UNIVERSITY OF DELHI

# PERSONAL TAX PLANNING AND TAX MANAGEMENT

## DSE 7.9

B.Com (Hons.) | B.Com (Prog.) — Fourth Year, Semester VII

## UNIT 4 · PART A

# DEDUCTION, COLLECTION AND RECOVERY OF TAX

*The Machinery by which the Tax is Actually Collected*
*Advance Tax • Tax Deduction at Source • Tax Collection at Source • Refund*
*Sections 392 to 394, 403 to 408, 423 to 426 and 431 to 438*
*with the Permanent Account Number and the tax credit statement*

**Governed by the INCOME-TAX ACT, 2025**
*(Act No. 30 of 2025, as amended by the Finance Act, 2026)*
**read with the INCOME-TAX RULES, 2026**

## TAX YEAR 2026-27

1 April 2026 to 31 March 2027
*Academic Year 2026-27*

*Compiled by*
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## The Prescribed Syllabus for this Part

**UNIT 4: TAX MANAGEMENT (9 HOURS) — PART (A)**

"**(A): Deduction, collection and recovery of tax** — Advance tax, tax deduction at source, tax collection at source, refund."

*Discipline Specific Elective Course 7.9, placed before the Executive Council of the University of Delhi, EC (1282) dated 29.04.2026, effective from the Academic Year 2026-27.*

Units 1 to 3 were about **tax planning** — the lawful arrangement of one's affairs so that the liability is the smallest the Act permits. This Unit is about **tax management** — the discharge of the liability once it has been determined: paying it at the right time, in the right instalments, through the right channel, and recovering what has been overpaid. The two are not the same thing, and Unit 1 distinguished them carefully. Planning decides *how much*; management decides *when, by whom and how*.

### Where this Unit sits in the paper

| Unit | Content | Hours | Marks |
|---|---|---|---|
| **Unit 1** | Basic concepts of tax planning; avoidance and evasion; scope; planning through exempted income, permissible deductions and clubbing | 14 | 18 |
| **Unit 2** | Tax planning under the five heads of income | 11 | 36 |
| **Unit 3** | Tax planning through investments; deductions under the Act | 11 | 18 |
| **Unit 4 (A)** | Advance tax, tax deducted at source, tax collected at source, refund — this booklet | 4 | 9 |
| **Unit 4 (B)** | Income-tax authorities; return of income; assessments; appeals and revision | 5 | 9 |

## The teachers' meeting of 6 September 2025

An online meeting was held on Saturday, 6 September 2025 to prepare the Guidelines for the NEP: UGCF Syllabus (w.e.f. 2022-23) for this paper, organised by the Department of Commerce, Delhi School of Economics, University of Delhi and Sri Aurobindo College (Evening), University of Delhi. Dr. Supreet Kaur, Assistant Professor, Department of Commerce, represented the Department; the meeting was convened by Mr. Varun Panwar, Assistant Professor, Sri Aurobindo College (Evening); and fourteen other members of the faculty were present. The B.Com (Hons.) guidelines were settled at 4:00 PM and the B.Com (Prog.) guidelines at 5:00 PM; they are identical in every respect that bears on this booklet. **Those guidelines that bear on this booklet are set out below.**

### The question paper

- The total number of questions will be **five**.
- All questions carry equal weightage of **18 marks each**.
- **Each question shall have an internal choice.**
- The question format must ensure comprehensive coverage of the entire syllabus.
- **No question shall contain more than two parts** — the illustrative format being (a) and (b), *or* (c) and (d).

### The allocation of lectures, marks and questions

| Unit | Name of the Unit | Hours | Marks | Questions |
|---|---|---|---|---|
| **Unit 1** | Basic Concepts | 14 | 18 | 1 question with internal choice |
| **Unit 2** | Tax Planning under different heads of Income | 11 | 36 | 2 questions with internal choice |
| **Unit 3** | Tax Planning through investments | 11 | 18 | 1 question with internal choice |
| **Unit 4 (A)** | Deduction, collection and recovery of tax | 4 | 9 | 1 question with internal choice, covering both parts |

| Unit | Name of the Unit | Hours | Marks | Questions |
|---|---|---|---|---|
| **Unit 4 (B)** | Assessment Procedures, Income-tax Authorities and Appeal and Revision | 5 | 9 | |
| **Total** | | 45 | 90 | 5 questions with internal choice |

**What the allocation means for this Part**

Unit 4 as a whole carries **18 marks of the 90** — one question, with an internal choice, and no more than two parts to it. **Part A carries 9 of those 18 marks and 4 of the 9 hours.**

Because the question covers both Parts and has an internal choice, a candidate who prepares only one Part is gambling. The safe assumption is that the question will be set as (a) from Part A and (b) from Part B, *or* (c) from Part A and (d) from Part B.

*Note what the guidelines do **not** ask for. There is no rate chart to be memorised, no computation of tax deducted payment by payment, and no filing of a quarterly statement. What is asked for is the **concept, the objective, the importance, the due dates, the forms, and the tax management** — that is, the use a taxpayer makes of the machinery.*

### The prescribed scope of this Unit

The guidelines set out, against each limb of the syllabus, the scope to which teaching and examination are to be confined, and the practical coverage expected. What follows is that table for this Part, reproduced as settled.

| Syllabus of the Unit | Scope of the Unit | Practical Coverage |
|---|---|---|
| Advance tax, tax deduction at source, tax collection at source, refund. | **1. Advance Tax** — (i) meaning and applicability; (ii) due dates of advance tax.<br>**2. Tax Deduction at Source (TDS)** — (i) concept, objective, importance and due dates; (ii) TDS certificates — Form 16 (for salary income) and Form 16A (for non-salary income); (iii) TDS forms — Form 15G (declaration to avoid TDS if income is below the taxable limit) and Form 15H (similar declaration for senior citizens); (iv) tax management with TDS — submitting Form 15G/15H to avoid unnecessary TDS; quoting the correct PAN to ensure lower TDS (section 206AA); adjusting advance tax liability with TDS already deducted.<br>**3. Tax Collection at Source (TCS)** — (i) meaning and objective; (ii) tax management through TCS — quoting the correct PAN to ensure lower TCS (section 206CC).<br>**4. Refund** — (i) meaning and process of claiming the refund; (ii) interest on refund (section 244A); (iii) tax management with refund — timely filing of ITR to ensure faster refund; using the Income Tax Portal for efficient processing; accurate estimation of tax liability to prevent excessive tax deductions or advance tax, and blockage of funds. | |

**The guidelines and the Income-tax Act, 2025 — how to read them together**

The guidelines were settled on 6 September 2025. The Income-tax Act, 2025 came into force on 1 April 2026. The scope tables are therefore expressed in the section numbers of the Income-tax Act, **1961** — 140A, 143(1), 143(3), 144, 144B, 206AA, 244A and the rest.

The syllabus itself, as amended by the Executive Council in EC (1282) dated 29.04.2026, is a syllabus on the Income-tax Act, **2025**. The two are not in conflict: **the guidelines settle what is examinable; the Act settles the law in which it is to be stated.**

This booklet therefore takes its **scope** from the guidelines and its **law** from the Income-tax Act, 2025 as amended by the Finance Act, 2026. The full conversion table is in the last chapter.

*In the examination, give the section number of the 2025 Act. If you wish, add the 1961 number in brackets. Never give*

> *the 1961 number alone.*

### What this booklet does with the guidelines

The body of this booklet carries only what the guidelines prescribe, stated in the law of the Income-tax Act, 2025. Chapter 1 gives the scheme of collection as a whole, so that the four channels can be seen in relation to one another. Chapters 2 to 5 take advance tax, tax deduction at source, tax collection at source and refund in the order the guidelines list them. Chapter 6 takes the permanent account number and the tax credit statement, which are not named in the scope table but without which none of the four can be operated — the guidelines refer to them repeatedly under the head of tax management. Chapter 7 is revision and the question bank.

## Before You Begin

### What this Part asks of you

Three things, and they are different in kind from what Units 1 to 3 asked —

1. **Know the calendar.** Tax management is almost entirely a matter of dates: 15 June, 15 September, 15 December, 15 March for advance tax; the 7th of the following month for a challan; 31 July, 31 August, 31 October for the return. A question on this Part that does not contain a date is unusual.
2. **Know the form numbers, and know that they have all changed.** Form 16 is now **Form 130**; Form 16A is **Form 131**; Forms 15G and 15H are together **Form 121**; Form 13 is **Form 128**; Form 26AS is **Form 168**. The guidelines, written in September 2025, use the old numbers. Give the new ones.
3. **Think like the taxpayer, not like the Department.** Every limb of the guidelines' scope table for this Part ends in the words “tax management with —”. The examiner wants to know what the *assessee* should do: file the declaration, quote the number, estimate accurately, file on time. Describing the machinery without saying what to do with it is half an answer.

