

# Difficulties taxpayers may face in estimating advance tax liability for June

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Self-employed and individuals with income from MFs, interest or rent will be affected

Topics

Income Tax

The first instalment of advance tax for the financial year 2020-21 is payable by 15 June 2020. This payment has to be 15% of your total advance tax liability for the year. This is payable not only by companies, but also by individuals. Senior citizens who do not carry on a business or profession are exempt, besides individuals whose tax liability for the year, net of TDS (tax deducted at source), will be less than ₹10,000.

The estimation of advance tax liability for this year poses its own set of challenges, due to the impact of the covid-19 pandemic, the lockdown and other factors.

Those carrying on a business or profession will have the toughest task of estimating their profits for the year. Most such businesses or professions would have been closed in April and May because of the lockdown, and would face significant uncertainties even after the lockdown is lifted as there would be restrictions on operations, shortage of manpower and it would take a while for demand to pick up. Besides, they may face other unknown factors. Under such circumstances, estimation is really a hazard, being more of a wild guess than a reasonable estimate. The withholding taxes have also been reduced to 75% of the earlier rates from 14 May 2020, which will also have to be factored in.

It is not just professionals and businessmen who will be impacted. Other individuals will also have to recompute their advance tax liability this year on account of three factors—taxability of dividends and income from mutual fund units, deduction of TDS thereon and reduction of TDS rates on interest and rent from 10% to 7.5%.

Till 31 March 2020, dividends and income from mutual fund units were exempt from tax, being subject to dividend distribution tax payable by the company and, therefore, did not form part of the taxable income of the shareholder or unitholder. From the current financial year onwards, such dividends and income from mutual funds would be taxable and would have to be considered as part of the taxable income while computing the advance tax liability. There would also be deduction of tax at source at 7.5% by the company or mutual fund, but that would only be if the distribution of dividends or income from mutual funds from that company exceeds ₹5,000 for the full year. This will also have to be factored in to compute the advance tax liability.

One very important factor here is that you cannot just take last year's dividends as a guide to estimate the current year's dividends. The Reserve Bank of India has prohibited banks from distributing dividends for the financial year 2019-20 after 17 April 2020 and, hence, you may not receive the same dividend that you received last year.

Also, many companies were badly hit by the lockdown in the last week of March, when the significant part of sales takes place. Their profits have also been significantly dented, and they may not be as generous in distributing dividends as earlier. Such lower distributions will also impact the income of equity-oriented mutual funds, with consequent lower income distribution by such funds to investors.

Under such circumstances, how do you estimate today how much dividend and income distribution you will receive for the year, and what would be the tax deducted thereon? A daunting task even for seasoned investors.

Even if you were not liable to pay advance tax in earlier years, you may need to recompute your advance tax liability if you have significant interest income or rental income. For both these types of incomes, TDS rates have been reduced from 10% to 7.5%. Therefore, the difference between your total tax liability and the TDS deducted would increase, and may cross ₹10,000. You may, therefore, become liable to advance tax.

There may also be a problem that a tenant may default in payment of rent. Tenants may also seek to negotiate for lower rent for the lockdown period or for the full year. The actual rent received may, therefore, be lower than that in earlier years.

Given all the uncertainties, it is extremely difficult for an individual taxpayer to estimate his income and advance tax liability for the year. If he does not pay the advance tax, he is liable to pay interest. While the government has permitted payment of such tax till 30 June 2020, with 0.75% interest, that may not suffice.

It would, therefore, be in the fitness of things, considering the circumstances, if the government were to either postpone the June instalment of advance tax and merge it with the September instalment, or alternatively waive the interest on shortfall in payment of the June instalment of advance tax.

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