Foreign remittances come under scanner

The Income-Tax (I-T) Department has started looking at new areas in revenue mobilisation to substantially augment revenue collections in 2012-13. As part of this plan, the I-T Department is set to closely scrutinise tax deducted at source (TDS) on foreign remittances.

A senior finance ministry official said TDS on foreign remittances had become a big issue, as the amount of remittances without TDS had been growing substantially in the last few years.

According to the figures available with the department, in 2010-11, total remittances without TDS was Rs 2,74,598 crore. It jumped to Rs 4,94,926 crore in 2011-12. This financial year up to May 15, the total amount without TDS has touched Rs 3,92,079 crore.

The official said the remittances – such as payments for royalties, technical fees and services — were being made on the certificate of chartered accountants and this being the huge sum, needed to be properly checked.

Currently, TDS was applicable on the payments made to the foreign entities according to the provisions of the Double Tax Avoidance Agreements (DTAAs), for those with residency in the countries with which India had such agreements, he added. “In case of the payments made to the residents of the countries with which India has not signed DTAAs, rates prescribed in the Income Tax Act are applicable.”

Further, it has identified, due to the misuse of tax benefits, certain regions in the country have become similar to tax haven that help in money laundering and are needed to be tackled strictly.

A discussion paper on exploring new areas in revenue mobilisation, prepared for the two-day annual conference of chief commissioners and directors general of income tax held on June 11 and 12 suggests achieving the Budget target in the current scenario, particularly when the economy is not doing very well, may be an uphill task. It also says Finance Minister Pranab Mukherjee’s GDP growth projection of 7.6 per cent for 2012-13 would be difficult to achieve.

Direct tax collections in 2012-13 have been pegged at Rs 5,70,257 crore, against the revised 2011-12 target of Rs 5,00,651 crore. The actual collections for 2011-12 were Rs 4,88,000 crore. This means the Budget Estimates for 2012-13 peg direct tax collections to be Rs 82,257 crore, or 16.80 per cent, higher than the actual collections for 2011-12.

The department has also identified land acquisition cases, cash payments to doctors by hospitals and payments made by the NGOs, as the areas with huge potential of getting tax.

It is also dwelling on linking the assessment of current return with the past records, as non-linking was leading to huge loss of revenue.

The paper further outlines that twin anti-growth measures — persistent high inflation and high interest rate due to tight monetary policy — are eroding business profits and would continue to do so.

A one percentage point fall in GDP translates into a decline of Rs 20,000-25,000 crore in revenue collections, the note mentions. It adds, 22 per cent drop in the value of the rupee against the dollar has imposed an additional burden of $6.6 billion on Indian companies going for external commercial borrowing and foreign currency convertible bonds.

(Business Standard)