

Have You Declared Interest Income

I-T DEPARTMENT turning the heat on taxpayers who do not declare interest income thinking it is tax-free

Preparing to file your tax return? Make sure you have included all the interest income earned during the year. Although interest earned from infrastructure bonds, fixed deposits and recurring deposits is fully taxable, taxpayers often ignore this income in their returns.

“This is a common misconception. Almost nine out of 10 taxpayers go wrong in reporting their interest income,” said Sudhir Kaushik, co-founder of Taxspanner.com.

Almost 30% of the respondents to an on line survey conducted by ET Wealth last year believed that the interest from infrastructure bonds and tax-saving fixed deposits was tax-free. Taxpayers also confuse the exemption for savings bank interest under Sec 80 TTA. Almost 29% of the respondents believed that interest of up to Rs.10,000 from bank FDs is tax-free in a year.

There is also a misconception that there is no need to report the income if the bank has deducted TDS. But TDS is only 10%, and if your income puts you in the 20% or 30% tax bracket, you have to pay the additional tax.

Of course, if the income is below the basic exemption limit, the TDS will be refunded when the investor files his return.

These mistakes can put taxpayers in a tight spot now. In a circular issued last week, the Central Board of Direct Taxes has asked taxpayers to correctly declare the interest income they earned during the year in their tax returns. “Such interest income should be shown in the return of income even in cases where Form 15G or 15H has been filed if the earning is not exempt under Section 10 of the Income-tax Act and the total income of the person exceeds the maximum amount not chargeable to tax,” said the circular. For taxpayers up to 60 years, an income of `2.5 lakh a year is not taxable. For senior citizens, the limit is Rs. 3 lakh.

Don't think you can avoid reporting your interest income. If the interest exceeds Rs. 10,000 in a year, the bank or bond issuer will deduct TDS and credit it to your PAN number in your Form 26AS. If you don't mention that TDS (and the income on which it was deducted) in your tax return, the computerised surveillance system in the tax department will immediately pick up the discrepancy. “Last year, the tax department sought information of all bank accounts held and taxpayers should not forget to include saving account interest from all of these in their tax returns. If you miss any, it amounts to concealment of information,” said Archit Gupta, founder and CEO, ClearTax.

(Economic Times)