### How this booklet is arranged

| Chapter | What it does |
|---|---|
| **1** | The scheme of collection — the four channels, and how a rupee of tax finds its way to the Government |
| **2** | Advance tax — liability, computation, instalments, and the three interest sections |
| **3** | Tax deduction at source — the concept, the two master sections, the certificates, the declarations, and the defaults |
| **4** | Tax collection at source — a short chapter, because the guidelines ask for little |
| **5** | Refund — when it arises, how it is claimed, the interest on it, and how to avoid needing one |
| **6** | The permanent account number and the tax credit statement — the information backbone |
| **7** | Revision, ready reckoner and question bank |

> **THE ONE IDEA THAT RUNS THROUGH THE WHOLE OF THIS PART**
>
> **The Income-tax Act does not wait until the year is over to collect its tax.** It collects as the income arises — at source, where the payer can be made to deduct; in instalments, where the assessee can be made to estimate; and only the balance at the end, on self-assessment.
>
> Everything in this booklet follows from that single policy, which is called **pay as you earn**. The advance tax provisions exist because the Government cannot finance itself on money received fifteen months in arrears. The deduction provisions exist because a payer is easier to police than a payee. And the refund provisions exist because a system that collects in advance must necessarily sometimes collect too much.
>
> *If you can state that policy and then hang the four channels on it, you have the frame of every long answer in this Part.*

## The sources from which this material has been written

| Source | What it settles in this Part |
|---|---|
| Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026 | Sections 392 to 396 (deduction at source); 394 (collection at source); 403 to 408 (advance tax); 423 to 426 (interest); 431 to 438 (refunds); 262 with Rule 159 (the permanent account number); 263 (the return, so far as it bears on the claim to a refund) |
| Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026 | The forms and the procedure — Form 121 (declaration), Form 124, Form 128 (lower deduction), Form 130 and Form 131 (certificates), Form 138, Form 140 and Form 144 (quarterly statements), Form 168 (the tax credit statement), and Rule 159 (the permanent account number) |
| Finance Act, 2026 — assent 30 March 2026 | The rates for Tax Year 2026-27; the extension of the due date for a non-audit business to 31 August; the extension of the revised-return window to twelve months; and the extension of the time limit for completion of an assessment to eighteen months |
| Notifications and circulars of the Central Board of Direct Taxes | The forms notified under the Rules, the thresholds in the Table to section 393(1), and the faceless schemes |
| The e-filing portal, www.incometax.gov.in | The procedure actually followed on the screen — registration, the pre-filled return, the annual information statement, e-verification and the refund status |

### A warning about older books, and about the coaching notes

The whole of the vocabulary of this Part has changed. There is no section 192, no 194, no 195, no 197, no 206C, no 206AA, no 207, no 210, no 234B, no 234C, no 237 and no 244A in force in Tax Year 2026-27. A candidate who writes any of them is quoting a repealed statute. Worse, three of the old numbers have been **re-used for something entirely different** in the new Act, and a student who reproduces them from memory will not merely lose the mark — he will say something false. Those traps are boxed wherever they occur, and are collected in paragraph 7.2.

### About this booklet

This booklet has been prepared by Artificial Intelligence — Claude Opus 5.0 (Anthropic), Max — under the guidance and supervision of Advocate Dr. S. B. Rathore, and edited by him. Every section number, form number, rate and time limit has been taken from the Income-tax Act, 2025 as amended by the Finance Act, 2026, and from the Income-tax Rules, 2026.

It is issued free of cost to the students of the University of Delhi and to anyone else who finds it useful. It is not for sale.

*Date: 08-08-26 (Original)*

**Suggestions and corrections are welcome**

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*Corrections received will be carried into the next revision, and the corrected file will be uploaded on the website.*

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# Contents

*Page numbers refer to this booklet. Chapter headings are shown in bold.*

CHAPTER 1

# The Scheme of Collection

*Four channels, one liability. Before any of them is examined separately it must be seen how they fit together, because the whole of tax management is the management of the fit.*

## 1.1 Pay as you earn

The tax of a tax year is a tax on the income of that year, and in principle it could be collected after the year has closed and the income is known. No modern revenue system does that. The Income-tax Act, 2025 collects the tax **as the income arises**, and reconciles at the end. Four channels carry the money —

| Channel | Who pays it over | When | Where in the Act |
|---|---|---|---|
| **Tax deducted at source** | The **payer** — the employer, the bank, the tenant, the client | At the time of credit or payment, whichever is earlier | Sections 392 and 393 |
| **Tax collected at source** | The **seller** — of specified goods, or the licensor of specified rights | At the time of receipt or debit | Section 394 |
| **Advance tax** | The **assessee himself**, on his own estimate | In four instalments during the tax year | Sections 403 to 408 |
| **Self-assessment tax** | The **assessee himself**, on the completed figures | Before furnishing the return | Section 266 |

**THE ORDER IN WHICH THE FOUR ARE APPLIED**

They are not alternatives. They operate in sequence, and each is computed **after** giving credit for those before it —

- **First**, tax is deducted or collected at source by somebody else. The assessee has no choice in the matter.
- **Second**, the assessee estimates his total income for the year, computes the tax on it, and **reduces it by the tax deducted or collected at source**. What is left is his advance tax, payable in instalments [section 405].
- **Third**, at the end of the year he computes his actual liability and reduces it by everything already paid. The balance is self-assessment tax, payable before the return is furnished [section 266].
- **Fourth**, if the total already paid *exceeds* the liability, the excess is refunded with interest [sections 431 and 437].

*That sequence is the answer to the commonest short question in this Part — "explain the scheme of collection and recovery of tax". Learn it as four sentences, in that order.*

## 1.2 Why the Act prefers deduction at source to everything else

- **It is certain.** The payer is usually an organised entity with books and an auditor; the payee may be anyone. Policing one payer reaches a thousand payees.
- **It is early.** The money reaches the Government within days of the income arising, not fifteen months later.
- **It is informational.** Every deduction is reported against the payee's permanent account number and appears in his tax credit statement. The Department therefore knows of the income whether or not the payee discloses it. This is the point of Chapter 6.
- **It spreads the burden.** A person who has had tax deducted through the year does not face a single large demand at the end of it.
- **And it costs the Government nothing.** The whole administrative burden of deduction, deposit and reporting is placed on the payer, unpaid.

## 1.3 The credit side — and the one rule that governs it

Tax deducted is **not** the deductor's money and is **not** an expense of the payee. Section 396 provides that the sum deducted shall be **deemed to be income received** by the assessee. So the payee must gross up: he offers the *full* amount for tax and takes credit for the tax deducted.

**ILLUSTRATION 1.1 — GROSS UP, THEN TAKE CREDIT**

A bank credits interest of ₹1,00,000 to Shri Anil's account and deducts ₹10,000 at source, paying him ₹90,000.

*What does he show in his return?*

**Income from other sources — ₹1,00,000**, not ₹90,000. Section 396 deems the ₹10,000 to be income received by him.

**Tax deducted at source — ₹10,000**, claimed as a credit against his total liability.

The commonest error in practice — and in the examination — is to show ₹90,000 as income and then to claim credit for ₹10,000 as well. That claims the benefit twice and understates the income by the amount of the tax.

**CREDIT FOLLOWS THE STATEMENT, NOT THE CERTIFICATE**

Credit for tax deducted is given on the basis of what the deductor has **reported** — that is, on the basis of the tax credit statement in **Form 168** (the old Form 26AS) and the annual information statement, not on the basis of the certificate in the assessee's hand.

So a deductor who deducts but does not deposit, or deposits but reports against the wrong permanent account number, leaves the payee without credit even though the payee has a certificate. **The remedy is to check Form 168 before filing, not after the demand arrives.** This is the single most practical sentence in the whole of Part A.

CHAPTER 2

# Advance Tax

*Sections 403 to 408, with the interest in sections 423 to 425. The assessee is required to be his own assessing officer four times a year, and is charged interest if he estimates badly.*

## 2.1 Meaning

Advance tax is income-tax **paid during the tax year itself, on the income of that year, on the assessee's own estimate**, in the instalments and by the dates the Act prescribes. It is not a separate tax and not an additional tax; it is the same tax, paid early. It is popularly called **"pay as you earn" tax.**

## 2.2 Applicability — who must pay, and who need not

| Point | Position [sections 403 and 404] |
|---|---|
| The threshold | Advance tax is payable where the tax payable for the tax year, computed as section 405 directs, is **₹10,000 or more**. Below that, nothing is payable and no interest arises |
| Who is liable | **Every person** — individual, Hindu undivided family, firm, company, association — whose liability crosses the threshold. Residence is irrelevant |
| **The senior citizen exemption** | A **resident individual** who is **sixty years of age or more** at any time during the tax year, and who does **not** have income chargeable under the head "Profits and gains of business or profession", is **not liable to pay advance tax at all.** He pays the whole of his tax as self-assessment tax before furnishing the return |
| The presumptive assessee | An assessee who declares profits under **section 58** (the presumptive schemes) pays the **whole** of his advance tax in a **single instalment on or before 15 March** |

**THE SENIOR CITIZEN EXEMPTION — THREE CONDITIONS, ALL OF WHICH MUST HOLD**

- **Resident.** A non-resident of sixty-five gets no relief.
- **Sixty or more at any time in the tax year.** A person born on 31 March 1967 attains sixty on 31 March 2027 and therefore qualifies for Tax Year 2026-27, by a single day.
- **No business or professional income.** Pension, interest, rent, dividend and capital gains are all outside the head; the moment there is business income, however small, the exemption goes for the whole year.

