

---

**Government introduces amendments to the Income-tax Act, 1961 pursuant to demonetisation; Pradhan Mantri Garib Kalyan Deposit Scheme launched**

28 November 2016



The Central Government introduced the Taxation Laws (Second Amendment) Bill, 2016 ('Bill') in the Lok Sabha today to make certain amendments to the Income-tax Act, 1961 ('the Act') and to introduce the *Pradhan Mantri Garib Kalyan* Deposit Scheme. These amendments are related to the demonetisation exercise undertaken earlier this month.

The Bill seeks to bring about two major changes in the scheme of taxation governing unaccounted money.

First, the Bill proposes to increase the rate of tax in relation to unexplained money, etc. from the existing 30% to 60%. Changes to the penalty provisions governing such situations are also proposed.

Second, an alternative scheme called the *Pradhan Mantri Garib Kalyan Yojna*, 2016 ('Scheme') is sought

to be introduced as part of Finance Act 2016, which provides for specific tax and investment implications in respect of undisclosed income declared under the Scheme.

These changes are briefly discussed below:

**Changes to the Income-tax Act, 1961****Increased rate of tax**

Currently, section 115BBE of the Act provides for a tax rate of 30% in respect of undisclosed money, cash credits, investments, etc., which fall under sections 68, 69, 69A, 69B, 69C and 69D of the Act. This rate of 30% is proposed to be increased to 60%.

This revised rate applies regardless of whether such undisclosed income is declared by the taxpayer in his return of income, or is determined by the Assessing Officer during assessment.

---

An additional surcharge of 25% of this tax is also proposed<sup>1</sup>.

#### Penalty

In addition to the tax, a penalty at the rate of 10% of the tax payable under section 115BBE of the Act is also proposed. However, such penalty will not apply in cases where the undisclosed income is included by the taxpayer in his return of income and the tax thereon has been paid on or before the end of the relevant financial year.

Penalties in respect of search cases under section 271AAB are also proposed to be increased.

No penalty under the provisions of section 270A of the Act (dealing with misreporting/ under-reporting of income) will apply in respect of such income.

#### **Pradhan Mantri Garib Kalyan Yojna, 2016 Scheme**

The proposed Scheme enables a taxpayer to make a declaration in respect of income in the form of cash or deposits maintained by the taxpayer. The period during which such declarations can be made will be separately notified.

The consequences in respect of undisclosed income declared under this Scheme are as under:

- Undisclosed income declared will be chargeable to tax at the rate of 30%;
- The amount of tax will be increased by a surcharge (i.e. the *Pradhan Mantri Garib Kalyan Cess*) at the rate of 33% of such tax;
- Penalty at the rate of 10% of the undisclosed income to be levied.

---

<sup>1</sup> The amendments, as introduced in the Lok Sabha today, provide for the levy of this surcharge only with respect to payment of advance tax.

The above amounts are required to be paid by a declarant before the filing of a declaration under the Scheme.

Additionally, the Scheme requires that 25% of the undisclosed income should be deposited in the *Pradhan Mantri Garib Kalyan Deposit Scheme, 2016*. This Scheme will be notified by the Central Government in consultation with the Reserve Bank of India.

The amount deposited will not carry any interest and such amount will be allowed to be withdrawn only after four years from the date of deposit. Other conditions in this regard may also be specified.

It is also proposed that the amount of undisclosed income declared shall not be included in the total income of the declarant for any assessment year.

It is also provided that this Scheme will not apply in certain specified situations/cases. Specifically, it is provided, that it will not apply in relation to undisclosed foreign income and assets covered under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

---

## Key Contacts

Dinesh Kanabar, CEO  
[dinesh.kanabar@dhruvaadvisors.com](mailto:dinesh.kanabar@dhruvaadvisors.com)

Vishal Gada, Partner (Ahmedabad)  
[vishal.gada@dhruvaadvisors.com](mailto:vishal.gada@dhruvaadvisors.com)

Ajay Rotti, Partner (Bengaluru)  
[ajay.rotti@dhruvaadvisors.com](mailto:ajay.rotti@dhruvaadvisors.com)

Krishan Malhotra, Partner (Delhi)  
[krishan.malhotra@dhruvaadvisors.com](mailto:krishan.malhotra@dhruvaadvisors.com)

Mahip Gupta, Partner (Singapore)  
[mahip.gupta@dhruvaadvisors.com](mailto:mahip.gupta@dhruvaadvisors.com)

## Our Offices

### Mumbai

1101 & 1102, One Indiabulls Centre, Tower 2B,  
841, Senapati Bapat Marg,  
Elphinstone Road (West),  
Mumbai 400013, India  
Tel: +91-22-6108 1000

### Bengaluru

Prestige Terraces  
5/1, Union Street  
Infantry Road  
Bangalore 560001  
Tel: +91-80-4660 2500

### Ahmedabad

B3/3rd Floor, Safal Profitaire, Prahladnagar,  
Corporate Road,  
Opp. Auda Garden, Ahmedabad 380 015.  
Tel: +91-79-6134 3434

### Delhi

1st Floor, Tower 4B  
DLF Corporate Park  
M G Road, Gurgaon, Haryana  
Tel: + 91-124 6687000

### Singapore

One Raffles Place #41-01  
Singapore 048616  
Tel: +65-6812 1600

## About Dhruva Advisors LLP

Dhruva Advisors offers a wide range of services in the tax and regulatory space to clients in India and around the world.

We are a cohesive team of tax professionals who are focused on providing our clients with high quality tax and related services. With strong research and technical skills coupled with extensive experience, we provide well-thought out and strategic solutions to complex problems.

Our professionals have advised on some of the largest transactions in the world and have handled several of the largest tax controversies in India. Our professionals also have a strong track record of designing and implementing pioneering solutions in several areas of domestic and international tax.

This information contained herein is in summary form and is therefore intended for general guidance only. This publication is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This publication is not a substitute for detailed research and opinion. Before acting on any matters contained herein, reference should be made to subject matter experts and professional judgment needs to be exercised. Dhruva Advisors LLP cannot accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this alert.