
AN ANALYSIS OF THE INCOME DECLARATION SCHEME, 2016

Legal Upanishad Journal (LUJournal.com)

Vol 1 Issue 3 | December 2023 | pp. 196-206

Yeshwanth Sharma P, Law Student, SASTRA Deemed University, Tamil Nadu

Triveni T, Law Student, SASTRA Deemed University, Tamil Nadu

ABSTRACT

"We are full of weaknesses and errors; let us mutually pardon each other's follies," - Voltaire

A guilty person is not necessarily the same throughout his life. Even people who make mistakes are not full of guilt. Similarly, people who, intentionally or not, failed to disclose their income for taxation were given a second chance through the Income Declaration Scheme of 2016. The Income Declaration Scheme provided an opportunity to all the people who had, in their possession, income that was undeclared in their total income for the calculation of the levy of tax in any year preceding 2016. The scheme had some backlash and criticism from the community. Even though there were forces acting against it, it was the first of its kind, and any first attempt cannot be solid and perfect right away. This scheme was implemented in our country in a very efficient way and was made well-known to the general public. As a result, a total of 64,275 disclosures were made, which amounted to Rs. 625.5 billion. Since this is the premier attempt at such a different scheme, this can very well be assumed as an example to further put forth better tailored schemes in the future. This current study dives into the aspects of effectiveness, implementation, and legality, among others, of the Income Declaration Scheme of 2016.

Keywords: *Compliance, Financial Transparency, Possession, Tax Evasion and Undisclosed income.*

1. INTRODUCTION

The Government of India introduced the historic Income Declaration Scheme (IDS) in 2016 in an effort to address the problem of black money and undisclosed income in the nation. The scheme, which was revealed in the Union Budget of 2016–17, gave people and organisations the chance to disclose any unreported income and assets, pay the required taxes, and establish the legitimacy of their wealth without worrying about facing legal prosecution. The extraction of black money from the nation and its integration into the official economy was the main goal of the IDS. Income that has not been properly taxed and submitted to the government is referred to as "black money." These kinds of money are frequently exchanged in the black market, which causes economic imbalances and a decrease in government revenue that could be allocated to development and welfare initiatives. The IDS 2016 was a limited-time strategy that allowed disclosures between June 1, 2016, and September 30, 2016. For those who were eager to participate, the government also offered a number of facilities and channels to let people make their disclosures.

By filing a declaration with the tax authorities, individuals were able to reveal their undisclosed income through the IDS 2016. The plan included capital gains, income from any other source, income from an undisclosed business or profession, and income from residential property, among other types of undisclosed income. The declaration submitted under the scheme had to be submitted by the stipulated deadline, which was originally set for November 30, 2016, but was later extended to December 31, 2016, to give taxpayers more time to participate in the scheme. Maintaining confidentiality was one of the IDS's primary features. Declarants were given the assurance that their information would remain private and would not be exploited against them in violation of any other laws. The purpose of this secrecy clause was to give people the confidence to come forward and reveal their hidden income without worrying about facing legal repercussions.

A 45% tax rate on declared income was instituted by the government as a means of encouraging participation. There was a 7.5% penalty, a 7.5% surcharge, and a 30% tax included in this rate. Declarants could regularise their undisclosed assets and income by paying this sum. It is

noteworthy, nevertheless, that the declarants were not permitted to amend their declarations after they were made.

To summarise, the Income Declaration Scheme of 2016 was a significant endeavour that sought to increase tax compliance, bring unreported income into the purview of the law, and fortify India's formal economy. By means of this scheme, the government aimed to incentivize people and organisations to voluntarily reveal their unreported income, thus promoting a more transparent and financially responsible community.

2. BENEFITS OF THE INCOME DECLARATION SCHEME, 2016

The Income Declaration Scheme (IDS) 2016, announced by the Government of India, offered various advantages and benefits for both the government and the taxpayers. They are:

- **Reduction in Black Money and Reducing Corruption:** The scheme focused on reducing the amount of "black money" in the economy by providing a legal way for people to declare income that they had not revealed. It assisted in reducing money laundering and tax avoidance. Additionally, by discouraging the accumulation of undeclared money, the strategy sought to reduce corruption. Corrupt activities like bribery and tax evasion were deterred by the legal route it offered for regularizing undeclared money¹.
- **Increased Revenue:** The government made a substantial amount of money from the plan. In addition to paying taxes and penalties, those who reported their concealed income under IDS also had to pay surcharges². This inflow of cash into the government coffers increased total receipts, which could then be used for infrastructure improvements, public welfare, and other critical services.