*This is the most-set short question on advance tax. State all three conditions and give the consequence — that he pays on self-assessment instead, and bears no interest under section 425.*

## 2.3 Computation [section 405]

The assessee is directed to do, in advance, exactly what he will do at the end of the year —

| Step | What is done |
|---|---|
| 1 | **Estimate the current income** of the tax year, under every head. |
| 2 | **Compute the tax** on that estimated total income at the rates in force for the tax year — that is, at the section 202(1) rates unless the option under section 202(4) has been exercised. |
| 3 | **Add** surcharge, if any, and the health and education cess at 4%. |
| 4 | **Deduct** the tax **deducted or collected at source** that is expected on that income, and any relief or credit allowable. |
| 5 | **The balance is the advance tax**, and it is payable in the instalments in section 408. |

**STEP 4 IS WHERE THE MARKS ARE, AND WHERE THE GUIDELINES POINT**

The guidelines list, under *tax management with TDS*, "**adjusting advance tax liability with TDS already**

**deducted**". That is step 4, and it is worth stating in full.

A salaried assessee whose employer deducts tax on the whole of his salary under section 392 will ordinarily have **no advance tax to pay at all** on that salary, because the deduction has already covered it. He becomes liable only if he has *other* income — interest, rent, capital gains, dividend — that his employer does not know about.

**And there is a way to avoid even that.** Section 392 permits an employee to report his other income to his employer, who then deducts tax on the aggregate. The employee thereby discharges his whole liability through deduction at source, pays no advance tax, files no challan, and bears no interest.

## 2.4 The instalments and the due dates [section 408]

| Due date | Amount payable — cumulative | Amount payable — for the instalment |
|---|---|---|
| On or before **15 June** | Not less than **15%** of the advance tax | 15% |
| On or before **15 September** | Not less than **45%** of the advance tax | 30% |
| On or before **15 December** | Not less than **75%** of the advance tax | 30% |
| On or before **15 March** | **The whole** of the advance tax | 25% |

- **A presumptive assessee under section 58** pays 100% by **15 March** in a single instalment.
- Any amount paid **on or before 31 March** is still treated as advance tax for the year, even though it is late for the 15 March instalment. The lateness attracts interest; it does not change the character of the payment.
- The dates do not shift for a holiday in the statute; in practice payment on the next working day is accepted where the banks are closed.

**How to remember the four**

**15-45-75-100**, on the **15th** of **June, September, December and March.** Four dates, four figures, one mnemonic.

And note that they are **cumulative**, not separate. A person who paid nothing in June but 45% in September has satisfied the September requirement, and bears interest only for the June shortfall for three months.

## 2.5 The interest — three sections, and they are different

| Section | 1961 Act | What it charges | Rate | Period |
|---|---|---|---|---|
| **423** | 234A | Default in **furnishing the return** — interest on the tax on the returned income less prepaid taxes | **1% per month** or part | From the day after the due date under section 263 to the date the return is furnished |
| **424** | 234B | Default in **payment** of advance tax — where no advance tax is paid, or the advance tax paid is less than **90%** of the assessed tax | **1% per month** or part | From 1 April of the following year to the date of determination of total income |
| **425** | 234C | **Deferment** of advance tax — where an instalment falls short of the prescribed percentage by its due date | **1% per month** or part | Three months for each of the first three instalments; one month for the last |
| **426** | — | Interest on an **excess refund** granted | As prescribed | From the grant of the refund to the date of reassessment |

**The two safe harbours in section 425 — worth a mark by themselves**

No interest is charged under section 425 for the **first** instalment if at least **12%** of the tax due on the returned income has been paid by 15 June, nor for the **second** if at least **36%** has been paid by 15 September — even though the prescribed percentages are 15% and 45%.

So the true minima are **12 – 36 – 75 – 100**, and the three-percentage-point cushion on the first two instalments exists because an estimate made in June is necessarily rough.

*There is a further relief: no interest under section 425 is charged in respect of a* ***capital gain****, or winnings, or dividend, or a newly-set-up business, which could not have been foreseen at the earlier due date — provided the whole of the tax on it is paid in the remaining instalments, or by 31 March if it arises after 15 March.*

## 2.6 Tax management with advance tax

| Measure | How it works | Caution |
|---|---|---|
| **Estimate honestly, and revise as the year goes on** | The estimate is not fixed in June. Each instalment is computed on a fresh estimate, and the cumulative percentage is applied to the *revised* figure | An estimate deliberately kept low to defer payment produces interest under both sections 424 and 425, and the interest is not deductible |
| **Route the liability through deduction at source wherever possible** | Report other income to the employer under section 392 and let him deduct. No challan, no instalments, no interest | The employer cannot be asked to give credit for a *loss* under any head other than house property |
| **Pay the shortfall on a capital gain in the next instalment** | The proviso to section 425 forgives the earlier instalments on an unforeseeable gain | The relief is lost if the tax on the gain is not paid in the remaining instalments, or by 31 March |
| **Pay by 31 March even if 15 March has been missed** | It is still advance tax, and it stops the clock under section 424, which runs only from 1 April | Section 425 interest for the 15 March shortfall is still charged, but for one month only |
| **A senior citizen without business income should pay nothing during the year** | He is outside section 403 altogether. Paying advance tax he need not pay is an interest-free loan to the Government | The exemption goes the moment there is business income. Check the head, not the amount |
| **Use the challan correctly** | Tax paid under the wrong head or the wrong tax year does not appear against the right liability and produces a demand notwithstanding payment | Verify in Form 168 that the challan has been credited to the right year before filing the return |

## 2.7 Illustrations

**ILLUSTRATION 2.1 — THE FOUR INSTALMENTS, WITH TAX DEDUCTED AT SOURCE**

Shri Bhaskar, aged 44, estimates his total income for Tax Year 2026-27 at ₹18,00,000, on which the tax including cess is ₹1,66,400. Tax of ₹1,20,000 is expected to be deducted at source by his employer. *Compute the advance tax and the instalments.*

**Advance tax** = ₹1,66,400 – ₹1,20,000 = **₹46,400.** This exceeds ₹10,000, so he is liable.

**Instalments** — by 15 June, 15% = ₹6,960; by 15 September, cumulative 45% = ₹20,880, so a further ₹13,920; by 15 December, cumulative 75% = ₹34,800, so a further ₹13,920; by 15 March, 100% = ₹46,400, so a further ₹11,600.

*Note that the percentages are applied to the advance tax of ₹46,400,* ***not*** *to the total tax of ₹1,66,400. Applying them to the gross tax is the commonest arithmetical error in this chapter.*

**ILLUSTRATION 2.2 — THE INTEREST WHEN THE INSTALMENTS ARE MISSED**

Take Shri Bhaskar again. He pays nothing until 20 December, when he pays ₹30,000, and the balance of ₹16,400 on 25 March. *Compute the interest under section 425.*

**15 June — required 15% of ₹46,400 = ₹6,960; paid nil.** Shortfall ₹6,960 (and it exceeds the 12% safe harbour of ₹5,568). Interest = 1% × 3 months × ₹6,960 = **₹209**.

**15 September — required 45% = ₹20,880; paid nil.** Shortfall ₹20,880 (the 36% safe harbour is ₹16,704). Interest = 1% × 3 × ₹20,880 = **₹626**.

**15 December — required 75% = ₹34,800; paid nil by that date** (the ₹30,000 came on 20 December). Shortfall ₹34,800. Interest = 1% × 3 × ₹34,800 = **₹1,044**.

**15 March — required 100% = ₹46,400; paid ₹30,000.** Shortfall ₹16,400. Interest = 1% × 1 × ₹16,400 = **₹164**.

**Total interest under section 425 = ₹2,043.**

**And under section 424?** He has paid the whole ₹46,400 by 25 March, that is within the tax year. Advance tax paid is 100% of the assessed tax, which is not less than 90%. **No interest under section 424.** Had he paid the last ₹16,400 on 25 April instead, section 424 would have run from 1 April on the shortfall.

*The lesson: section 425 punishes when you paid within the year; section 424 punishes whether you paid within the year at all. They can both apply, and they are computed independently.*

**Illustration 2.3 — the senior citizen, and what the exemption is worth**

Smt. Kamala, aged 67, resident, has pension of ₹6,00,000, bank interest of ₹4,00,000 and a long-term capital gain on listed shares of ₹5,00,000. She has no business income. Her tax for the year, after credit for ₹40,000 deducted at source, works out at ₹82,000. *What must she pay, and when?*

**She is not liable to advance tax at all.** She is a resident individual, sixty or more during the year, with no income under the head "Profits and gains of business or profession". Section 403 does not apply to her.

