

## Columnist

### Exemption from filing tax return



S. S. Khan

### Giving by one Hand Taking From the other

Former Member, CBDT

He is winner of PM's Award for Excellence in Public administration.

One of the announcements made by the Finance Minister during the presentation of the Budget for 2011-12 was that salaried taxpayers having income up to Rs 5 lakh will be exempted from the requirement of filing their annual returns of income under the Income Tax Act. The logic was simple and the intention praiseworthy. The idea was that in cases where the source of income is salary only, the income tax on which has already been deducted, all the required particulars of are any way furnished by the employer in his TDS returns. Therefore, filing of returns of income by the employees is a needless duplication of efforts.

#### Exclusion

By some estimates, the number of salary taxpayers with taxable income below Rs 5 lakh on the rolls of Income Tax department is about 85 lakh i.e. roughly 26% of the total 3.25 crore taxpayers filing returns of income. This is a significant number. If so many taxpayers really went out of the net of filing of returns of income, it would have not only made things easier for the concerned taxpayers but also made a dent on the department's workload - hopefully speeding up the processing of the returns of income of the remaining 74% or 2.40 crore taxpayers. Of course, it would have also negatively impacted another set of people -the professionals engaged in assisting taxpayers in filing of returns, the Tax Return Preparers, the myriad online return filing websites that have sprung up of late, the outsourcing vendors of Income Tax department who are paid by the department service charges for various services on per return basis.

#### Budget Promise

Fulfilling the budget promise, the Central Government has issued notification number 36 of 2011, under section 139(1C) of the Income-tax Act, 1961 on 23rd June, 2011. As per this ,taxpayers assessable in the status of Individual and having income only from Salary and from interest from savings bank not exceeding ten thousand rupees, have been exempted from furnishing their return of income for the assessment year 2011-12 if their total income does not exceed five lakh rupees.

#### Is it attractive?

At the first sight, the ceiling of taxable income of Rs 5 lakh makes the exemption fairly attractive. If a taxpayer avails admissible deductions under Section 10(13A) for House Rent Allowance, under section 80C, 80CCC, 80CCD, 80CCF on various savings instruments and pension funds etc, under Section 80D for premium of health insurance and under Section 80E for interest on loan for higher education, the taxable income of Rs 5 lakh could translate into gross income of Rs 80,000 per month.

However, closer scrutiny shows that the exemption provided by the notification is subject to following other conditions as well -

#### It's so easy!

- (i) The taxpayer has reported his Permanent Account Number (PAN) to the employer;
- (ii) The taxpayer has received salary from only one employer for the assessment year;
- (iii) The taxpayer has reported to his employer his income from interest received on his savings bank account, and the employer has deducted tax thereon;
- (iv) The taxpayer has received certificate of tax deduction at source (TDS) in Form 16

## COLUMNIST ARCHIVES

### SS Khan

- THE CRUX OF MAURITIUS TAX TREATY
- Get Your Account Audited
- High time to check your TDS certificates
- It's time to pay Taxes online
- SARAL no more, now it is SAHAJ and SUGAM
- Budget 2011: Tax Matters A Mixed Bag
- Is PROSECUTION Panacea for TAX EVASION?
- Chasing Black Money
- Get Due Credit For Taxes Deducted On Your Behalf
- Tracking High Value Financial Transactions

from his employer which shows his PAN, his income, the tax deducted at source and the tax deposited to the credit of the Central Government;


- (v) The taxpayer has discharged his total tax liability for the assessment year through TDS deducted and deposited by the employer to the credit of Central Government leaving no claim of refund for the assessment year.

### What about high fliers?

As would be obvious these conditions will filter out most of the 85 lakh potential salary cases with the income below Rs 5 lakh. To begin with, all those bright sparks in IT and ITES and other sectors who have been changing employers during the year gets excluded. Then all those whose taxable income is below Rs 5 lakh per annum but who own a house - whether self-occupied or rented, whether earning them an income or causing a loss on account of the interest paid on housing loan, will get excluded from the benefits of the notification. And these will be a fairly large section of the 85 lakh salary taxpayers below Rs 5 lakh limit.