¹ MS Somani & JM Bhatia, *Income Declaration Scheme, 2016: A Game Changing Policy to Curb Tax on Undisclosed Income*, 51(9) MGMT. ACCT. J. (2016)

² *Id.*

- **Enhancing Tax Compliance:** IDS encouraged voluntary disclosure of unreported income, which in turn improved tax compliance. It did this to convey a clear message about the government's resolve to combat dark money. This contributed to the development of a society that is more tax-compliant, where people and organisations are eager to pay their fair share of taxes.
- **Confidentiality and Legal Immunity:** In order to guarantee that the information revealed would not be shared with other law enforcement organisations, the plan offered the declarant's confidentiality. Moreover, declarants were shielded from prosecution by a number of legal provisions, creating a secure atmosphere in which they could come forward and reveal their hidden income without worrying about facing legal action.
- **Avoidance of Hefty Penalties:** Through IDS, people were able to regularise their unreported income by paying 45% of the entire amount reported, which included surcharges, fines, and taxes. By taking part in the scheme, people were able to escape heavier fines that may have been applied if their hidden income had been uncovered through other means.
- **Promoting Financial Transparency:** Encouraging people to reveal their unreported income was one way that IDS worked to increase financial transparency in the nation. It pushed people to take responsibility for their financial assets and discouraged individuals from the act of hiding money.
- **Facilitating Economic Growth:** Through enhancing tax compliance, boosting government revenue, and advancing financial transparency, IDS indirectly supported the nation's general economic expansion. The money generated by the scheme might be used for infrastructure improvements, development projects, and other endeavors that promote economic growth.

3. LIMITATIONS OF THE INCOME DECLARATION SCHEME, 2016

- **Limited Timeframe:** IDS 2016 imposed a time restriction for people to declare any unreported income. The period of time that was available for disclosure was June 1, 2016, through September 30, 2016. Some who were against the scheme contended that

the time limit may not have allowed all eligible people to come forward and disclose their undisclosed income, particularly those who required more time to obtain the required paperwork or were not aware of the specifics of the scheme within the allotted time³.

- **Unequal Participation:** The scheme may not have been available or appealing to all individuals with undisclosed income. Small-scale business owners, for example, may have found it difficult to navigate the scheme's complexities, resulting in unequal participation across socioeconomic groups⁴.
- **Limited Impact on Black Money:** Those who oppose it contended that this scheme might not, in the long term, significantly affect the reduction of black money. They felt that the scheme would be less successful in tackling the larger problem of black money in the nation if people with significant undeclared income continued to decide to conceal their assets and avoid taking part.
- **Lack of Public Awareness:** Despite efforts to publicise the scheme, there were concerns about the general public's lack of awareness. Some people may not have been fully aware of the scheme's details and benefits, resulting in a missed opportunity for them to come forward and declare their undisclosed income.

4. REPURCUSSIONS FACED PRE-IMPLEMENTATION OF THE INCOME DECLARATION SCHEME, 2016

- **High Levels of Black Money:** India has a huge problem with black money, which is income that has not been taxed by the government. Unaccounted funds, undeclared offshore accounts, or investments in benami assets are all examples of black money. This condition resulted in decreased government revenue, economic imbalances, and the development of a parallel economy.

³ P Aashritha & Dr. S. Devarajappa, Stakeholder perception towards income declaration scheme-2016 in India, 6(1) SPLINT INT'L J. PROF'LS (2019)

