

Did you get income-tax notice? Explain high-value transactions with ease

Remember you need to have all the documents to prove that tax has been paid on income that has been used to make investments or purchase of property

With the Income-Tax Department planning to issue 700,000 letters to individuals who have done high-value transactions without declaring their Permanent Account Number (PAN), many individuals are soon likely to face scrutiny.

At present, the I-T department has zeroed in on transactions which include cash deposits of over Rs 10 lakh in a bank account and sale and purchase of immovable property of Rs 30 lakh or more over the past seven years (2009-10). Under the Annual Information Return (AIR), the department gets data of high-value transactions.

If faced with a notice, Amit Maheshwari, Partner Ashok Maheshwary & Associates LLP, says that the first thing that will be taken into account is whether the income-tax returns have been filed for the financial year. If returns have been filed, the next question is the source of income through which this investment or deposit has been made, and whether tax has been paid on the source of funds. So, keep the necessary documents ready for proving the same. For example, if you have purchased a property of over Rs 30 lakh, but funded the initial downpayment through a loan from a bank or relative, you will need to produce the documents for the same.

“There is a concept called unexplained investment under the Income-tax Act, 1961. So, if you are not able to explain the source of investment or where the explanation is not satisfactory, you can be taxed on the value of unexplained investment,” says Maheshwari. Of course, things could get trickier there is a huge mismatch between your investment and income. That is, a property purchase of over a crore with a taxable income of Rs 10 lakh annually will attract a lot of questions. The I-T Department will assume this is you did not have the income to make this investment and that it was done from undisclosed sources, which has not been offered to tax. This will be added to your income and taxed accordingly. You will also be subject to penalty. “If the transaction cannot be explained then it will lead to proceedings and the onus is on the individual whether it is declared or undeclared income,” says Arvind Rao, a Mumbai-based Chartered Accountant.

The response to the letter should be with specific documents, depending on the nature of the transaction, says Divakar Vijayasathy, chief executive, MeetUrPro. You will need to show the Income Tax return filed for that year and the source of income. If you paid for your car’s down payment using credit card, show your credit card statement. Also show the car loan sanction letter and bank statement from where the loan payment has been made.

If it is indeed undisclosed income, you can declare in under the Income Disclosure Scheme (IDS), which is open till September 30 and get away with lesser penalty. “Until last financial year, the penalty was 100-300 per cent of tax liability, plus the applicable interest. So, assuming you had assets worth Rs 50 lakh, which was undisclosed and acquired five years back, today you would have ended paying Rs 75-80 lakh as tax plus penalty. If you use the window to declare it,

you can pay 45 per cent tax and be done with it,’’ Vijayasathya says. But if there is a proceeding against you in the IT Department, the IDS will not be applicable.

What I-T department will ask about

- Cash deposit of Rs 10 lakh or more without PAN
- Property transaction of Rs 30 lakh or more without PAN
- Why tax return was not filed for that year?
- If return was filed, the source of the funds/investment
- Whether tax has been paid?

Documents to show

- IT returns if filed
- Bank accounts to show source of funds
- Credit card statements to show payment

(Business Standard)