

FICCI identifies the root causes of black money generation. Submits report '*Widening of tax base and tackling black money*' to the Govt.

New Delhi, 19 February 2015: The issue of widening of tax base of the country has been a subject matter which has received considerable attention of the successive Governments over the years. There has been intense debate on the subject in the recent past also. FICCI has come up with an analysis in the form of a paper titled '*Widening of tax base and tackling black money*'. The document identifies the root causes of generation of black money in India, sectors where black money generation is prevalent and suggestions to uncover the generation, accumulation and distribution of black money within the Indian economy. A copy of the aforesaid study has been submitted to the Revenue Secretary and other officials of the Ministry of Finance.

Some of the important suggestions forming part of the document are as follows:-

1. Incentivise transactions through credit/debit cards and other banking instruments:

It is recommended that Government may provide some incentives so that dealers (particularly of high valued items like jewellery, FMCG etc.) are encouraged to accept payments through credit card / debit card and other banking instruments. These incentives could take the form of an additional deduction from income relatable to the transaction value for calculating the tax liability or a reduced Value Added Tax (VAT).

2. Set-up central database to store invoices:

It is suggested that a central database be established, to facilitate storing of invoices issued by Fast Moving Consumer Goods (FMCG) companies to small businesses across the country. The database can be then used to effectively monitor the purchases made by these small businesses from FMCGs stores and the corresponding sales reported by them. This will help in detecting any discrepancy in sales reported by small businesses and probable chain of generation of black money.

3. Expand the scope of Presumptive Taxation:

The Government can consider bringing a presumptive profit estimation scheme by incorporating provisions in the income tax law to capture professionals who operate through transactions in cash and stay out of the tax net.

4. Tax on Agricultural Income:

State Governments be encouraged to usher suitable mechanism (while providing reasonably high level of thresholds to avoid small farmers being burdened) for increasing the scope and quantum of agricultural income tax.

5. Reforms in real estate:

As the registration charges and taxes are dependent on the value of the transaction, buyers under-report the value to avoid paying higher taxes and charges (by making a portion of the payment in cash). This enables the parties involved to declare lower transaction values.

Taxes and charges at the time of registration can be split into two parts — a fixed component and a variable component. Irrespective of the reported value of the property a fixed component be paid to civic authorities, while the variable component may be dependent on the current market prices of the property. The market price of a property may be determined by an independent government approved agency. The value of the property reported by the agency may form the basis for calculating the taxes and charges to be paid by the buyer.

6. Create IT infrastructure to track tax evasion:

It is imperative to deploy and use robust IT Infrastructure to consolidate and exchange information pertaining to different streams of taxes i.e., Income tax, Service tax, Sales tax, Excise duty, etc. by using common means such as PAN of an assessee. This will facilitate in tracking cases pertaining to tax evasion resulting in accumulation of black money.

7. Expand the provisions of Tax Deduction at Source/Tax Collection at Source:

It is suggested that the provisions of the Income Tax Act, 1961 be amended to expand the scope of TDS and TCS by including uncovered sectors where black money gets generated.

8. Enhance tax base by detecting non-filers of income tax returns:

To enhance the tax base and augment tax collection, it is pivotal for the government to focus on non-filers and uncover black money in the economy. The Income-Tax (IT) department should implement stronger mechanisms to identify persons who resorted to tax evasion and bring them under the tax net.

9. Simplify the tax structure:

The Government should simplify the tax structure, and possibly reduce tax rates. This would deter tax evasion by leading to reporting of full transaction value. The step would be instrumental to discourage black money generation.

Weblink: <http://ficci.com/spdocument/20548/STUDY-ON-WIDENING-OF-TAX-BASE-AND-TACKLING-BLACK-MONEY.pdf>

FICCI MEDIA DIVISION