

# Bill Summary

## The Taxation Laws (Second Amendment) Bill, 2016

- The Taxation Laws (Second Amendment) Bill, 2016 was introduced in Lok Sabha on November 28, 2016. It seeks to amend the Income Tax Act, 1961 and Finance Act, 2016.
- **Self-declaration of undisclosed income:** The Bill proposes to introduce the Pradhan Mantri Garib Kalyan Yojana, 2016. Under the scheme, taxpayers may declare undisclosed income possessed in the form of cash or deposited in banks, post offices or Reserve Bank of India before a notified date. In such cases, taxes and penalties will be levied as presented in Table 1.

**Table 1: Levies on undisclosed income as proposed by the Bill**

Levy	Rate
Tax	30% on undisclosed income
Cess	33% on the tax levied
Penalty	10% on undisclosed income

Sources: The Taxation Laws (Second Amendment) Bill, 2016; PRS.

- The cess will be known as the Pradhan Mantri Garib Kalyan Cess, and will be used for welfare of economically weaker sections.
- Further, the taxpayer has to deposit 25% of the undisclosed income into the Pradhan Mantri Garib Kalyan Deposit Scheme, 2016. The deposit will not earn any interest. This deposit may be withdrawn only after four years from the date of deposit.
- The declarations of undisclosed income made under the Yojana will not be used as evidence under provisions of any other law, except certain laws including: (i) the Prohibition of Benami Property Transactions Act, 1988, (ii) the Prevention of Money Laundering Act, 2002, (iii) the Unlawful Activities (Prevention) Act, 1967, (iv) the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, (v) the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992.
- **Disclosure of unexplainable income:** Currently, a tax is levied when the taxpayer is

not able to explain any of his income. The Bill proposes to: (i) increase the tax rate and surcharges levied on such income, and (ii) levy of a penalty. The proposed changes are presented in Table 2.

**Table 2: Change in taxes on unexplained income**

	Current	Proposed
Tax	30%	60% of unexplained income
Penalty	-	10% of tax if the assessing authority finds the unexplained income
Surcharge	2%-15% on tax payable	25% on tax payable

Source: The Income Tax Act, 1961; The Finance Act, 2016; The Taxation Laws (Second Amendment) Bill, 2016; PRS.

- **Income found during search of taxpayer's assets:** Currently, the income tax assessment authorities may initiate an investigation and search of assets of a taxpayer on the suspicion of possessing undisclosed income. In the case of such a search, in addition to the tax payable, an additional penalty will be levied. The penalty will be levied at a higher rate if the taxpayer does not admit to possession of undisclosed income found in the search. The Bill proposes to increase the penalties as presented in table 3.

**Table 3: Penalties on undisclosed income found during a search**

	Current	Proposed
Penalty if taxpayer admits holding undisclosed income	10% of undisclosed income	30%
Penalty if taxpayer does not admit holding undisclosed income	20% of undisclosed income	60%

Source: The Income Tax Act, 1961; The Taxation Laws (Second Amendment) Bill, 2016; PRS.

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