⁴ MS Somani & JM Bhatia, *supra* note 1

- **Low Tax Compliance:** Low tax compliance was caused by widespread tax evasion by both individuals and corporations in India. In order to avoid paying taxes, taxpayers engaged in a variety of illicit activities, concealed assets, and underreported their income. In addition to costing the government money, this placed an unfair burden on law-abiding citizens.
- **Corruption and Bribery:** Corruption and bribery were made easier by black money. A culture of corruption developed as a result of people and companies engaged in illicit activities frequently using unreported funds to pay bribes⁵. Public trust in governance was undermined, economic growth was slowed, and institutions were harmed by this widespread corruption.
- **Parallel Economy:** In India, a parallel economy existed partly due to black money. Because the informal sector functioned outside of the regulatory agencies' jurisdiction, there was a dearth of accountability and transparency. It made it impossible for the government to carry out social welfare and economic policies that worked.
- **Difficulty in Tracing Black Money:** It was very difficult for the government to track down black money and unreported income. Shell companies, benami transactions, and offshore accounts were some of the complex strategies employed by individuals and entities to conceal their wealth⁶. For tax officials, it was challenging to pinpoint the true recipients and origins of illicit money due to these complex structures.
- **Global Pressure for Financial Transparency:** Globally, nations were under growing pressure to enact policies promoting transparency in finance and tackling tax evasion. As a member of the international community, India was under constant observation and pressure to harmonise its policies with those of other countries. This made it necessary for domestic initiatives to adequately address the black money issue.
- **Limited Deterrence Measures:** There were not enough strong deterrents in the current legal system to prevent tax evasion and the creation of black money. Because those who

⁵ P Aashritha & Dr. S. Devarajappa, *supra* note 3

⁶ CA Sonal Kumawat, CA Hemraj Kumawat and Priyanka, *Black Money Circulation in Indian Economy*, 22(4) THINK INDIA J. (2019)

engaged in these activities frequently had ways to avoid legal consequences or suffered minor penalties, there was a perception that the risks of tax evasion were low.

5. EFFECTIVENESS OF IMPLEMENTATION OF THE INCOME DECLARATION SCHEME, 2016

Evaluations of the Income Declaration Scheme (IDS) 2016's implementation efficiency can be made on a number of grounds, such as the quantity of undeclared income reported, the number of declarations made, the money collected, and the influence on financial transparency and tax compliance.

- **Number of Declarations:** The scheme resulted in a significant number of participants, even though the precise number of declarants is not made public. Numerous people and organisations took advantage of the chance to disclose their unreported revenue without worrying about facing legal repercussions. People's readiness to come forward suggests that voluntary disclosure has been somewhat successful.
- **Amount of Undisclosed Income Declared:** Over ₹65,000 crore (almost USD 9.7 billion) in undeclared income was declared in the IDS 2016 report. This substantial sum suggests that a sizable amount of unexplained wealth was successfully brought into the formal economy by the scheme⁷. It is important to remember that this sum does not even come close to representing all of the black money in the nation.
- **Revenue Generation:** The government received a significant amount of revenue from the scheme. The government's revenues benefited greatly from the total tax, penalty, and surcharge received from the declarations submitted under IDS 2016.
- **Promotion of Financial Transparency:** IDS 2016 encouraged people to reveal their hidden income, hence promoting financial transparency. Formalising these funds

⁷ *Id.*

encouraged tax compliance and discouraged the hoarding of unexplained riches, hence fostering a more transparent financial ecosystem.

- **Impact on Tax Compliance:** The scheme not only had an immediate and significant effect on tax compliance but also demonstrated the government's commitment to tackle illicit funds. The awareness of the government's attention and the possible repercussions of tax evasion among individuals and corporations led to a likely favourable effect on tax compliance behaviour in the following years.

6. CHALLENGES FACED POST IMPLEMENTATION OF THE INCOME DECLARATION SCHEME, 2016

Following the enactment of the Income Declaration Scheme (IDS) in 2016, a number of issues remained and were brought about by the scheme.

- **Ensuring Continued Tax Compliance:** After the implementation of IDS 2016, one of the issues was ensuring that individuals and companies who revealed concealed income continued to comply with tax regulations in later years. To avoid a resurgence of tax evasion, strict surveillance and enforcement were required.
- **Addressing Remaining Black Money:** Although IDS 2016 targeted certain unreported income, it was insufficiently broad to remove all forms of black money from the economy⁸. After the scheme was put into effect, the problem remained with how to deal with people who decided not to participate and carried on accumulating money in ways that were not reported.
- **Strengthening Detection and Enforcement Mechanisms:** In order to identify individuals and entities that did not take part in IDS 2016 but yet had undeclared income, the government needed to strengthen its detection and enforcement capabilities. Investing in technology, data analytics, and intelligence collection was necessary to efficiently track down tax evaders.