### Players of stock market

Similarly all those who have been dabbling in the stock market or playing with the "commodities" irrespective of the amount of the income or loss, will get excluded. Again, all those who had invested in fixed deposits or National Savings Certificates or infrastructure bonds to claim deduction under Section 80CCF become ineligible for the benefits of the notification as they are in receipt of interest income other than interest from savings bank. In other words, only those who have for unfathomable reason not invested in a tax saving investments will be eligible. Again those taxpayers who had received a refund from the Income Tax department during the year for any excess taxes paid in an earlier year and that refund included interest payable by the department also become ineligible for the benefit of the notification.



**SAY NO TO FILLING TAX RETURN IF**

- You are an individual
- Your total income doesn't exceed Rs. 5 lakh and
- Your receipt from interest on saving bank A/c doesn't exceed Rs. 10 thousand
- You have reported your PAN to the employer.
- You have received salary from only one employer.
- You have reported income from interest on savings bank account and the employer has deducted tax thereon.
- You have received TDS certificate in Form 16 from employer

**YOU CAN'T TAKE BENEFIT OF THIS EXEMPTION IF**

- You have changed job during the year.
- You own a house - whether self-occupied or rented.
- You have invested into stock or commodity market.
- You have invested into fixed deposits or NSC or infrastructure bonds to claim deduction under Section 80CCF
- You have received a refund from the Income Tax department.

In case you have a right to claim a refund in the current year because your employer had deducted more tax than what you are really required to pay then, of course, you have to file a return of income. This happens very often in salary cases because the last monthly salary of the year is paid in the first week of March whereas many employees make investment in tax saving instruments after that. So, all such cases will naturally be out of the scheme.

### Interest on savings

Then even if you are on the right side of all these conditions, you may still fall foul of the notification if you have not intimated the amount of interest from savings bank to your employer or he has not included it in the computation of your income for the purposes of deducting tax at source. Since the notification was issued on 23rd June while the financial year ended on 31st March it will be only the really prescient ones who would have communicated the particulars of their interest earnings to their employers by the 31st March so as to enable the employer to deduct tax at source from the income of the year. TDS certificates in Form 16 are required to be issued by 31st May whereas the notification was issued on 23rd June. Therefore, in most cases the TDS would have been deducted and deposited and TDS certificates already issued before the notification came into existence. Thus, it will be a rare case in which interest from saving bank would have been intimated to employer for deduction of tax at source.

### Importance of Form16

The sequence of pre-conditions does not stop here. Even if you may have fulfilled all these conditions, you may still be not eligible for the exemption if your employer has not issued you a TDS certificate in Form 16 or has not deposited the tax deducted on your behalf in the government account. The notification says that the tax due on the income i.e. on salary and bank interest should have been deducted and deposited by the employer in government account and that these particulars should be mentioned in Form 16 issued by the employer. Thus if the employer for some reason has not deposited the tax deducted or not mentioned all the required particulars, it is the employee who can not avail the benefit of the notification.

## Illusory benefits

Finally the scheme is also not applicable to cases where notices are issued by the department requiring the concerned persons to file their return of income under section 142(1) or section 148 or section 153A or section 153C of the Income Tax Act 1961.

In short, the benefits of the notification appear to be illusory. It is highly unlikely to bring relief to any significant number of taxpayers. This appears to be a classic case of government giving by one hand and taking from the other.

## File return and relax

In fact experience tells that it is always better to file the annual return of income by the due date and get done with it. One, the requirement brings in a discipline forcing us to have a look at our financial affairs at least once a year and explore ways of making our financial affairs more tax efficient. Two, it keeps our record with the Income Tax department up to date, which helps in later years if a question arises requiring explanation of the source of some investment or expenditure. Third, it keeps our right to revise the original return alive as only those taxpayers can revise their returns who file the original return by the due date. And finally, acknowledgement of a return of income or the 'Intimation' issued by the Income Tax department on processing it is often required as a basic document for variety of other non tax requirements - obtaining a bank loan for example, or for proving your financial status, for example.

Therefore, it will be advisable to spend a little time on the annual ritual of filing of returns of income. Filling up the new SAHAJ return should not be difficult for taxpayers having income only from salary and other sources. The credit must be given to the Income Tax department for making the process of filing of returns easier.



Rating: **8.0** out of 1 vote cast

## COMMENTS



 14-Jul , **By Dsouza J.**

Excellent article, well explained and indeed helpful.

Your Name

Email Id

Write Comments here



Enter Security Code:

[Home](#)

[About Us](#)

[Special Story](#)

[Insurance](#)

[Stock Market](#)

[Mutual Fund](#)

[Banking](#)

[Contact us](#)