

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3705
ANSWERED ON:16.12.2011
TAXES FOREGONE ON FOREIGN RESIDENTS
Rao Shri Sambasiva Rayapati

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has forgone a huge amount in taxes that it could have mopped up from transactions involving foreign residents of over five years; and

(b) if so, the details thereof and the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b) No Madam. The C&AG in the report 'Taxation of Payment to Non-residents' (Report No. 18 of 2010-2011 concerning Performance Audit) has observed a tax gap on tax deducted at source on remittance, over the period 2003-04 to 2007-08. This tax gap has been calculated in the report on the basis that every remittance is liable to tax deduction at source. This is not correct. Tax deduction at source is required to be carried out in accordance with the provisions of Income-tax Act, 1961, read with relevant Double Taxation Avoidance Agreement which provides very little scope for source based taxation. C&AG in the same report has also agreed with the view of CBDT that tax gap so calculated is bound to exist.

Further, the Income Tax Department has a system in place, under the Income-tax Act, 1961, which verifies the deduction of tax at source at the time of remittance. Appropriate action is taken, whenever there is a shortfall in deduction of tax at source.