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News

**India****India Makes First Tax Evasion Arrests Under GST Regime**

By Siri Bulusu

India's tax authority has arrested two men on charges of tax evasion under the Goods and Services Tax system, the first arrests under the fledgling regime.

The Income Tax Department made two March 1 arrests in Mumbai on the grounds the companies evaded a total of \$1.1 million in taxes by claiming input credits against fake purchase of goods, according to an announcement. The government hasn't named the individuals, but a source said the pair arrested were Sanjiv Pravin Mehta, director of Shah Brothers Ispat Pvt. Ltd., and Vinaykumar D Arya, director of V.N. Industries.

**Snapshot**

- Businesses used fake invoices to claim tax credits
- Government says honest businesses don't worry

The purpose of allowing companies to take credits against taxes paid during purchase of inputs was to ensure that GST was levied only at the point of sale of a good or service, thus simplifying and consolidating the previous tax system. The government is signaling taxpayers that the laws authorizing tax officers are working, even though all aspects of the Goods and Services Tax regime aren't finalized, according to practitioners.

"Whether this is a win for the Goods and Services Tax or not, it's too soon to say, but we do know this is meant to tell companies that tax officers can make arrest where there is clear wrongdoing by taxpayers," Himanshu Relan, a partner at Nangia & Co. LLP, told Bloomberg Tax March 6.

**Show of Force**

The Goods and Services Council will meet again on March 10 to evaluate the returns filing process, the online GST portal and roll-out of the e-way bill system—all of which have been causing procedural and compliance issues for taxpayers since the implementation of GST on July 1.

"The government wants to float the idea that just because the IT infrastructure and other systems aren't in place, the law is still there and the law protects the government from taxpayers thinking they can take advantage of the new system," Relan said.

The number of tax filing errors have increased sharply under GST, according to Relan, who said the government will have to concurrently audit previous years against the current year to identify fraudulent patterns among taxpayers.

**Finding Tax Cheats**

An established pattern of tax evasion could help the government's case when charging the arrested Mumbai men, practitioners said.

Practitioners say it is important for tax authorities to investigate the track records of the two companies under the previous regime to establish that the companies were acting with malicious intent and draw out other cases of tax fraud.

"Tax authorities are compiling a list of suspected tax cheats on a zone-wise basis to step up the punitive action from its end," Jigar Doshi, indirect tax partner at SKP Business Consulting LLP, told Bloomberg Tax in March 6 email.

The Central Board of Excise and Customs is scrutinizing GST return filings and has zeroed in on suspicious transactions in sectors including iron and steel, tobacco, construction, consumer goods, Doshi said. The CBEC is especially interested in cases where input tax credit is being availed using fake invoices in absence of actual business activity, like with the two arrests, Doshi said.

According to sections 122 and 132 of the Goods and Service Tax Act, the two men could face between three and five years of imprisonment plus fines based on the tax amount evaded by each company.

### **No Worries**

Practitioners say that while the government is sending a strong signal by beginning to make arrests, companies facing genuine procedural problems while filing returns or paying taxes shouldn't be fearful.

There are "sufficient checks built into the law to ensure that inadvertent or procedural lapses do not attract severe punitive measures," the government said in the release.

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