She therefore pays the whole ₹82,000 as **self-assessment tax under section 266**, before furnishing her return, and by 31 July 2027 at the latest.

**No interest under section 425**, there being no instalment she was required to pay. **No interest under section 424 either**, provided she pays before the return is furnished and the return is on time.

**What the exemption is worth.** Had she been liable, she would have parted with about ₹12,300 in June and further sums in September and December. Keeping ₹82,000 until July 2027 instead of paying it from June 2026 is, at 7% on a bank deposit, worth about **₹4,000** — quite apart from the convenience.

*But note the trap: if she had even ₹20,000 of professional fees, the exemption would go, and interest under both sections would run on the whole liability.*

CHAPTER 3

# Tax Deduction at Source

*Sections 392 to 396. The largest single channel of collection in the country, and the one on which the guidelines ask the most — concept, objective, importance, due dates, certificates, declarations, and what a taxpayer should do about all of it.*

## 3.1 The concept

Tax deduction at source is the requirement that a **person making a payment of a specified kind** shall, before making it, deduct tax at a prescribed rate and pay it to the credit of the Central Government on the payee's behalf. The payee receives the net sum, and receives with it a credit for the tax so deducted, which he sets against his liability for the year.

Three persons are involved and it is worth naming them: the **deductor** (who pays and deducts), the **deductee** (who receives, net), and the **Government** (which receives the tax). The deductor is, in substance, an unpaid collecting agent, and the Act enforces the role with interest, penalty and prosecution.

## 3.2 The objective, and the importance

| Objective | How deduction at source serves it |
|---|---|
| **Regular flow of revenue** | The Government receives tax through the year instead of at the end of it, and can finance expenditure without borrowing against future collections |
| **Collection at the point of generation** | The tax is taken where the income is created, before the money reaches the recipient and can be dissipated |
| **Widening of the base, and a check on evasion** | Every deduction is reported against the deductee's permanent account number. The Department therefore learns of income that the recipient may not disclose. This is why deduction at source is described as the backbone of the information system |
| **Convenience to the assessee** | The liability is discharged in small sums as the income arises, and no single large demand falls due at the end of the year |
| **Shifting the cost of collection** | Deduction, deposit, reporting and certification are all done by the deductor at his own expense |
| **Reduction of the advance tax burden** | Tax deducted is set off in computing advance tax under section 405, so a person whose income is fully covered by deduction need pay no advance tax at all |

## 3.3 The architecture — two sections in place of thirty

THE SINGLE MOST IMPORTANT STRUCTURAL CHANGE IN THIS PART

Under the Income-tax Act, 1961 the provisions for deduction at source ran from section 192 to section 196D — more than thirty separate sections, each with its own rate, its own threshold and its own provisos.

**The Income-tax Act, 2025 consolidates the whole of that into two sections:**

- **Section 392 — salary.** The old section 192, together with the deduction on a premature withdrawal from a provident fund (the old section 192A).
- **Section 393 — everything else.** A single section with three limbs and a Table: **393(1)** payments to residents; **393(2)** payments to non-residents; **393(3)** the special cases — winnings, payments to partners, withdrawals from the National Savings Scheme, cash withdrawals.

The rates and thresholds have not been swept away; they have been moved into the **Table** to the section. So the correct citation for tax deducted on professional fees is now "section 393(1), read with the relevant entry in the Table", and not "section 194J".

### Section 392 — deduction from salary

- **Who deducts** — any person responsible for paying income chargeable under the head "Salaries".

- **When** — at the time of **payment**, not of accrual. Salary is the one case in which deduction follows payment rather than the earlier of credit and payment.
- **How much** — the tax on the estimated salary income of the employee for the tax year, at the rates in force, divided by the number of months of employment. There is **no flat rate**: the deduction follows the employee's own slab.
- **The regime** — the employer must deduct on the footing of the **default** regime in section 202(1) unless the employee intimates his intention to exercise the option under section 202(4).
- **Other income** — the employee may report income under any other head, and loss under the head "Income from house property", to the employer, who then takes it into account. **He may not report a loss under any other head**, and the effect can only be to increase the deduction, except in the case of that one loss.
- **The declaration of claims** is made in **Form 124** (the old Form 12BB), with the evidence the Rules prescribe.

### Section 393 — deduction from everything else

The Table to section 393(1) is long, and **the guidelines do not require it to be memorised.** What follows is an illustrative extract of the entries a student is most likely to meet, given so that the mechanism can be seen working. The rates and thresholds are those in force for Tax Year 2026-27; the authoritative list is the Table itself.

| Nature of payment | 1961 Act | Rate | Threshold |
|---|---|---|---|
| Interest from a bank, post office or co-operative bank | 194A | 10% | ₹50,000 a year; **₹1,00,000 for a senior citizen** |
| Interest from any other source | 194A | 10% | ₹5,000 a year |
| Dividend paid to a resident | 194 | 10% | ₹5,000 a year |
| Winnings from a lottery, crossword or card game | 194B | **30%** | ₹10,000 per transaction |
| Rent of land, building or furniture | 194I(b) | 10% | ₹2,40,000 a year |
| Rent paid by an individual or Hindu undivided family not subject to audit | 194IB | **2%** (reduced from 5%) | ₹50,000 a month |
| Fees for professional services | 194J | 10% | As prescribed in the Table |
| Fees for technical services | 194J | 2% | As prescribed in the Table |
| Payment to a contractor — individual or Hindu undivided family | 194C | 1% | ₹30,000 per contract or ₹1,00,000 in the aggregate |
| Payment to a contractor — company, firm or other | 194C | 2% | The same |
| Purchase of immovable property | 194IA | 1% | ₹50,00,000 |
| Salary, remuneration or interest paid by a firm to a partner | 194T | 10% | ₹20,000 a year |
| Transfer of a virtual digital asset | 194S | 1% | As prescribed |

**THE RATE WHERE THE PERMANENT ACCOUNT NUMBER IS NOT FURNISHED**

**This is the guidelines' "quoting correct PAN to ensure lower TDS (section 206AA)", and it is expressly examinable.**

Where the deductee **fails to furnish his permanent account number** to the deductor, tax must be deducted at the **higher of** — (a) the rate prescribed in the Act; (b) the rate in force; and (c) **twenty per cent**.

So a payee of professional fees who does not give his number suffers 20% instead of 10%; a recipient of bank interest suffers 20% instead of 10%. Worse, **a declaration in Form 121 is invalid if it does not carry the number**, and **no certificate under section 395 can be granted without it**.

*The management point is a single sentence: **give the deductor your permanent account number, in writing, before the first payment.** It costs nothing and it halves the deduction.*

## 3.4 The due dates

| What | When |
|---|---|
| **Deposit of tax deducted** — April to February | On or before the **7th day** of the following month |
| **Deposit of tax deducted in March** | On or before **30 April** |
| **Deposit by a buyer of immovable property** | Within **30 days** from the end of the month of deduction |
| **Quarterly statement — salary [Form 138]** | Q1 31 July; Q2 31 October; Q3 31 January; Q4 **31 May** |
| **Quarterly statement — non-salary resident [Form 140]** | The same four dates |
| **Quarterly statement — non-resident [Form 144]** | The same four dates |
| **Certificate of tax deducted from salary [Form 130]** | By **15 June** following the end of the tax year |
| **Certificate of tax deducted otherwise [Form 131]** | Within **15 days** of the due date for the quarterly statement |

## 3.5 The certificates — Form 130 and Form 131

| | Form 130 | Form 131 |
|---|---|---|
| 1961 Act | **Form 16** | **Form 16A** |
| Covers | Tax deducted from **salary** under section 392 | Tax deducted from **any other payment** under section 393 |
| Issued | **Annually**, by 15 June following the tax year | **Quarterly**, within 15 days of the due date for the statement |
| Contents | Part A — the deductor, the deductee, the period, and a quarterly summary of tax deducted and deposited. Part B — the full computation of salary, exemptions, deductions under section 19, deductions under Chapter VIII, the regime applied, and the tax | The deductor, the deductee, the nature of the payment, the amount paid, the tax deducted and the challan particulars |
| Where it comes from | Generated from the Department's system against the quarterly statement — **not typed by the employer** | The same |
| Why that matters | A certificate that does not match the statement is worthless, because credit is given on the statement | The same |

## 3.6 The declarations — Form 121 [section 393(6)]

The guidelines call these “Form 15G (declaration to avoid TDS if income is below the taxable limit)” and “Form 15H (similar declaration for senior citizens)”. **Under the Income-tax Act, 2025 the two have been merged into a single Form 121.**

| Point | Position |
|---|---|
| What it does | A declaration by the recipient that his **estimated total income for the tax year will be nil or below the maximum amount not chargeable to tax**, so that no tax need be deducted |
| Who may give it | **Any person other than a company or a firm.** A senior citizen may give it on more |

| Point | Position |
|---|---|
| | generous terms — see the next row |
| The difference the age makes | For a person **below sixty**, the declaration is valid only if the *aggregate* of the income from which tax would be deducted does not exceed the maximum amount not chargeable to tax. **For a senior citizen that second condition does not apply** — he need only satisfy that his estimated tax liability is nil |
| Permanent account number | **Compulsory.** A declaration without a valid number is invalid, and tax must then be deducted at the higher rate |
| To whom given | To the deductor — the bank, the post office, the company — and **separately to each branch** with which an account is held |
| When | At the **beginning of the tax year**, and afresh each year. A declaration given in March is of little use for the year then ending |
| The consequence of a false declaration | It is an offence, and prosecution may follow |

**THE COMMONEST WRONG ADVICE GIVEN TO STUDENTS, AND THE CORRECTION**

**Wrong:** "File Form 121 and you will not have to pay tax on the interest."

**Right:** Form 121 does not exempt the income. It only prevents *deduction* where the recipient's total income will in any event be below the taxable limit. If the income turns out to be taxable, the tax is payable in full — and now without any credit for tax deducted, because none was deducted.

