

Budget set on improving tax compliance

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As per the existing provisions of income tax law, there are two requirements that need to be met before credit of TDS can be given to an assessee. These are : the TDS amount is to be paid into the central government account by the deducting authority and the credit is to be given in the assessment year for which the income is assessable. In fact, income tax officials themselves say that often it is difficult for both these conditions to be met in the same year resulting in the assessee losing out on TDS credit.

Payment of TDS into government account is not under the control of the income-earner, therefore not giving him credit penalizes the assessee for no fault of his. Currently, the credit of TDS can be taken by an income tax assessee only in the assessment year in which the relevant income is assessable. Often this results in the assessee losing out on TDS credit because of not receiving the certificate in time or receiving wrongly made out certificates etc. The amendment proposed in the Budget 2002 would allow credit of TDS in the year in which the certificate is produced provided that the relevant income (from which tax has been deducted at source) is duly declared and assessed to tax in the assessment to which it relates. However, the certificate would be accepted only within two years from the end of the assessment year in which income is assessable. Assessment year for tax purposes is one year ahead of the financial year in which income is earned.

The budget has rightly proposed amendment in the income tax law to allow assessee to take credit of tax deducted at source (TDS) in the year in which the TDS certificate is produced. This would be a major relief for individual tax-payers who often lose out on credit of TDS because of procedural problems which lead to a lot of heartburn. Practically speaking, this often leads a genuine taxpayer tread the wrong path of evasion as for instance one of my clients did not receive his TDS certificate from a very popular automobile company and somehow it could not be managed in the last days and the return had to be filed without claiming the same. This genuine client who never made in genuine adjustments now intended some adjustment in the next year so as to recover the TDS loss incurred in the process.

And once an assessee gets onto this path, there is no looking back. So the proposed amendment is not only justified but is also rightly directed to improve the overall compliance by generating respect for the existing provisions in the income tax act. It is necessary to appreciate that for proper compliance of various provisions of the income tax act it is important to ensure that the provisions are justified and do not cause any avoidable hardship or harassment to the assessee. Well done Mr. Finance Minister.