NRIs to Pay Tax

What is the issue?

- An amendment is proposed to the Income Tax Act in the Finance Bill or the Union Budget 2020.
- It says that all Indians who are working abroad and not paying any income tax in those countries would be liable to pay tax in India.

What is the response?

- Kerala Chief Minister wrote to Prime Minister recording his government's disagreement with the provision.
- He said that the proposal would hurt those who toil and bring foreign exchange to the country.

What is the existing law?

- Two parameters determine whether India levies income tax on an individual.
- **Residency** - In India, residency requires a person to actually live in the country for a specified number of days in a year.
- **The Source of the Income** - It is the country where the income is being generated.
- For a resident Indian citizen, the income tax law applies to that person's worldwide income and such a resident Indian is required to pay tax on all of it.
- But for a non-resident Indian, the income tax law applies only to the income earned from within India.
- This difference between residents being taxed on their global income and non-residents being charged only on their Indian income lies at the heart of the confusion.

What is the amendment proposed by the government?

- The proposed amendment to the IT Act has three parts.
- **Number of Days** - The number of days that an Indian citizen can stay in India without becoming a resident is cut from 182 to 120.
- The Memorandum to the Budget said this provision was being misused.

- **NOR category** - The Memorandum has carved out the "Not Ordinarily Resident (NOR)" category.
- This status ensures that an individual who isn't ordinarily a resident isn't taxed as a resident, just because he spends more than specified number of days in India during a particular year.
- The amendment states that an NOR would be someone who has not been a resident of India for seven of the past 10 years.
- Under the existing law, it is nine out of the past 10 years.
- **The Confusion** - This amendment said that an Indian citizen who isn't liable to tax in any other country or territory shall be deemed to be resident in India.

What is the problem with this?

- The amendment tries to tax non-residents as residents.
- This led to panic because, in the absence of clarifications, all non-residents working in tax-free jurisdictions concluded that all their income in there will now attract the Indian income tax rate.
- Apart from the likely harassment, this undermined the whole point of people leaving their homes in India to work in tax-free jurisdictions.

Why did the government propose this?

- The government has clarified that its intention isn't to target bona fide workers.
- It says it wants to catch tax evaders who game the residency provisions to evade all taxes.
- It says that the tax laws should not encourage a situation where a person is not liable to tax in any country.

Source: The Indian Express

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