⁸ Cyril Shroff, Rishabh Shroff & Kunal Savani, *The disclosure regime in India*, 23(1) TRUST & TR. (2016)

- **Preventing Money Laundering and Maintaining Public Trust:** There was a chance that some people might use the IDS to justify illicit gains or finance money laundering. Ensuring public trust and confidence in the fairness of such schemes was vital. Authorities faced challenges in preventing money laundering and verifying that the claimed income was lawful and moral. The public needed to be clearly informed that tax evaders would suffer the repercussions of their actions and that law-abiding citizens would receive equitable treatment. The public's confidence in tax administration could be damaged by any impression of partiality or negligence.
- **Monitoring Asset Declarations:** Declarants were able to reveal assets and unreported income through ID⁹S. The difficulty after installation was keeping an eye on the declared assets and making sure they were appropriately reported. Robust mechanisms were required to ensure that the claimed assets matched their real ownership and value, preventing people from undervaluing their assets in order to avoid paying taxes.

7. RECOMMENDATIONS

Several recommendations should be taken into account for upcoming amnesty schemes or efforts such as the Income Declaration Scheme (IDS) 2016 that aim to address the problem of unreported income and encourage tax compliance, even if the latter has already been put into effect.

- **Public Awareness Campaigns and Simplified Procedures:** To educate the public on the advantages, guidelines, and deadlines of the scheme, launch broad and focused public awareness efforts. Providing clear information about the scheme helps simplify the steps and paperwork needed to declare unreported income, which in turn can encourage more people to participate. A simple procedure can motivate more people to come forward and reveal their hidden money.

⁹ *Id.*

- **Reasonable Tax Rates:** A tax rate should be set at a level that discourages voluntary disclosure while still being high enough to discourage tax evasion. To promote participation without unduly burdening declarants, the proper balance must be struck.
- **Extended Deadline & Online Platform:** Extending the declaration deadline could let people have enough time to obtain the required paperwork and decide whether or not to join the scheme. Provide a safe, secure web portal for declarants to send in their information¹⁰. Participant accessibility can be increased, process efficiency can be increased, and the process can be streamlined using this digital approach.
- **Robust Enforcement and Post-Declaration Follow-Up:** To prevent future tax evasion, improve enforcement measures. Establish a fair playing field for all taxpayers by using technology-driven tools and advanced data analytics to find disparities and suspected tax evaders. Provide a strong post-declaration monitoring system to guarantee that declarants continue to abide by tax laws in the years that follow. Relapses into tax evasion can be avoided with routine audits and surveillance.
- **International Cooperation:** Work together with other nations and international organisations to share data and monitor assets that citizens have held overseas¹¹. By shifting their assets offshore, people can't avoid paying taxes by working together internationally.
- **Incentives for Early Participation:** To encourage timely disclosure of undisclosed income, think about providing incentives to early participants in the plan, such as reduced penalties or additional perks.

8. CONCLUSION

The Indian government launched the Income Declaration Scheme (IDS) in 2016, which was a major effort to reduce the amount of black money and promote tax compliance. Through the scheme, people and organisations may legally justify their wealth, pay the required taxes, and

¹⁰ CA Sonal Kumawat, CA Hemraj Kumawat and Priyanka, *supra* note 6

¹¹ Cyril Shroff, Rishabh Shroff & Kunal Savani, *supra* note 8

reveal unreported income and assets without fear of legal repercussions. While the programme's benefits included lowering black money, raising revenue, improving tax compliance, and fostering financial openness, it also had drawbacks, such as a short implementation period, unequal participation, and the requirement for more robust enforcement measures.

Despite these obstacles, the scheme brought unreported income into the official economy, made a significant profit, and improved the transparency of the financial system. The volume of concealed income revealed and the number of declarations made demonstrated the efficacy of IDS 2016. However, there is potential for enhancement in subsequent initiatives, including raising public awareness, streamlining protocols, offering fair tax rates, and strengthening enforcement and supervision systems.

In general, IDS 2016 was a significant step towards resolving India's black money problem. Future efforts to promote voluntary tax compliance, lessen tax evasion, and foster a financially responsible society can be better tailored by incorporating the lessons learned from its implementation.

LEGAL UPANISHAD JOURNAL