

## **Investors panic as Income Tax seeks details from unlisted companies**

*What triggered the action in both instances was the same: a tax department instruction.*

A Mumbai-based investor who has stakes in a few startups and unlisted companies is seeking to exit the investments in the next few months. Another person, who had invested in a Kolkata-based company a few years ago and is on its board, is in an advanced stage of selling his shares.

What triggered the action in both instances was the same: a tax department instruction.

According to the tax return form released by the department, assessees must provide details of any investment they have made, and directorial positions they hold, in unlisted companies in their tax returns. This has caused a lot of flutter among people who have such holdings. Fearing tax problems in future, many of them are rushing to sell or transfer the shares and resign from the boards before they file their returns, tax experts said.

The fear is that tax officials could closely scrutinise those data and initiate investigations if they find any mismatch, they said.

“The way the enhanced details of the shareholding in private companies in India and abroad are sought by the tax department, going ahead they could be looking to cross verify this with the ROC (Registrar of Companies) or other secondary records,” said Paras Savla, a partner at KPB & Associates. He advised taxpayers to take steps to collate the necessary information and provide those in the tax return, as otherwise it could lead to penal consequences under not only the Income-tax Act but also other laws like the Black Money Act.

As per the directive, the assessee must furnish these details for the last fiscal year ended on March 31. But many of the investors are likely to exit their holdings and board positions and avoid reporting those, hoping that the tax department wouldn't closely scrutinise their returns.

Tax officials could still find out the information if they want to go after a taxpayer. These people are ready to take that risk, said tax experts.

If they provide the information, tax officials are more likely to compare that against ROC data. Many of these investors are not very comfortable with that.

“In Panama and Paradise papers leak, many investors were just directors in companies and they were questioned as to whether they were beneficiaries. Now imagine if such information has to be submitted voluntarily to the income tax department,” said a lawyer, who is advising a client in such a case.

An income tax officer, on condition of anonymity, said the details were sought to create a database. “In many cases, we suspect that some of the investors are manipulating balance sheets of unlisted companies. There is no clear way of knowing who owns what and what is their exact income and if it's escaping taxes,” he said.

*(Economic Times)*