CBDT move puts tax reforms in peril

A high-level panel headed by the Central Board of Direct Taxes (CBDT) chief has suggested limits on cash held by individuals besides mandating a no-objection certificate from the tax department on immovable property transactions, moves that threaten to undo years of tax reforms and raise the compliance burden.

In addition, there is the politically unfeasible option of getting states to levy tax on farm income and levying wealth tax on gold jewellery to "discourage investment in unproductive assets". As an incentive, the panel proposed sops for other financial instruments to take the sheen off the yellow metal.

Although couched with "safeguards", the measures, if implemented, may lead to harassment of taxpayers and increase the cost of doing business in the country, especially with the tax records for up to 16 years being reopened for levying tax on undisclosed assets held overseas.

There are also suggestions of a harmonized indirect tax regime despite the government being forced to drop one of the suggestions on tax-deducted at source for all property deals. Even in case of jewellery, the government had proposed to make it mandatory to submit the permanent account number for all transactions over Rs 2 lakh, which was later watered down to Rs 5 lakh.

In its recommendations to curb generation of black money, the committee has suggested amendments to the RBI Act putting a limit on cash holdings for private use, in addition to regulating the possession and transporting of cash. It has asked the government for including provisions in the law seeking confiscation of cash held beyond a prescribed limit but has not suggested a cap, or at least the white paper does not mention it.

The committee, which submitted its report in March, also suggested that there should be a cap on the number of accounts that can be opened.

The high-level committee on black money also sought a mandatory no-objection certificate to be obtained from the income tax department before entering into any property transaction above a specified limit. In its white paper on black money tabled in Parliament on Monday, the government has incorporated most of the recommendations of the panel.

The panel said obtaining an NOC was important to reduce the element of black money in transactions relating to immovable properties. It said the provision should be introduced in the income tax law with safeguards and this could help in setting up of a uniform database which can be used for a national-level regulation later.

The new system is proposed to be computer driven with minimal interface between the tax authorities and the tax-payer, and enforced by a dedicated unit within the investigative machinery of the income tax department on the basis of pre-determined parameters and standard operating procedures. The electronically generated NOC, within a specified period, would also act as a tax clearance certificate.

In another significant recommendation, the panel has asked for a levy on agricultural income to be imposed by state governments with facility for computerized processing and selective verification. "This will on the one hand enhance revenues of state governments, and on the other hand prevent laundering of black money in the garb of agricultural income," the report said.

The panel also called for setting up of a regulator under company and income tax laws with powers to empanel auditors to randomly inspect accounts of the private sector firms.

Highlights of Important recommendations:

1. Comprehensive regulation for transparent and efficient allocation of natural and man-made resources

2. Mandatory audit of all social sector schemes

3. A dedicated training center for all law enforcement agencies dealing with financial crimes

4. Levy of agricultural income tax

5. Modification of the accounting standard by ICAI to be made applicable to real estate developers

6. Use of banking channels and credit/debit cards for a cashless economy

7. Stringent KYC norms for participatory notes subscribers

Times View

The white paper on black money prepared by the finance ministry is disappointing for its lack of rigour. Worse, however, it seems to believe that a throwback to the days of the inspector raj is the best way to deal with the problem of undisclosed incomes. The suggestion for a no-objection certificate in case of transactions of immoveable properties or the one on a ceiling on how much cash individuals can hold are just two instances of this mindset. Historical experience has shown that such rules only serve to complicate life for honest citizens and provide more scope for corruption. If the government is serious about reducing the size of the black economy, it will have to do better than this.

(Times of India)