

ET By Invite - Income Declaration Scheme is to Make Business More Transparent

DS SAXENA

The Income-Tax Investigation Commission formed just after World War II was the first disclosure scheme while the penultimate was the controversial Voluntary Disclosure of Income Scheme of 1998.

The aim of IDS 2016 is not to garner taxes but to make Indian businesses compliant with the new reality a transparent balance sheet. You cannot get a bank loan or persuade an investor to invest in your business unless you can show them an asset which you aim to exploit. IDS has an element of penalty. It does not put a habitually honest tax payer in a disadvantageous position vis-à-vis a newly honest tax payer.

- a) You declare your undisclosed income in Form No1.
- b) Your jurisdictional PCITCIT determines your tax liability and sends you a computation of the tax that you have to pay in Form No2.
- c) After paying the tax, you have to send Form No.3
- d) the PCITCIT would issue you an Immunity Certificate in Form No.4, which you can produce if any scrutiny or prosecution is contemplated in respect of the income you have declared.
- e) IDS provides immunity under the Income-tax Act, Wealth tax Act and the Benami Transactions (Prohibition) Act, 1988.

The USP of IDS is its straight forwardness. Assets held in any form, for example cash, bullion, artworks, immovable property etc can be declared. The cost price of asset or its value on 1 June, 2016, is to be taken. For immovable property, the tax payer has the option to take indexed cost of the property, that is the stamp duty value of property at the time of purchase multiplied by cost inflation index.

The valuation of property submitted by the tax payer, supported by the report of a registered valuer, would be accepted. [Income declared](#) by the taxpayer would [not be subjected to scrutiny](#).

The I-T Department has clarified that [undisclosed income](#) held in the form of entries (say [bogus loans](#)) [can be declared](#). If income is earned in a particular form in one year which undergoes a change in a later year, then income declared in the first year would suffice. For example, if a person earned unaccounted income of Rs. 10 lakh in 2012 and used this to purchase a motor car (unaccounted) in 2014, then that person would only have to disclose Rs 10 lakh in 2012.

A less appreciated facet of IDS is immunity granted under the Benami Transaction (Prohibition) Act, 1988. It may be better if one avails of IDS if only to escape the rigours of the Benami Act. [Another controversial provision](#) is Section 197(c) of IDS, which states that [an unaccounted asset can be taxed](#) in the year it is noticed.

Experts say this provision runs counter to the scheme of the Income-tax Act, 1961, which provides only a six-year period for assets to be taxed. [Income from corruption cannot be declared](#) under IDS. So, corrupt government servants cannot avail themselves of the benefit of IDS.

I would not recommend IDS for public limited and listed companies, because of the stringent disclosure norms. Such information, if put in public domain, would set shareholders and enforcement agencies after the company. IDS may suit private limited companies, where disclosure can be made in the hands of shareholders who can increase their capital in the company in the existing ratio. For jewellers, the rise of gold prices since 1 June, 2016, has made IDS a very viable proposition.

With the development of data mining techniques, the IT department is on the verge of converting this data into actionable information. In Mumbai, we found more than 40 lakh pieces of information lying unused.

After some basic filtration we selected 2,10,000 pieces of the information which pertained to 60,000 entities. After bunching the data, letters have been sent to these 60,000 persons to explain the transactions they had entered into.

Due to compulsory reporting of high value transactions and start of the GST regime, I foresee a time in the near future when it would become difficult even to spend unaccounted money.

The government had its compulsions in fixing the tax rate (for IDS) it cannot appear to be soft on tax evaders. I would recommend IDS if not for the fear of consequences, then for the opportunity it provides for running a clean business with a greater scope for expansion.