So the declaration must be given **only where the estimate is genuinely nil**. Given wrongly, it converts a painless deduction into a demand with interest under sections 423 and 424.

## 3.7 The certificate for lower or nil deduction [section 395]

Where deduction at the prescribed rate would exceed the recipient's likely liability — the classic case being a non-resident, or a loss-making business, or an assessee with large carry-forward losses — he may apply to the Assessing Officer, who may issue a certificate authorising deduction at a **lower rate or at nil rate**. The application is made in **Form 128** (the old Form 13), and a valid permanent account number is a condition of the grant.

- The certificate is **prospective** and is valid for the period stated in it.
- It must be **produced to the deductor**; the deductor cannot act on the assessee's word.
- It differs from Form 121 in a fundamental respect: **Form 121 is a self-declaration; Form 128 leads to an order of the Assessing Officer.** Form 121 is for a person with no liability at all; section 395 is for a person with a liability smaller than the deduction would be.

## 3.8 The consequences of default

| Default | Consequence |
|---|---|
| Failure to deduct | Interest at **1% per month** from the date on which the tax was deductible to the date on which it is deducted; and **disallowance of 30% of the expenditure** in computing the deductor's business income |
| Deducted but not deposited | Interest at **1.5% per month** from the date of deduction to the date of payment; and the deductor is treated as an **assessee in default**. Failure to deposit tax actually deducted may attract **prosecution** |
| Late filing of the quarterly statement | A fee of **₹200 per day**, not exceeding the amount of tax deducted |
| Failure to issue the certificate | Penalty as prescribed, for each day of default |
| Furnishing an incorrect | Penalty as prescribed |

| Default | Consequence |
|---|---|
| statement | |

## 3.9 Tax management with deduction at source

| Measure | How it works | Caution |
|---|---|---|
| **Furnish the permanent account number to every deductor, in writing, before the first payment** | Reduces the rate from 20% to the ordinary rate; makes a declaration in Form 121 valid; makes a certificate under section 395 possible | Check that it has been recorded **correctly**. A single wrong character sends the credit to a stranger and it is very difficult to recover |
| **File Form 121 where the estimated total income is genuinely below the taxable limit** | Prevents deduction that would otherwise have to be reclaimed as a refund a year later | Only where the estimate is honest. A wrong declaration produces a demand with interest, and is an offence |
| **Apply under section 395 in Form 128 where the liability will be smaller than the deduction** | The classic case of a business with carried-forward losses, or a non-resident entitled to a treaty rate | Prospective only. It does not recover tax already deducted |
| **Report other income to the employer under section 392** | Discharges the whole liability through deduction, removing the need for advance tax and the risk of interest under sections 424 and 425 | Only a loss under the head house property may be reported. And the employer will see the other income |
| **Reconcile Form 168 before filing the return, not after** | Credit is given on what the deductor has reported. A mismatch found in June can be corrected; one found on receipt of a demand cannot | Reconcile the annual information statement too, and file feedback on anything that is not yours |
| **Where the deductor has deducted but not deposited, do not pay twice** | The Act bars a demand on the deductee for tax that has been deducted; the remedy is against the deductor | The bar operates only where deduction can be **proved**. Keep the certificate and the payment advice |

## 3.10 Illustrations

**Illustration 3.1 — Form 121, rightly and wrongly given**

Smt. Sudha, aged 71, resident, has pension of ₹2,40,000 and interest on fixed deposits of ₹3,60,000 from one bank. She is taxed under the **default** regime. *Should she file Form 121?*

**Her estimated total income** = ₹6,00,000, less the standard deduction of ₹75,000 on pension = ₹5,25,000. Tax under section 202(1): nil to ₹4,00,000; 5% of ₹1,25,000 = ₹6,250. **Rebate under section 156(2):** her total income does not exceed ₹12,00,000 and she is a resident individual taxed under section 202(1), so the whole ₹6,250 is rebated. **Tax payable — nil.**

**Her estimated tax liability being nil, she may validly file Form 121**, and being a senior citizen she need not satisfy the further condition about the aggregate of the income. The bank will then deduct nothing, and she will not have to wait a year for a refund of ₹36,000 — because once the senior-citizen threshold of ₹1,00,000 is crossed, tax is deducted on the **whole** of the interest and not merely on the excess.

**Now change one fact.** She also has a long-term capital gain of ₹9,00,000 on listed shares. Tax under section 198 on (₹9,00,000 − ₹1,25,000) at 12.5% = ₹96,875 — and **section 156(3) denies the rebate against tax on special-rate income.** Her liability is therefore not nil. **Form 121 must not be filed.** Filing it would be a false declaration, and the tax would fall due with interest under sections 423, 424 and 425.

*The examinable principle: the declaration turns on the **estimated tax liability for the whole year**, not on the size of the interest. A capital gain in December can invalidate a declaration made in April, and the assessee should then tell the bank.*

**Illustration 3.2 — the permanent account number, and what it is worth**

Shri Farid, a consulting engineer, raises a bill of ₹8,00,000 on a company for professional services in Tax Year 2026-27. His total income for the year is ₹9,00,000 and his tax, under the default regime after the rebate in section 156(2), is **nil**.

**If he furnishes his permanent account number** — tax is deducted at 10%, that is ₹80,000. He files his return, his liability is nil, and the ₹80,000 is refunded with interest under section 437.

**If he does not** — tax is deducted at the higher of the prescribed rate and **20%**, that is ₹1,60,000. Worse, the deduction is reported against no number, so **it does not appear in his Form 168 and he cannot take credit for it at all** until the deductor files a correction statement.

**The difference is ₹80,000 of cash locked up for a year, and a real risk of losing the credit altogether.** For furnishing a ten-character number.

**And there is a better answer still.** His liability being nil, he should apply under **section 395 in Form 128** for a certificate for nil deduction, produce it to the company, and suffer no deduction at all. Form 121 is not open to him, because his professional receipts are not among the payments for which that declaration may be given.

**Illustration 3.3 — the mismatch in Form 168**

Shri Girish files his return for Tax Year 2026-27 claiming credit for ₹1,45,000 of tax deducted at source, relying on the certificates in his file. In processing under section 270(1) the Department allows credit of only ₹1,18,000 and raises a demand of ₹27,000 with interest. *Why, and what should he have done?*

**Why.** Credit is given on the basis of what the deductors have **reported** in their quarterly statements and which appears in **Form 168**. One deductor had deducted ₹27,000 but had either not deposited it, or had deposited it against a wrong permanent account number, or had not filed the statement. The certificate in Shri Girish's hand proves the deduction but does not create the credit.

**What he should have done.** Downloaded Form 168 from the portal **before filing**, in June, and compared it certificate by certificate. A mismatch found then is corrected by asking the deductor to file a correction statement — which takes a fortnight and costs nothing.

**What he must do now.** File a rectification, and pursue the deductor. The Act bars a demand on him for tax that has in fact been deducted, but he must **prove** the deduction, and the proof is the certificate together with the bank advice.

*This illustration is the answer to the guidelines' "tax management with TDS". The management is not in the deduction; it is in the* ***reconciliation****.*

CHAPTER 4

# Tax Collection at Source

*Section 394. A short chapter, because the guidelines ask for two things only — the meaning and objective, and the effect of quoting the permanent account number.*

## 4.1 Meaning

Tax collection at source is the mirror image of deduction at source. Where deduction is made by the person who **pays**, collection is made by the person who **receives** — the **seller** of specified goods, or the grantor of a specified right — who collects a percentage of the consideration **from the buyer**, in addition to the price, and pays it to the credit of the Central Government against the buyer's permanent account number.

| | Deduction at source [ss. 392, 393] | Collection at source [s. 394] |
|---|---|---|
| Who acts | The **payer** | The **seller** or grantor |
| From whom the tax comes | Withheld out of a sum **payable** to the recipient | Collected **in addition** to the price, from the buyer |
| Whose credit | The **payee's** | The **buyer's** |
| Cash flow | The recipient gets less | The buyer pays more |

## 4.2 The objective

- **To reach trades in which income is hard to trace** — historically liquor, timber, forest produce, scrap and mining leases, where the buyer's purchases were a better index of his turnover than his own books.
- **To create an audit trail against the buyer.** The collection is reported against the buyer's number and appears in his Form 168, so the Department learns of purchases he may not have disclosed.
- **To capture high-value transactions** — the sale of a motor vehicle above the prescribed value, and remittances abroad under the Liberalised Remittance Scheme, are the two a student is most likely to meet, and are the two that catch ordinary individuals.
- **To advance the collection**, as with deduction at source.

