

The problems taxpayers face in getting credit for tax deducted at source

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Since the tax department has all the data now, the TDS credit process should be made easier

Most tax deductors are now comfortable with the online system of filing [TDS](#) (tax deducted at source) returns. These TDS returns get processed by the income tax department, with TDS being reflected in the online tax account of the payee (from whom the tax was deducted). As a payee, you are then supposed to get credit for such TDS when you file your income tax return (ITR). However, taxpayers often face problems in getting TDS credit, even if it appears in the online tax account.

The rules provide that you will get credit on the basis of the TDS returns filed by the deductor. Therefore, unless TDS reflects in your annual information statement (AIS; earlier called Form 26AS), you will not get TDS credit. If the tax deductor either fails to pay TDS, or does not file TDS return, or makes a mistake in data entry of your PAN, TDS will not reflect in your AIS, thus denying you the tax credit. Besides, if you make a mistake in entering the data of the deductor's TAN or the amount of TDS in your ITR, there will be a mismatch with the AIS, and you'll be denied credit.

The hurdles don't end here. Credit for TDS is supposed to be given in the year in which the corresponding income is offered to tax. TDS is supposed to be deducted at the time of payment or credit of income, whichever is earlier. So if you have received an advance, but have not yet raised your invoice, and you are following the accrual system of accounting, you will not get credit for TDS from the advance in the year of deduction—the credit will be given in the subsequent year when you offer the income to tax.

Also, if you have raised an invoice in the current year, but received payment in the subsequent year, and TDS has been cut at the time of payment in the subsequent year. Practically, this TDS does not reflect in your AIS for the current year and, therefore, if you claim credit for TDS subsequently deducted, to match it with the income, you will still be denied TDS credit.

Yet another situation arises where the deductor is under the accrual system, while you are following a cash system of accounting. For instance, the bank may deduct TDS on interest accrued on your cumulative fixed deposits each year, while you offer the interest to tax in the year of maturity. Here, TDS will reflect in multiple years' AIS, which you will have to enter each year in the return and show as carried forward to the subsequent year. It is only if you do this correctly that you can claim such TDS reflected in earlier year's AIS. This problem is also faced by professionals who follow the cash system of accounting, while most of their clients follow the mercantile system of accounting. In these cases, claiming TDS credit in the correct year is a daunting task, involving detailed reconciliations each year, and ensuring detailed and correct data entry in the tax returns.

Even if you do all this correctly, there is no guarantee that you will get TDS credit. In many cases, taxpayers have been denied credit for TDS, which appears in their AIS, and where the relevant income has also been offered to tax, with no reasons being assigned for such denial. You then have to make an online application for rectification, which usually gets rejected, or file an appeal. On rejection, if you are lucky, your file may get transferred to your assessing officer, to whom you can make a fresh rectification application, which usually gets allowed on verification.

Can TDS systems not be made easier for taxpayers? One way is to exempt large taxpayers from TDS being cut. Another method would be to revert to the system which prevailed till a couple of decades ago—allow credit for TDS in the year it was cut, without linking it to income. After all, details of income and transactions are now readily available digitally to the tax department through various information details being filed by businesses. Of course, it is essential to ensure that the tax department's systems and softwares are robust and accurate, and do not create problems for taxpayers. There should also be a proper taxpayer grievance redressal system in place of the ineffectual call centre which currently exists. Isn't that the least that taxpayers can expect?

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