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## Another VDS: answer to India's financial problems?

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The incumbent Finance Minister had launched the last Voluntary Disclosure of Income Scheme (VDIS) or VDS as it is more popularly referred to, in 1997 under an earlier government. We all know that in spite of the best intentions of all concerned, a parallel economy - the "cash" economy leading to black money - continues to flourish in India. The Finance Minister also had a measure of success at arresting the cash economy later, after he introduced the banking cash transactions tax (BCTT) which would dissuade the general public from using cash for settling transactions. BCTT was introduced in the 2005 Union Budget, but was withdrawn in the 2008 Budget.

Under the last VDS, income declared was taxed @ 30% for individuals and 35% for corporates. The VDS was quite successful, judging by the fact that it managed to unearth black money aggregating to Rs33,000Cr. Disclosures under the Scheme was around Rs33,000Cr and tax collected Rs10,050Cr.

GDP (at current prices) was Rs12,60,710Cr in 1996-97, which grew to Rs37,90,063Cr in 2006-07. If one factors in the growth in India's GDP over the decade or so since the last VDS, and the possibility that the black economy may only have grown several-fold during this period, another VDS begins to make eminent sense.

Experts estimate the size of India's black economy to be as much as \$500bn (Rs24,25,000Cr), about half the size of the official economy. As much as 80% of this is attributable to legal businesses.

We believe another VDS at this stage may help the Government achieve various objectives. It would not only reduce unaccounted money in the system (ensuring which is the responsibility of every government), but would also bring the much needed liquidity into the system, which can be utilised to invest in infrastructure development, or even for capitalising domestic banks.

Another area where VDS could help is in repatriating wealth siphoned off to, or stashed away in overseas banks and tax havens.

Unlike at the time of the last VDS, the issue of controlling money laundering for terrorist operations has become critical since 9/11. Even such issue can be addressed to an extent, with a VDS.

Post 9/11, stringent restrictions have been put in place in the global banking system so as to prevent money laundering, with a view to block the funding channels to global terrorist groups. In addition to the US, a number of European countries are becoming transparent as far as trailing money transfers into and from offshore accounts is concerned.

It is public knowledge that India accounts for a large chunk of deposits with Swiss banks. As per published sources, India accounts for close to a staggering \$1450bn worth of bank deposits in Switzerland. This amount exceeds India's GDP and is several times larger than India's foreign debt. Repatriation of sums of such magnitude could help India tide over many financial problems.

In the backdrop of the ongoing financial crisis and worries over solvency of some banks in India, we examined whether the Government would consider introducing another VDS.

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### Need for VDS

#### Objectives when last VDS was launched

- In 1997, as per unconfirmed data, India had over a million people owning cars and over 50mn people owning TV sets.
- Yet, level of income tax collections in India was very low in 1997. Of the 950 mn population, only about 12mn were filing tax returns. Of these, barely 12,000 were above the Rs1 mn annual income bracket. The paradox - of a high number of car owners and a low number of income tax assesses with sizeable assets - was appalling indeed.
- The government wished to provide an opportunity to people to come clean about their unaccounted income and assets, which would be brought under the tax bracket.

The collective efforts of the Government and the Income Tax department resulted in the disclosure of unaccounted income of an astounding Rs33,000Cr and collection of Rs10,050Cr as tax penalty in 1997-98.

### Will a similar scheme help India today as well?

#### Growth of Indian economy post-1997 (launch of last VDS)

- GDP (at current prices) grew from Rs12,60,710Cr in 1996-97, to Rs37,90,063Cr in 2006-07. In spite of the GDP having trebled since the last VDS in 1996-97, the growth in the number of assesses filing tax returns has not kept pace. Particularly in the last 5 years or so, the number of assesses has remained flat, increasing from 30mn in 2002-03 to 31.9mn in November 2007. A majority of people still avoid submitting tax returns.
- The black economy continues to flourish as a parallel economy in India.
- It is public knowledge that India accounts for a large chunk of deposits with Swiss banks. As per published sources, India accounted for over \$1450 billion worth of bank deposits in Switzerland. This amount exceeds India's GDP and is several times larger than India's foreign debt. Repatriation of sums of such magnitude could help India tide over many financial problems.

### To sum up:

#### In our view, another VDS can help the Indian Government to

- curb the menace of black money
- repatriate wealth siphoned off to, or stashed away in overseas banks and tax havens and
- control money laundering by terrorist groups

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