### The principal items, illustratively

| Nature of receipt | Rate, illustratively |
|---|---|
| Alcoholic liquor for human consumption | 1% |
| Timber and other forest produce | 2% to 2.5% |
| Scrap | 1% |
| Minerals — coal, lignite, iron ore | 1% |
| A lease or licence of a parking lot, toll plaza, mine or quarry | 2% |
| Sale of a motor vehicle above the prescribed value | 1% |
| Remittance out of India under the Liberalised Remittance Scheme, and an overseas tour package | As prescribed, with a threshold and a lower rate for a remittance for education financed by a loan |

**The rates and thresholds are in the Table to section 394 — do not memorise them**

The guidelines ask for the **meaning and objective** of collection at source, and for the **management** point. They do not ask for the rate chart. Give the concept, give two or three examples, and give the management point in full.

## 4.3 Quoting the permanent account number [the guidelines' section 206CC]

**The rule, and it is the examinable part of this chapter**

Where the **buyer or licensee fails to furnish his permanent account number** to the collector, tax must be collected at the **higher of** — (a) **twice** the rate specified in the Table; and (b) **five per cent**.

Note the difference from deduction at source, and note it carefully, because the two are examined together: on **deduction**, the floor is **20%**; on **collection**, it is **twice the rate or 5%, whichever is higher**.

*The reason for the difference is that collection rates are low — 1% or 2% — so a flat 20% floor would be punitive out of all proportion to the transaction. Doubling is the proportionate response.*

## 4.4 Tax management through collection at source

- **Furnish the permanent account number to the seller before the transaction.** On a motor vehicle costing ₹15,00,000, 1% is ₹15,000; twice the rate is ₹30,000; the 5% floor is ₹75,000. The higher of the last two — **₹75,000** — is what is collected from a buyer who does not give his number. That is ₹60,000 of cash locked up for a year for nothing.
- **Claim the credit.** Tax collected at source is **not a cost**; it is a payment of the buyer's own tax. It appears in Form 168 and is set off against his liability exactly as tax deducted is, and it is deducted in computing advance tax under section 405.
- **Do not treat it as part of the cost of the asset.** Capitalising the collection in the cost of a motor car, and then claiming depreciation on it, is wrong twice over — it overstates the cost and forgoes the credit.
- **Plan the timing of a large remittance.** Where the threshold in the Table is applied to the aggregate of remittances in a year, splitting a remittance across two tax years may keep both below it — but only where the split is genuine and there is a reason for it besides the tax.

**Illustration 4.1 — the buyer who did not give his number**

Shri Harish buys a motor car for ₹18,00,000 in July 2026. His total income for the year is ₹14,00,000 and his tax, after credit for ₹1,10,000 deducted from his salary, is ₹1,28,000, leaving ₹18,000 to pay.

**If he furnishes his permanent account number** — the dealer collects 1% of ₹18,00,000 = ₹18,000. It appears in his Form 168. He sets it against his liability and **pays nothing further**.

**If he does not** — the dealer must collect the higher of twice the rate (2%, that is ₹36,000) and 5% (₹90,000). **He pays ₹90,000**, and because it is reported against no number, it does not appear in his Form 168 and he cannot take credit for it until the dealer files a correction.

**₹72,000 of extra cash, and a year's worth of correspondence, for a ten-character number.**

CHAPTER 5

# Refund

*Sections 431 to 438. The fourth channel runs the other way — and a well-managed taxpayer is one who rarely needs it.*

## 5.1 Meaning, and when a refund arises

A refund arises where the **amount paid by or on behalf of an assessee, or treated as paid by him, exceeds the amount properly chargeable** for that tax year. Section 431 gives him the right to the excess.

| How the excess commonly arises | Typical case |
|---|---|
| **Tax deducted at source exceeding the liability** | A person below the taxable limit whose bank deducted 10% on interest; a professional whose clients deducted 10% though his total income after deductions was small; a non-resident entitled to a lower treaty rate |
| **Advance tax paid on an over-estimate** | Income estimated in June proved smaller by March; a transaction that fell through; a loss in the second half of the year |
| **Tax collected at source** | A buyer whose collections exceed his liability |
| **Relief or deduction claimed only in the return** | Relief under section 157 for arrears; a deduction the employer did not take into account |
| **An appellate order** | Tax paid on a demand that is later set aside in appeal |
| **A rectification** | A mistake apparent from the record, corrected |

## 5.2 Who may claim, and how [sections 432 and 433]

| Point | Position |
|---|---|
| **The general rule** | The person who paid the tax claims the refund |
| **Where the income has been clubbed** [section 432] | Where the income of one person is included in the total income of **another** — as under sections 96 to 100 — **only that other person** is entitled to the refund. The minor child whose income is clubbed with a parent's cannot claim it; the parent can |
| **Death, incapacity, insolvency, liquidation** [section 432] | The **legal representative**, trustee, guardian or receiver claims, as the case may be |
| **The form of the claim** [section 433] | **A claim for refund must be made by furnishing a return of income.** There is no separate refund application. This is the single most important sentence in the chapter |
| **The limitation** | The claim must be made within the time allowed for furnishing the return, including a belated return under section 263(4). Beyond that, the Board may condone the delay on the prescribed conditions, but there is no right |

**"Meaning and process of claiming the refund" — the answer in five steps**

- **One — compute.** Total tax payable for the year, against total tax paid (deducted, collected, advance and self-assessment).
- **Two — reconcile.** Against **Form 168** and the annual information statement, so that every rupee claimed is a rupee the Department can see.
- **Three — file the return** under section 263, within the due date, claiming the excess. The claim *is* the return.
- **Four — verify.** The return must be verified, electronically or otherwise, within the prescribed period. **An unverified return is not a return, and no refund can issue on it.**
- **Five — pre-validate the bank account** on the portal, in the assessee's own name and linked to his permanent account number. A refund can only be credited electronically.

> *Steps four and five are where refunds are actually lost, and neither is in any textbook. Both are in the guidelines, under "using the Income Tax Portal for efficient processing".*

## 5.3 Interest on refund [section 437]

| Point | Position |
|---|---|
| Rate | **One-half of one per cent for every month or part of a month** — that is, **6% a year**, simple |
| On a refund out of advance tax, or tax deducted or collected at source | From **1 April** of the year following the tax year to the date on which the refund is granted — **provided the return is furnished on or before the due date**. Where the return is late, interest runs from the **date of furnishing** the return |
| On a refund of self-assessment tax | From the date of furnishing the return or of payment of the tax, whichever is later |
| Where the refund is less than a prescribed fraction | No interest is payable where the refund is less than **10% of the tax** as determined |
| Where the delay is the assessee's | The period of delay **attributable to the assessee** is excluded in computing the interest |
| Is the interest taxable? | **Yes.** Interest on a refund is income from other sources under section 92 and is chargeable in the year of receipt. It is not part of the refund |

> THE SENTENCE THAT FOLLOWS FROM THE SECOND ROW, AND IT IS A PLANNING POINT
>
> **File on time and the interest runs from 1 April; file late and it runs only from the date of filing.**
>
> On a refund of ₹60,000 claimed in a return due on 31 July 2027 but filed on 31 December 2027, the assessee loses nine months of interest — about **₹2,700** — quite apart from the fee for late filing and the loss of the right to carry forward losses.
>
> *This is the guidelines' "timely filing of ITR to ensure faster refund", and it is worth a figure.*

## 5.4 Set-off of a refund against a demand

Where a refund is found due and **any other sum remains payable** by the assessee under the Act, the Assessing Officer may set off the refund against that sum, after giving the assessee **written intimation of the proposed action** and an opportunity to respond. A refund is therefore never a certainty where an old demand is outstanding, and the practical answer is to get stale demands corrected on the portal rather than to argue about them after the set-off.

