational conclusion of declaring and depositing cash within the banking system. Those who try to convert their soon to be illegal currency notes into physical assets (such as land or gold) will find that the owners and sellers of such assets would not want to part with them in exchange for soon to be illegal currency notes, which they will inevitably have to deposit into the banking system to maintain their wealth.

7. Inducement to deposit

The government could provide an additional inducement to encourage depositors (though it will not be necessary, as persons holding cash will have no choice but to deposit if they don't want to lose their wealth) by offering a flat 10 per cent rate of income tax on all deposits.

8. Requirements for the proposal to work

The proposal will effectively force all individuals to open a bank account, therefore providing all individuals with a bank account number, which could be universalized to replace the PAN number.

It does not matter that an individual may or may not have identity records as a pre-condition to opening a bank account, on the logical assumption that if you have no identity documents, you would not want to open an account and deposit cash for the benefit of someone else.

I sincerely hope that you consider this proposal, which is both simple and achievable.

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By pushing through this one simple act, the Government of India will once and for all solve the issue of black money within the Indian economy.

I wish you good luck in your new role and earnestly hope that you achieve great things for India.

Yours sincerely,

Ranjan William Chakrabarti


