

Will your return get rejected?

Two out of three taxpayers don't know the tax rules and could be filing faulty returns

Filing your tax returns is very easy, but make sure you know the tax rules when you do so. An online survey conducted by economictimes.com indicates abysmal levels of tax literacy. The returns of almost 66% of the 2,158 respondents could have faulty information, and almost 34% could even get a notice because of the errors in their tax forms.

Interest income is where many taxpayers are going wrong. Almost 30% of the respondents believe that interest of up to Rs.10,000 from bank FDs is tax free in a year. They should know that the exemption under Section 80TTA is only for the interest on their savings bank accounts. What they earn on FDs and recurring deposits is taxable. Similarly, almost 30% believe that the interest earned on tax-saving infrastructure bonds bought a few years ago under Section 80CCF is not taxable because they were tax saving instruments. Wrong again. The bonds may have helped save tax, but the interest is fully taxable and has to be reported. Nearly 45% of the 637 respondents who said so earn over Rs.12 lakh a year and should be paying 30% on income they think is tax free. “This is a common misconception. Research shows nine out of 10 taxpayers go wrong in reporting interest income,” says Sudhir Kaushik, Co-founder and CFO, Taxspanner.com. There is also a misconception that there is no need to report income if the bank has deducted TDS. But TDS is only 10%, and if your income puts you in a higher bracket, you have to pay additional tax. If income is below the exemption limit, TDS will be refunded when the investor files his return.

The other critical error is reporting income from a second house. One out of five respondents believe there is no tax payable if a second house is vacant. Even if you haven't given it out on rent, you have to pay tax on the notional income based on prevailing market rates. From this year, the tax forms have a column for declaration of property and owners will not be able to avoid reporting them. “This rule about the tax on notional rent was always there. It is only that this year's tax forms have made it clear by providing a separate column for such property,” says Vineet Agarwal, Partner in KPMG India.

Taxpayers are also falling through the cracks on clubbing of income. More than 31% of respondents believe there is no tax implication if they invest in a recurring deposit in their wife's name or open a FD in the name of a minor child. The income from such investments is treated as the income of the giver and taxed accordingly. Of the 668 respondents who got this wrong, more than 30% are in the highest tax bracket.

A significant 45% of respondents are mistaken whether they have to file returns online or in physical form. Online filing is compulsory if your income is above Rs.5 lakh, you have foreign assets, or are claiming a refund. “Even if a physical return is accepted in the last minute rush, it will ultimately be treated as an invalid return at the time of assessment,” says Kaushik. To be sure, not reporting a small amount of interest income or claiming a

deduction incorrectly rank very low in the hierarchy of tax offences. At most you will get a notice with an additional tax demand. There may even be a penalty under Section 271 (c) for concealment, but it depends on how the assessing officer views the transgression. “If the assessing officer is convinced that it was a genuine mistake and the taxpayer's intent was not to evade tax, he might not levy a penalty,” says Divya Baweja, Partner with Deloitte, Haskins & Sells.

On the other hand, taxpayers need to extra careful about foreign assets. Uncovering black money is high on the government's agenda, and any slippage on reporting of foreign assets immediately puts you in the dock. “The logic used by the tax department is that anyone with foreign assets has high income and should not be spared if he has concealed income,” says Komal Agarwal, Partner in Mahesh K. Agarwal & Company. Thankfully, almost 89% of the respondents got this right. But that still leaves around 11% of taxpayers who might falter when it comes to declaring their foreign assets. The department is keeping a close eye on the accounts and assets held outside India. The new ITR2 requires you to give details of your foreign bank account's holding status (both as an owner and as a beneficiary), account opening date, interest accrued during the year and schedule and fields number under which the same income is reported.

Not only foreign bank accounts, but even domestic bank accounts need to be reported in the new forms. “A taxpayer has to report all his bank accounts in the return. If you miss any , it amounts to concealment of information,” says Preeti Khurana, Chief Content Editor, ClearTax.in.

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