## 5.5 Tax management with refund — and the better course of not needing one

| Measure | How it works | Caution |
|---|---|---|
| **Estimate accurately, so that no refund arises at all** | A refund is an **interest-free loan to the Government** for anything up to eighteen months. Interest under section 437 at 6% simple does not compensate for it, and is itself taxable | Under-estimating is worse: interest under sections 424 and 425 runs at 1% a month, twice the refund rate |
| **File Form 121 where the estimated liability is nil** | Prevents the deduction, so that no refund is needed | Only where the estimate is honest |
| **Apply under section 395 in Form 128 where the liability will be small** | Reduces the deduction to the true rate at source | Prospective only |

| Measure | How it works | Caution |
|---|---|---|
| **File the return on or before the due date** | Interest under section 437 then runs from 1 April instead of from the date of filing | And the fee for default is avoided |
| **Verify within the prescribed period** | An unverified return is treated as never furnished, and no refund can issue | Aadhaar-based verification takes a minute; the physical route takes weeks |
| **Pre-validate the bank account, and keep it validated** | A refund is credited electronically or not at all | The account must be in the assessee's own name and linked to his number. A closed account fails the credit and the refund is re-issued only on request |
| **Reconcile Form 168 and the annual information statement before filing** | Ensures the credit claimed is the credit the Department can see | A mismatch converts a refund into a demand |
| **Track the status on the portal and respond to any intimation at once** | Most delayed refunds are held for a response the assessee has not noticed | An intimation under section 270(1) proposing an adjustment must be responded to within the period stated, or the adjustment is made |

## 5.6 Illustrations

**Illustration 5.1 — the cost of a refund, measured**

Smt. Indira, aged 45, has bank interest of ₹12,00,000 in Tax Year 2026-27 from which the banks deduct ₹1,20,000. She has no other income. Under the default regime her total income is ₹12,00,000; the tax before rebate is ₹60,000 and **the rebate under section 156(2) wipes it out entirely. Her liability is nil.**

She files her return on 31 July 2027 and the refund of ₹1,20,000 is granted on 15 November 2027.

**Interest under section 437** = 0.5% per month from 1 April 2027 to 15 November 2027, that is eight months (part months counting as whole) = 4% of ₹1,20,000 = **₹4,800**. And that ₹4,800 is itself taxable in Tax Year 2027-28.

**What she actually lost.** The ₹1,20,000 was deducted through the year, on average about twelve months before it came back. Had it been in her hands in a deposit at 7%, it would have earned about ₹8,400. She received ₹4,800, taxable. **The refund cost her the better part of ₹4,000.**

**What she should have done.** Filed **Form 121** with each bank at the beginning of the year. Her estimated liability being nil, the declaration was properly available; nothing would have been deducted; and no refund would have been needed.

*This is the guidelines' "accurate estimation of tax liability to prevent excessive tax deductions and blockage of funds", worked in rupees. Learn it as a figure, not as a sentence.*

**Illustration 5.2 — the return filed late**

Shri Jitendra is due a refund of ₹90,000 for Tax Year 2026-27. His due date is 31 July 2027. Compare filing on 31 July 2027 with filing on 30 November 2027; the refund is granted on 31 January 2028 in either case.

**Filed on time.** Interest under section 437 runs from **1 April 2027** to 31 January 2028 — ten months at 0.5% = 5% of ₹90,000 = **₹4,500.**

**Filed late.** Interest runs from the **date of furnishing**, 30 November 2027, to 31 January 2028 — three months at 0.5% = 1.5% of ₹90,000 = **₹1,350.** And a fee for default under the Act is payable, and any business or capital loss of the year **cannot be carried forward.**

**Difference ₹3,150 of interest, plus the fee, plus the losses.** For four months of delay.

CHAPTER 6

# The Permanent Account Number and the Tax Credit Statement

*Not named in the guidelines' scope table, and yet named in three of its four limbs — quote the correct number for lower deduction, quote it for lower collection, use the portal for efficient processing. This is the machinery that makes all of it work.*

## 6.1 The permanent account number [section 262 with Rule 159]

A permanent account number is a ten-character alphanumeric identifier allotted by the Assessing Officer, in the form of a laminated card, to a person who applies for it or to whom the Assessing Officer allots it. It is the thread on which the whole of the Department's information system hangs.

| Point | Position |
|---|---|
| Who must obtain one | Every person whose total income exceeds the maximum amount not chargeable to tax; every person carrying on a business or profession whose turnover exceeds the prescribed figure; every person required to furnish a return; and every person entering a transaction specified in **Rule 159** |
| Where it must be quoted | In every return, in every correspondence with the Department, in every challan, and in each of the transactions specified in Rule 159 — the purchase or sale of immovable property above the prescribed value, of a motor vehicle, the opening of a bank or demat account, a cash deposit above the prescribed sum, and the rest |
| Where a person has no number | He furnishes a declaration in **Form 97** (the old Form 60), and the person receiving it reports it in **Form 98** (the old Form 61) |
| Aadhaar | The number must be linked to the Aadhaar number. Failure attracts a fee under **section 430** (the old section 234H), and an unlinked number becomes inoperative — which has the same practical effect as having none at all |
| Penalty | **Section 467** (the old sections 272B and 272BB) — for failure to obtain, to quote, or to quote correctly |

**Why an inoperative number is the most expensive mistake in this Part**

Where the number is not linked to Aadhaar and has become inoperative, the assessee is treated for the purposes of deduction and collection as a person who has **not furnished** a number. The consequences follow automatically —

- Tax is deducted at **20%** instead of the ordinary rate [Chapter 3];
- Tax is collected at **twice the rate, or 5%, whichever is higher** [Chapter 4];
- Any declaration in **Form 121** is invalid;
- No certificate can be granted under **section 395**;
- **Refunds are withheld**, and no interest is payable for the period of inoperability.

*Every one of those five consequences is reversed by a single act of linking. This is the highest return on five minutes' work anywhere in the Act.*

## 6.2 The tax credit statement — Form 168

**Form 168 replaces the old Form 26AS.** It is the assessee's account with the Department: a consolidated statement, drawn from the deductors' and collectors' own quarterly statements and from the challans, of everything that has been paid on his behalf or by him.

| What Form 168 shows | Drawn from |
|---|---|
| Tax **deducted** at source, deductor by deductor, quarter by quarter | Forms 138, 140 and 144 filed by the deductors |
| Tax **collected** at source | Form 144A filed by the collectors |

| What Form 168 shows | Drawn from |
|---|---|
| | |
| **Advance tax and self-assessment tax** paid by the assessee | The challans |
| **Refunds** issued during the year | The Department's own records |
| **Demands** outstanding | The Department's own records |

### And the two statements that sit beside it

- **The Annual Information Statement** — a much wider statement showing not merely tax but **transactions**: interest credited, dividends, securities bought and sold, mutual fund transactions, foreign remittances, immovable property purchased, cash deposited. The assessee may give **feedback** on any entry, saying that it is not his, or is duplicated, or relates to another person.
- **The Taxpayer Information Summary** — the same information, aggregated head by head, and used to pre-fill the return.

THE ORDER OF WORK BEFORE FILING ANY RETURN — SIX LINES, AND THEY ARE EXAMINABLE

- **One.** Download **Form 168** and check that every certificate in hand appears in it.
- **Two.** Download the **Annual Information Statement** and check that every entry in it is yours.
- **Three.** Give **feedback** on anything that is not, or that is duplicated. The Department expects the feedback, and an unanswered entry becomes a question later.
- **Four.** Reconcile the pre-filled figures in the return against your own records. **The pre-filled figures are a convenience, not an assessment**, and the assessee remains responsible for them.
- **Five.** Correct anything wrong *before* filing, not after.
- **Six.** File, verify, and keep the acknowledgement.

## 6.3 Illustration

ILLUSTRATION 6.1 — THE ANNUAL INFORMATION STATEMENT THAT WAS NOT READ

Shri Kishore, a salaried assessee, files a return for Tax Year 2026-27 showing salary of ₹14,00,000 and nothing else. In March 2029 he receives a notice. The annual information statement for the year had shown, besides his salary — interest of ₹62,000 from three bank accounts; a dividend of ₹18,000; and the sale of listed shares for ₹9,40,000.

**None of it was concealed deliberately.** The interest was in accounts he had forgotten; the dividend was credited automatically; the shares were sold by a broker under a systematic plan and the gain was ₹1,10,000, which he believed to be exempt because it was below ₹1,25,000.

**Two of the three beliefs were wrong.** Interest and dividend are chargeable in full. The gain of ₹1,10,000 was indeed within the shelter in section 198 and bore no tax — **but it still had to be reported.** A receipt that bears no tax is not a receipt that need not be disclosed.

**The consequence.** Tax on ₹80,000 of undisclosed income at his slab, interest under sections 423 and 424 running from 2027, and the whole apparatus of an assessment for a liability of about ₹25,000.

**What he should have done.** Read the annual information statement in June 2027. It would have taken twenty minutes and every figure was already there.

