New amnesty scheme levies 31% effective tax, Centre won't question income source

The government is looking to encourage people with black money stashed away under the mattress to come clean by softening the tax blow in its amnesty scheme that runs from June 1 to September 30. They may only need to pay an effective tax of about 31% against 45% stipulated in the Income Declaration Scheme 2016. That's because, unless someone is trying to launder bribe money, no questions will be asked about where the tax amount is coming from.

This has emerged in a clarification issued on June 30 that said tax department will not make any enquiry on the declarant's "sources of income, payment of tax, surcharge and penalty".

Here's the math: If a person declares undisclosed assets valued at Rs 100 crore, her tax outgo would be Rs 45 crore under the scheme. The remaining Rs 55 crore would be treated as legitimate income. However, if no questions are asked about the source of income from which the tax is paid, the declarant can discloseRs 100 crore and pay Rs 45 crore as tax from another source. In effect, the undisclosed income works out to Rs 145 crore, of which only Rs 100 crore would be on the books. That would make for an effective tax liability of 31%.

However, what is not clear is how the reconciliation will be achieved. Tax experts reckon the government may have to allow declarants the flexibility to deposit cash in banks for a limited period to facilitate tax payment.

Some tax experts, however, disagreed with the interpretation. "The immunity granted under the scheme is in respect of income declared under the scheme and nothing else. Therefore, the declaration would comprise of aggregate taxes, penalties and the amount recorded in the books of accounts. If there is any additional amount (of undisclosed income), immunity would not be available to the undisclosed income," said Dinesh Kanabar, chief executive officer, Dhruva Advisors.

The government has also made it clear that it will not share information used in the declaration with other law enforcement agencies. The clarification also said the purpose of obtaining information about the nature of undisclosed income should not be confused with the source of income. "There is no need to indicate the source of income," said the circular issued by the Central Board of Direct Taxes (CBDT).

The government has launched a wide publicity campaign to market the scheme to persuade Indians to reveal unaccounted income or face stringent punishment under the new black money law.

"We lose our peace by violating rules. Why not give correct information about our income and assets to the government?" Prime Minister Narendra Modi had said in his radio address last week.

The government's earlier amnesty scheme on undisclosed overseas assets failed mainly due to uncertainty about penalties. The government wants to bridge the trust deficit this time, said officials.

Mid-course corrections are not uncommon in amnesty schemes. For example, several clarifications had to be issued at the time of the Voluntary Disclosure of Income Scheme in 1997, an exercise from which the government raised nearly `10,000 crore. The idea is to encourage as many people as possible to participate and thereby boost revenue.

CBDT has, however, made it clear that proceeds of corruption will not qualify for the scheme. But otherwise, when it comes to sources of income, no uncomfortable queries will be made.

Or as the clarification puts it, the answer to this question is no: "Where a valid declaration is made after making valuation as per the provisions of the scheme read with the IDS (Income Declaration Scheme) rules and tax, surcharge and penalty as specified in the scheme have been paid, whether the department will make any enquiry in respect of sources of income from which a person pays tax on undeclared incomes?"

(Economic Times)