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Opinion | Why can't taxpayers adjust their refunds?

Rate of interest payable on delays is thrice of the interest received on refunds

Last Published: Thu, Aug 30 2018. 10 37 AM IST

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Photo: Pradeep Gaur/Mint

Under income tax law, each year is separate for taxation purposes. Income of each year is computed separately, and tax is to be paid separately. The only concession is that of permitting adjustment of certain losses of earlier years against the income of a subsequent year. However, when it comes to tax payments, even if you are entitled to a

tax refund for an earlier year, you cannot adjust such refund against the income tax payable by you for the subsequent year. You necessarily have to pay the tax due for that particular year, irrespective of whether you have received **past refunds**.

On the other hand, the tax authorities have the power to adjust subsequent years' refunds against earlier years' tax demands, instead of issuing the refund for the year and recovering the tax demand for the earlier year.

This has led to a problem for many **taxpayers**. Often, the tax authorities are slow in issuing large tax refunds, perhaps on account of revenue collection target considerations. But taxpayers are not spared from paying taxes, though their funds are blocked with the tax department. They necessarily have to pay subsequent years' advance taxes, or pay interest.

They may finally get their **refunds with interest**, but that is a measly 6% per annum (that too, taxable). The net post-tax interest is therefore only about 4% per annum. On the other hand, they pay interest of 12% per annum for delay in paying taxes, which is not tax deductible. Effectively, the rate of interest payable by taxpayers on delays is thrice of the interest they may receive on refunds. Ostensibly, the reason trotted out by the tax department for such discrimination is that this is to prevent taxpayers from overpaying taxes to earn a high rate of return. As if anybody would risk parking his money with the tax department just to earn a higher rate of return, and waste time on follow-ups.

The other problem is that tax authorities often raise an incorrect tax demand. Many such demands are on account of mistakes or errors while processing the returns of income, particularly by the Centralised Processing Centre. The taxpayer then has to apply for rectification, which takes its own time to get resolved. Until such time, the demand appears as outstanding in the taxpayer's account in the income tax system.

Unfortunately, the tax authorities are generally slow to respond to such rectification requests; their focus being on recovery of outstanding demands. Due to the outstanding demands, subsequent refunds are adjusted against such incorrect demands. Therefore, delays in processing rectification requests help the tax authorities meet their tax collection targets, which are computed net of refunds issued.

Before adjustment of such refunds against earlier tax demands, the taxpayer is supposed to be given a notice to explain why such adjustment can't be done. Even where the responses are filed, the delay in processing the responses by the Centralised Processing Centre often results in substantial delay in grant of refund. At times, in spite of the responses, refunds are adjusted against tax demands. The taxpayer then has no choice but to file an appeal against such incorrect adjustment, which takes its own

time. Alternatively, he can file a rectification application, which may or may not be attended to.

All in all, the present system is not at all taxpayer-friendly. Taxpayers are forced to waste their time in unproductive work, due to the inefficiency or mistakes of the tax department. The computerisation of the filing of tax returns and their processing and refunds has improved the speed of processing tax returns, and resulted in speedy refunds in many cases, particularly routine ones. However, there is still a very clear need to ensure that the systems are robust, error-free, and capable of handling even the small percentage of non-routine cases, such as that of executors of Wills, or private trusts, where the systems are often found wanting.

The year-wise scheme of tax payments has created problems for many taxpayers, particularly on account of the laxity in tax administration. For tax deducted at source, in case excess payments are made for a particular year, they can be adjusted against payments due for the subsequent year.

Why can't the taxpayer be given a similar option, which can be exercised when filing his return of income, to request that the refund be adjusted against taxes payable by him for the subsequent year? This will save the tax department the trouble of issuing a tax refund, as well as reduce the taxpayer process of paying advance tax, besides resolving the problem of funds blocked with the tax department.

This will also introduce an element of fairness into the system, with the taxpayer also having a right to adjust his tax refund, and not just tax authorities. However, given the tax department's fixation with meeting tax collection targets at any cost, and the present system's capability of being used to manipulate tax collection figures, will such a suggestion ever be accepted?

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First Published: Thu, Aug 30 2018. 10 29 AM IST

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