*This is the single most common real-world failure in tax management, and the guidelines address it directly under “explore information for individual assessees available on the e-filing portal”.*

CHAPTER 7

# Revision, Ready Reckoner and Question Bank

*The whole of Part A compressed, then the practice. Work the problems with a pen before you look at the solutions.*

## 7.1 Old section to new section — a ready reckoner for Part A

| Subject | Income-tax Act, 1961 | Income-tax Act, 2025 |
|---|---|---|
| Deduction of tax from salary | 192 | **392** |
| Deduction on premature withdrawal from a provident fund | 192A | 392 |
| Deduction from interest, dividend, rent, fees, contracts and the rest | 193 to 194T | **393(1)** |
| Deduction from payments to non-residents | 195, 196A to 196D | **393(2)** |
| Deduction from winnings, partner payments, cash withdrawals | 194B, 194BA, 194BB, 194T, 194N | **393(3)** |
| Declaration for non-deduction | 197A with Forms 15G and 15H | **393(6)** with **Form 121** |
| Certificate for deduction at a lower or nil rate | 197 with Form 13 | **395** with **Form 128** |
| Tax deducted is income received | 198 | **396** |
| Collection of tax at source | 206C | **394** |
| Higher rate where no permanent account number is furnished — deduction | 206AA | Within **393** |
| Higher rate where no permanent account number is furnished — collection | 206CC | Within **394** |
| Liability to pay advance tax | 207, 208 | **403, 404** |
| Computation of advance tax | 209 | **405** |
| Order of the Assessing Officer | 210 | **406** |
| Instalments and due dates | 211 | **408** |
| Interest for default in furnishing the return | 234A | **423** |
| Interest for default in payment of advance tax | 234B | **424** |
| Interest for deferment of advance tax | 234C | **425** |
| Interest on an excess refund | 234D | **426** |
| Fee for default in intimating Aadhaar | 234H | **430** |
| Refunds | 237 | **431** |
| Person entitled to claim a refund | 238 | **432** |
| Form of claim and limitation | 239 | **433** |
| Interest on refund | **244A** | **437** |
| Permanent account number | 139A, 139AA with Rules 114B to 114D | **262** with **Rule 159** |

| Subject | Income-tax Act, 1961 | Income-tax Act, 2025 |
|---|---|---|
| Penalty for failure in the permanent account number provisions | 272B, 272BB | **467** |
| Self-assessment | 140A | **266** |
| Return of income | 139 | **263** |

### And the forms

| Purpose | Old form | New form |
|---|---|---|
| Certificate of tax deducted from salary | Form 16 | **Form 130** |
| Certificate of tax deducted otherwise | Form 16A | **Form 131** |
| Employee's declaration of claims to the employer | Form 12BB | **Form 124** |
| Declaration for non-deduction — below the taxable limit, and senior citizen | Forms 15G and 15H | **Form 121** |
| Application for a lower or nil deduction certificate | Form 13 | **Form 128** |
| Quarterly statement — salary | Form 24Q | **Form 138** |
| Quarterly statement — non-salary, resident | Form 26Q | **Form 140** |
| Quarterly statement — non-resident | Form 27Q | **Form 144** |
| Quarterly statement — collection at source | Form 27EQ | **Form 144A** |
| Tax credit statement | Form 26AS | **Form 168** |
| Declaration by a person having no permanent account number | Form 60 | **Form 97** |
| Statement of such declarations | Form 61 | **Form 98** |

## 7.2 The renumbering traps — read this twice

**THREE NUMBERS THAT MEAN SOMETHING ENTIRELY DIFFERENT IN THE NEW ACT**

- **“263”.** In the 1961 Act, section 263 was the **revision of an order prejudicial to the revenue**. In the 2025 Act, section 263 is the **return of income**. The revision provision is now **section 377**. A candidate who writes “revision under section 263” has described the wrong thing entirely.
- **“198”.** In the 1961 Act, section 198 was **tax deducted is income received** — which in the 2025 Act is section **396**. In the 2025 Act, section 198 is the **long-term capital gain on listed equity at 12.5% above ₹1,25,000**. Two provisions could hardly be less alike.
- **“194” and “195”.** In the 1961 Act these were deduction provisions. In the 2025 Act, **section 194** is the **table of special rates** — winnings at 30% and the rest — and **section 195** charges certain income at 30%. Deduction is now in 392 and 393.

**And two more, from the Units before this one:** “123” is now the ₹1,50,000 deduction (the old 80C), not the assessment provisions; “202” is the two regimes (the old 115BAC), not the certificate for lower deduction.

*Write the number of the 2025 Act. If you are unsure, describe the provision in words and give no number at all — a correct description without a number earns most of the marks; a wrong number earns none and casts doubt on the rest.*

## 7.3 Every figure in Part A on one page

| Topic | Point | Figure |
|---|---|---|
| Advance tax | Threshold of liability | ₹10,000 |

| Topic | Point | Figure |
|---|---|---|
| Advance tax | Instalments and due dates | 15% by 15 June; 45% by 15 September; 75% by 15 December; 100% by 15 March |
| Advance tax | Presumptive assessee under section 58 | 100% by 15 March, in one instalment |
| Advance tax | Senior citizen exemption | Resident, 60 or more, **no business or professional income** |
| Interest | Section 423 — default in furnishing the return | 1% per month |
| Interest | Section 424 — default in payment; trigger | 1% per month; where advance tax paid is less than **90%** of assessed tax |
| Interest | Section 425 — deferment; safe harbours | 1% per month; **12%** by 15 June and **36%** by 15 September |
| Deduction at source | No permanent account number furnished | The higher of the prescribed rate and **20%** |
| Deduction at source | Deposit of tax deducted | 7th of the following month; **30 April** for March |
| Deduction at source | Quarterly statements | 31 July, 31 October, 31 January, **31 May** |
| Deduction at source | Certificate — salary | **Form 130**, by 15 June |
| Deduction at source | Certificate — other | **Form 131**, within 15 days of the statement |
| Deduction at source | Interest — failure to deduct / failure to deposit | **1%** / **1.5%** per month |
| Deduction at source | Fee for late statement | ₹200 a day, capped at the tax deducted |
| Collection at source | No permanent account number furnished | **Twice the rate, or 5%, whichever is higher** |
| Refund | Interest under section 437 | **0.5% per month** — 6% a year, simple |
| Refund | Interest runs from | **1 April** where the return is on time; the **date of filing** where it is late |
| Refund | No interest where the refund is less than | **10%** of the tax determined |
| Refund | How claimed | **By furnishing a return** — there is no separate application |
| Permanent account number | Declaration where none held | **Form 97**, reported in **Form 98** |
| Permanent account number | Tax credit statement | **Form 168** |

## 7.4 Objective questions

| No. | Question and options |
|---|---|
| 1 | Tax deducted from salary is governed by —<br>(a) section 192 (b) **section 392** (c) section 393 (d) section 394 |
| 2 | Tax deducted from all payments other than salary is governed by —<br>(a) section 392 (b) **section 393** (c) section 394 (d) section 395 |
| 3 | Tax collected at source is governed by —<br>(a) section 393 (b) **section 394** (c) section 206C (d) section 396 |
| 4 | Advance tax is payable where the tax payable for the year is — |

| No. | Question and options |
|---|---|
| | (a) ₹5,000 or more (b) **₹10,000 or more** (c) ₹20,000 or more (d) any amount |
| 5 | The instalments of advance tax are payable by —<br>(a) 15 April, July, October, January (b) **15 June, September, December and March** (c) 30 June, September, December, March (d) 31 March only |
| 6 | The cumulative percentages of advance tax are —<br>(a) 25-50-75-100 (b) 20-40-60-100 (c) **15-45-75-100** (d) 10-30-60-100 |
| 7 | An assessee declaring profits under section 58 pays advance tax —<br>(a) in four instalments (b) in two instalments (c) **wholly by 15 March** (d) not at all |
| 8 | A resident individual aged 62 with pension and interest income only is —<br>(a) liable to advance tax (b) **not liable to advance tax** (c) liable to half the advance tax (d) liable only to the last instalment |
| 9 | Interest for default in payment of advance tax is charged under —<br>(a) section 423 (b) **section 424** (c) section 425 (d) section 426 |
| 10 | Interest for deferment of advance tax is charged under —<br>(a) section 423 (b) section 424 (c) **section 425** (d) section 437 |
| 11 | Interest under sections 423, 424 and 425 is charged at —<br>(a) 0.5% per month (b) **1% per month** (c) 1.5% per month (d) 2% per month |
| 12 | Section 424 applies where the advance tax paid is less than —<br>(a) 75% of the assessed tax (b) 80% (c) **90%** (d) 100% |
| 13 | The safe harbour for the first instalment under section 425 is —<br>(a) 10% (b) **12%** (c) 15% (d) 20% |
| 14 | Where the deductee does not furnish his permanent account number, tax is deducted at —<br>(a) 10% (b) 15% (c) **the higher of the prescribed rate and 20%** (d) 30% |
| 15 | Where the buyer does not furnish his permanent account number, tax is collected at —<br>(a) 20% (b) **twice the rate, or 5%, whichever is higher** (c) 10% (d) the ordinary rate |
| 16 | Tax deducted in the month of March must be deposited by —<br>(a) 7 April (b) **30 April** (c) 31 May (d) 15 June |
| 17 | The certificate of tax deducted from salary is —<br>(a) