

New tax rules will boost compliance and help curb black money generation

The ability of wealthy Indians to conceal their assets held abroad is vanishing fast. The tax authorities have issued clear rules for the voluntary compliance scheme to incentivise transparency. The scheme has the right mix of carrot and stick, but the real task is to stem black money at the stage of generation. Some forbearance is pragmatic for allowing money overseas to be brought back at a price. Those who come clean can escape prosecution by paying 30% tax and an equal amount as penalty by December 31, though declarations must be made by September 30. The contents of the declaration shall not be admissible in evidence against the declarant in any penalty or prosecution proceedings under five laws: the Income-Tax Act, the Wealth Tax Act, Fema, the Companies Act and the Customs Act.

A guarantee that the declarant will not be prosecuted in future makes sense, but that will not hold, if the declaration is on the proceeds of graft. Picking holes on the procedures for valuation of undisclosed assets, even if complex, is unwarranted. For the scheme to find takers, there should be no breach of confidentiality, and politically-motivated leaks. The stiff punishment proposed for violators might be good politics. But for practical results, the government should push for reforms on many fronts instead. Foremost, make political funding transparent and institutionalised. Industry should take the lead in this process. Adoption of the goods and services tax that creates multiple audit trails will help. Regulation of the real estate sector, moderation of tax rates and lowering the cost of compliance will boost compliance.

India has joined the globally coordinated effort to crack down on tax evasion. Besides the pact on automatic exchange of financial information with the US, 58 countries, including India, have agreed on automatic sharing of information that will kick in from 2017, and help combat black money transfers. The unique legal identifier system will also make opaque holding company structures turn transparent, and help taxmen.

(Economic Times)