Elephant Bonds

Introduction

The Government of India constituted a committee called the High-Level Advisory Group (HLAG), headed by economist and former member of the Economic Advisory Council to the Prime Minister, Surjit S. Bhalla, analyses the global environment and give its recommendations for boosting India's share and importance in the global market. In September 2018, the committee made various suggestions amongst which the issuance of 'Elephant Bonds' hogged the limelight.

Overview

Elephant Bond is an amnesty scheme designed to bring the unaccounted wealth stashed abroad back into India. Under this scheme, any person can disclose his/her unaccounted wealth by paying a minimum tax and get immunity from penalty and prosecution under all laws including foreign exchange, black money laws and taxation laws. However, they have to invest 40% of such wealth in long-term infrastructure bonds called as 'Elephant Bonds'. The proceeds from the issuance of such bonds will be utilised for development of infrastructure in India.

Breakdown

The person disclosing the undisclosed wealth can retain 45% of such wealth while 15% would be collected as tax on such undisclosed wealth. So, for every Rs.100 of undisclosed income now being disclosed, Rs.40 would be invested in elephant bonds, Rs.15 would be collected as tax to be deducted at source and the remaining Rs.45 would be available to the disclosing person. The maturity period of these bonds would be in the range of 20 to 30 years. These bonds would attract a coupon rate of 5% on which the tax would be deducted at a higher rate of 75%. The funds collected through these bonds would be managed by National Investments and Infrastructure Fund (NIIF) in collaboration with other institutional investors such as Abu Dhabi Investment Authority (ADIA) and the Government of Singapore. However, finalisations are yet to be made in various aspects of the scheme such as the procedure for issue of these bonds, frequency of issue and tradability of the bonds. The recommendations by HLAG remain silent in respect of the eligibility of the bonds for 80C deduction and redemption before maturity period. These bonds are different from earlier schemes on the basis that the person would get immunity from all laws on disclosing his/her unaccounted wealth while the Government would get enough amount in the form of tax and investment in bonds to channelise the funds for infrastructural development of India.

However, in an alternative perspective, the scheme may not create as much buzz as anticipated due to the fact that only 45% of the income being disclosed is allowed to be retained. And the interest earned out of the bonds are taxed at source at the rate of 75%, thus not yielding much benefit to the investors. A lower rate of TDS may encourage more people to come forward.

Past Endeavours

In 2016, the Government introduced a scheme called Pradhan Mantri Garib Kalyan Yojana under which the Government allowed people possessing black money to pay 50% fine of the undisclosed income and deposit an additional 25% in Government schemes which would be refunded without interest after four years. It was aimed at encouraging people to avoid prosecution and declare black money by paying tax, surcharge and penalty. However, that scheme did not turn out to be a great success owing to exorbitant tax rate and non-immunity from certain legislations such as Prevention of Money-Laundering Act, 2002 and Prevention of Corruption Act, 1988. Whereas, in the case of Elephant Bonds, the fact that the disclosing person would get immunity from penalties and prosecutions under all laws acts as a shot I the arm. The HLAG estimates that the scheme could help fund USD 500 billion worth of infrastructure projects. The tax amnesty schemes existed in many countries, including Australia, Canada, Italy and United States of America. Such schemes enabled the respective tax authorities to generate revenues which were beyond their estimations.

Way Forward

According to the National Economic Survey (2018-19), the correlation between infrastructure investment and economic growth for India is very high indicating that there existed a strong correlation between GDP and investment in infrastructure. India needs to spend 7 to 8% of its GDP on infrastructure annually, which translates into annual infrastructure investment of USD 200 billion currently. However, India has been able to spend only around USD 110 billion annually on infrastructure, leaving a deficit of about USD 90 billion per annum. The issuance of Elephant Bonds would contribute tremendously towards bridging that gap thereby increasing the growth of GDP.