



**Bombay Chartered
Accountants' Society**



11th July, 2016

Mr Hasmukh Adhia
Hon. Revenue Secretary
Ministry of Finance
New Delhi

Dear Sir

Sub: **Controversy regarding effective tax rate under IDS 2016**

We write to you on behalf of members of our respective organisations and also on behalf of the citizens of India at large.

There is a raging controversy surrounding the effective rate of tax payable under the Income Declaration Scheme, 2016 [IDS]. This has arisen on account of different interpretations of the reply given to FAQ No. 5 in Circular No. 25/2016 dated 30th June, 2016. The same is reproduced below:

“Question No. 5: Where a valid declaration is made after making valuation as per the provisions of the Scheme, read with IDS Rules and tax, surcharge & penalty as specified in the Scheme have been paid, whether the department will make any enquiry in respect of sources of income, payment of tax, surcharge and penalty?”

Answer: No.”

As a result of this FAQ and the reply provided, at various forums, an interpretation has been discussed that the effective rate of tax in such cases could work out to 31% instead of 45%. An illustration will explain this:

Income declared	Rs. 10,00,000
Tax Payable under IDS	Rs. 4,50,000
Presuming that the source of tax payment is not questioned, effectively, the total amount that is indirectly disclosed	Rs. 14,50,000
Effective tax rate – 4,50,000 as a % of 14,50,000	31.03%

Even the senior officers of the Income-tax department are not clear and are giving differing replies.

The problem that is caused on account of this confusion is that different people are providing differing advice to potential declarants.

Considering the fact this is an extremely important issue and goes to the very heart of the IDS, there is an urgent need to clarify whether the view that is being advocated by some as illustrated above is correct. The reply to FAQ No. 5 in Circular No. 25 mentioned above needs to be either modified or further clarified with the help of an example.

In the interest of the tax paying community and in the larger interest of the nation, we earnestly request you to kindly issue a clarification on this issue at the earliest. Upon receipt of the same, we shall give it extensive publicity amongst our members as well as amongst the tax paying community.

Assuring you and the Government of India our fullest support in the massive nation building exercise that is in progress,

We remain

Yours sincerely

Sd/-

Chetan M. Shah
President,
Bombay Chartered Accountants' Society

Sd/-

Raju C Shah
President,
**Ahmedabad Chartered Accountants'
Association**

Sd/-

Hitesh Shah
President
Chamber of Tax Consultants

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President
**Karnataka State Chartered Accountants'
Association**