

Finance Ministry to mail 'polite letters' to service tax defaulters

Service tax, customs and excise duty defaulters will get "polite letters" seeking information about their pending liability and any suspicious dealings carried out by them possibly with black money.

The novel method of non-intrusive letters will be sent to seek clarifications from an entity or an individual who has carried out a financial transaction, red flagged by economic intelligence agencies as black money or seen as an attempt to dodge authorities from paying taxes, Finance Ministry officials said.

It will be for the first time that such polite letters will be issued to indirect tax defaulters. Earlier, only the Income Tax department issued such letters to tax dodgers, they said.

The Directorate General of Central Excise Intelligence (DGCEI) and Directorate General of Revenue Intelligence (DGRI)--two lead intelligence agencies under the Finance Ministry--have been made the nodal authorities for the purpose.

While the DGCEI will send the letters to service tax and excise duty defaulters, the DGRI will send them to customs duty evaders, the officials said.

Both the DGCEI and DGRI will also coordinate with Financial Intelligence Unit (FIU), an agency tasked with analysing and disseminating information relating to dubious transactions, to check flow of black money through service customs and excise duty evasions.

Based on the inputs from the FIU, these agencies will also write to respective entity to seek details on suspicious transactions carried out by them.

The officials said a person or company on receipt of such letters can attach relevant documents as proof against a suspected transaction, earmarked by FIU or other intelligence agencies, while writing back to the authorities.

The aim behind sending such letters is to remove bureaucratic hassles and develop faith in people about tax authorities. There will be no in-person interrogation or investigation. These letters are not to create panic among people but to politely seek information from them, they said.

The idea to send such polite letters is the brain child of Finance Minister P Chidambaram. He had advised DGCEI and DGRI to consider issuing polite letters to entities, reported in a Suspicious Transaction Report (STR) issued by the FIU, which are not known to their databases seeking basic information whether they were a manufacturer, importer, exporter or a service provider.

An STR involves a transaction of Rs 10 lakh and above, which gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime including black money.

"These (sending letters) would be a very useful first step," a Finance Ministry official said.

A draft of the letter, which contains the summary of financial transaction, has been approved by the Finance Minister.

The Finance Ministry feels that sending these letters will help in checking tax evasion and result in more voluntary filing of returns by such dodgers.

It is pertinent to mention the letters, already being sent to people who do not file income tax returns, have got encouraging response.

The Finance Ministry has from May 10 implemented one-time amnesty scheme--Voluntary Compliance Encouragement Scheme (VCES)--for service tax defaulters to pay their due without any penalty or late payment charges.

Of the 17 lakh registered assesses under service tax, only seven lakh were filing returns, Chidambaram had said while presenting budget for 2013-14.

Noticeably, the Ministry has also detected custom duty and service tax evasion of at least Rs 400 crore between January and March this year.

(Economic Times)