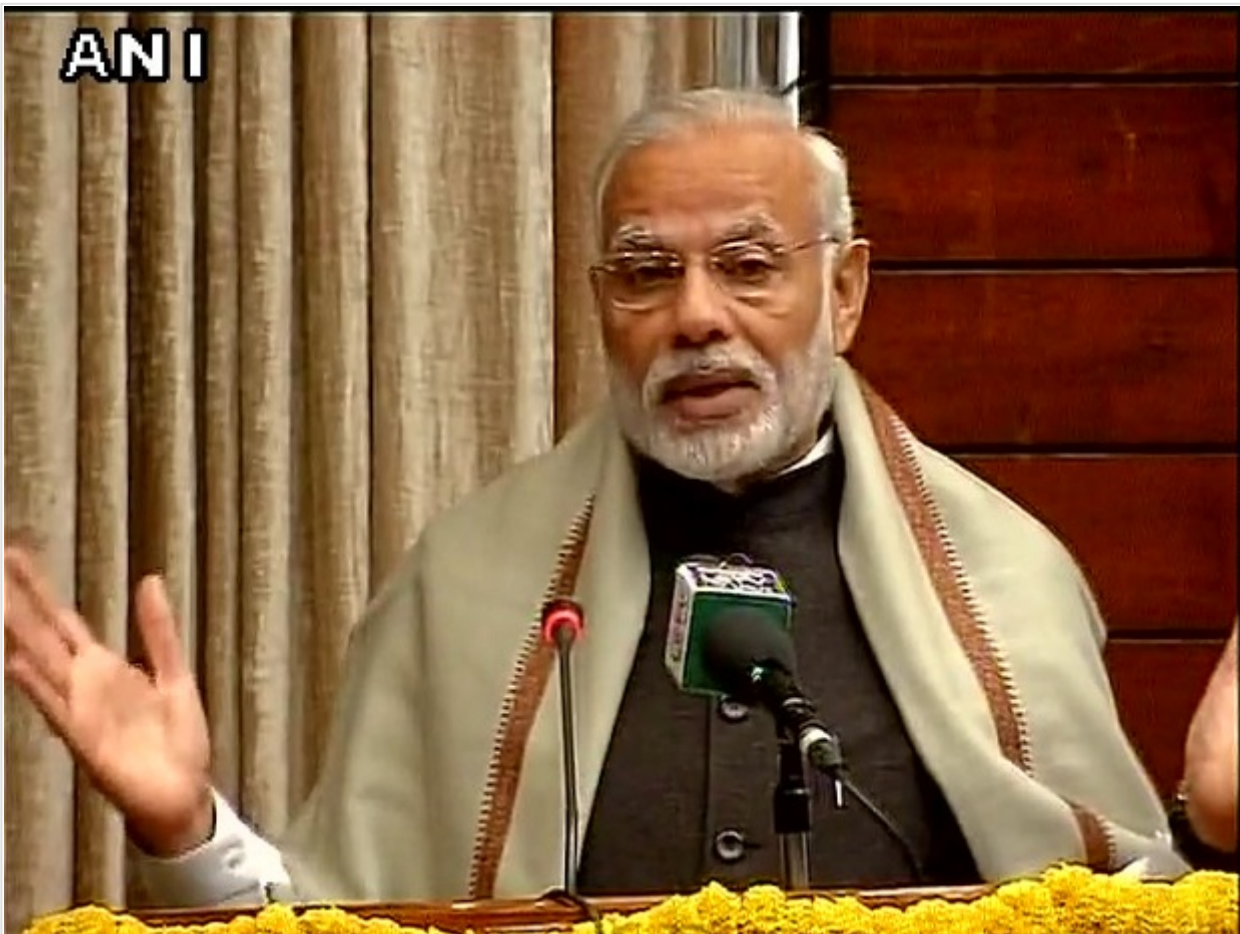


Business Standard

Demonetisation: Unaccounted deposits to attract 50% tax

Amendments will be tabled in Parliament for approval by Monday or Tuesday

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Those who deposited their black money in banks, disclosing it to be untaxed wealth, since the

Narendra Modi (Photo Courtesy: ANI)

government announced demonetisation will now have to pay income tax at 50% and a quarter of the portion of the unaccounted income would remain with the government for four years, as per amendments planned to the Income Tax Act by the Centre.

The amendments will be tabled in Parliament for approval by Monday or Tuesday, a top government official said on Friday.

According to the amendments planned, those who deposit their unaccounted income in banks till the last date would have to pay a 50% tax and will have to forgo 25% of the deposited amount for four years. Those who do not disclose their black money and are caught by income tax (I-T) officer would have to pay 60% tax and 30% penalty, the official said.

The government announced demonetisation of the old series Rs 500 and Rs 1,000 currency notes on November 8. Those who possess money in these denominations were allowed to exchange it for new notes at

banks till Thursday, or deposit the sum in their accounts till December 30.

The amendments to the I-T Act were approved by the Union Cabinet on Thursday. The sum that a black money holder will have to forgo for four years may be invested in zero-rated bonds, sources said. But there was no clarity about this yet.

Responding to reports, sources in the government also clarified it had no intention of imposing any limit of holding of gold.

Black money holders who availed of the recent window had to pay 45% of the money to the government, comprising 30% income tax, 7.5% penalty and surcharge each. The tax is to be paid in three instalments — 25% of the total tax, cess and penalty by November 30, an equivalent amount by March 30 next year and 50% by September 30.

So, those who did not avail of the window will now have to pay a higher rate.

Amit Maheshwari, managing partner, Ashok Maheshwary & Associates, said money was never parked in bonds in any of the previous income-disclosure schemes. However, there are bonds to escape capital gains.

He said the government does not need people to declare their black money, but is wary of black money holders trying to convert these into white through Jan Dhan and other accounts.

This was because if all the Rs 14 lakh crore in circulation in old Rs 500 and Rs 1,000 currency notes returned to banks, the Reserve Bank of India's (RBI's) outstanding liabilities would remain the same and it would have to issue this amount to banks in new currency notes.

If part of this money was held in black, say Rs 3 lakh crore, did not come into the system, these would be wasted and RBI have to issue only Rs 12 lakh crore to the banks in new currency notes.

The remaining Rs 3 lakh crore was its gain, which could be transferred to the government at the end of RBI's financial year in June.

“But,” he said, “the government does not want those converting black money into white through dubious means getting away. Besides, their money will remain in the system for specified period and could be deployed for productive purposes.”

Since November 10, when people were allowed to deposit their money in old currency notes at banks, Jan Dhan accounts saw a surge of Rs 20,000 crore, almost 50% of total deposits in these accounts in over two years since the launch of the scheme. Sources said the government was keen to root out benami deposits, particularly in Jan Dhan accounts.

The step was also significant since the current provision of 30% tax and 200% of tax as penalty could be circumvented by those who might deposit black money but pay tax in advance. In that case imposing a penalty could become a vexed issue under the current I-T Act.