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VOLUNTARY DISCLOSURES SCHEME

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THE SHIFT in approach in the tackling of the menace of black money after the stringent measures like searches and seizures, raids and taps on the knuckles have proved unavailing against those who have reaped rich rewards from evasion, cannot but have a mixed reception. The scheme envisages declaration between 8th October and 31st December 1975 of undisclosed income in wealth and payment of tax thereon at prescribed rates. Income, which had not been disclosed, or which had escaped taxation in the previous years, when declared, will be treated as a special block and taxed at rates ranging from 25 to 60 per cent. In addition, the declarant is required to deposit within 30 days of the declaration, a sum equal to 5 per cent of the declared income in approved securities for utilization in projects of high social priority. There will be no liability for wealth tax on declared income in respect of past years. Besides, there will be no assessment proceedings relating to declared incomes, nor will any penalty or prosecution be attracted in respect thereof.

It had been contended in the past and will no doubt be repea-

ted again that concessions offered to tax dodgers are, in effect, a premium on dishonesty, a compromise with sin and incentive to further tax evasion in future. Apart from the general criticism, it may be argued that compared to the rates of income-tax rising up to 93 per cent prevailing earlier, when most of the undisclosed incomes accrued, the maximum rate of 60 per cent levied on the highest bracket will amount to serving honey on a stolen cake. It might make honest tax-payers regret the practice of virtue in the past. There is also a danger that

black money may be split among several members of the family and declared in order to attract lower rates of taxation on each declarant. This will have the effect of not only reducing receipts of income-tax, but also of escaping gift tax which would otherwise be payable on transfer of legal money to other members of the family. The scheme is, therefore, neither fool-proof nor knave-proof.

Without minimizing these objections, the scheme has to be weighed against the serious problems and distortions caused by



black money to the economy of the country. Guestimates of black money vary from Rs 7,500 crores to Rs 30,000 crores and no precise determination is possible. The pressures exerted by money circulating outside the banking and accounting system of the country on prices has made a mockery of controls and regulations and planning has gone awry all along the line. Black money preempts scarce and comfort goods to its owners and deprives the vulnerable sections of society of their legitimate share of goods and services. Experience has shown that the economy cannot be regulated so long as the menace of black money persists. It is, therefore, no longer a choice between two good or good and better schemes, but a choice between two evils, one resulting from a compromise with dishonesty and evasion and the other causing havoc by the unbridled operation of black money in the economy. Hence, every effort that seeks to solve the problem of black money or even a partial reduction of its volume should be welcomed. If black money could be channelled into fruitful productive activity, it will go a long way in easing the economy and accelerating its growth.

Experience during the previous voluntary disclosure schemes has been disappointing. The total income disclosed during the earlier schemes amounted only to Rs 267 crores and the tax gathered therefrom was negligible but the earlier schemes scared the assessee, as the disclosures became the starting point of further investigation, assessment, penalties and prosecution. The tax authorities regarded the disclosed income as the tip of a floating iceberg, the bulk of which was concealed under water and wanted to reach the bottom of it thus causing more harassment to the declarant. Since the present scheme saves the declarant further assessment proceedings, penalties and prosecution and even from wealth tax on undisclosed income, it should provide greater incentive for the conversion of black money into legal money and prove more effective than the earlier schemes.

Even assuming that the entire black money in operation is legitimized through the voluntary disclosure scheme, the economy will not pick up as long as facilities exist for further accretion of black money. Unless the root cause of generation of black

money is eliminated, the problem will recur with greater intensity and at much shorter intervals than before. In our view, not all black money is evaded tax. Black money initially represented the difference between the higher market price and the controlled price of a commodity which could not be brought into account and therefore did not suffer tax thereon. Since black money cannot change its colour, it has swelled into such proportions as to threaten the monetary system. One of the ways to avoid accretion of black money is to do away with controlled prices except in respect of essential commodities distributed through a public distribution system and to introduce the element of competition and free market in the economy. Generation of black money is an inevitable consequence of non-essential controls.

India is not the only country which has to tackle the problem of black money. After the Second World War, a number of countries were faced with similar problems arising from war profits. Belgium, for instance, exempted investment in housing from scrutiny of the source so that the illegal money may at least go to alleviate the ravages of war. Suggestions of this kind have been made in Parliament even as early as 1950s but have been turned down by the Government on purely moral grounds.

A scheme for the issue of premium bearer bonds may be even more attractive than the voluntary disclosure scheme, in that the anonymity will be maintained, but such bonds will suffer from the infirmity that premium has to be uniform and that the principle of graded taxation cannot be applied to the varying amounts disclosed. We believe that pure self-interest as well as the attractive terms of the present voluntary disclosure scheme will induce the holders of black money to take advantage of it and regularize their accounts, but if even this generous offer fails to attract black money into the normal channel, the blame will not be at the doors of the Government.

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