

Pre-filled returns of income could prove to be a headache for taxpayers



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Even if you are able to correct the info, your case is likely to be selected for limited scrutiny

In her budget speech, the finance minister announced that pre-filled income tax returns, which so far came filled in with details of salary, tax payments and tax deducted at source (TDS), would now come filled in also with details of capital gains on listed securities, dividend income and interest income from banks, post offices, etc. To facilitate the pre-filling of such information, rules have been notified requiring some entities to furnish certain information to the tax department. What is this information and what does this imply for the common taxpayer?

All companies (listed as well as unlisted) are now required to submit taxpayer-wise details of the aggregate of dividend distributed by the company during the year. All banks (including co-operative banks), post offices and deposit-accepting registered non-banking financial companies are required to report interest paid or credited to a taxpayer, where such interest exceeds ₹5,000 for the year. This would include interest on savings accounts, recurring deposits, etc., and the limit of ₹5,000 applies to the aggregate interest on all such accounts. In case of joint holders, the interest is to be reported under the name of the first holder. In case of minors, it is to be reported in the name of the guardian.

Depositories have to furnish details of capital gains on listed securities, taking capital gains on a FIFO (first-in, first-out) basis, taking cost of IPO or off-market transactions at zero, and cost and sale price for on-market transactions at day-end rates. Registrars and share transfer agents are required to report details of capital gains on mutual funds. All these are required to be reported by 31 May. This implies that till mid-June, your pre-filled returns would not be available on the tax department's website, and you may not be able to file your tax return. This information will also be reflected in Form 26AS in your e-filing account.

These entities are also required to provide you with a copy of the information filed with the tax department. What happens if there is a mistake in the information? In case of capital gains on listed securities, you are permitted to correct the purchase or sale rates while filing your tax returns. Does this mean that other mistakes cannot be rectified while filing your returns? While this is not clear, you definitely have to ask the concerned entity to rectify it. You may, therefore, have to deal with multiple entities.

This is definitely going to be a problem for many taxpayers, given the past experience in trying to get mistakes in TDS returns rectified by such entities, unless there is an efficient mechanism in place to ensure that any mistakes pointed out by the taxpayer are promptly rectified. If you cannot get the mistakes rectified before the due date, there is no provision for extension of the due date for filing your tax returns on account of such delays caused by no fault of yours. Therefore, it is essential that taxpayers should be able to correct their pre-filled tax returns. How can you otherwise hold taxpayers at fault for giving incorrect information, unless the pre-filled information is also correct?

The mistakes may not only be at the information providers' end, but also at the tax department's end. A client who had filed her tax return in February was shocked to receive an email in the last week of March stating that the bank interest info submitted by her was incorrect. When comparing the two, it was noticed that the tax department had taken the same bank interest twice. On checking with the tax head of the bank as to how such a mistake could occur, he clarified that besides the TDS returns, one fine day all banks received a notice asking them to furnish information of interest exceeding ₹5,000 paid to all depositors. Therefore, they had furnished the same information twice to the tax department; once in the TDS returns, and once in response to this notice. Apparently, the tax department added both the two numbers when comparing it with the tax return.

Even if you are able to correct the info in the tax returns, due to the mismatch, your case is likely to be selected for verification or limited scrutiny, which is an unnecessary and avoidable harassment for no fault of yours.

Now, taxpayers will not only have to compile information for their tax returns, but will also have to reconcile the pre-filled information with their compiled information, besides undertaking a similar exercise for TDS. In particular, for capital gains on listed shares, there is likely to be a difference in almost all the figures due to day-end rates being adopted and due to the fact that brokerage and other exchange charges would not have been factored in the pre-filled information. This will involve much more time and effort, and instead of making life easier for taxpayers as desired, at least in the short term, will create more problems for them.

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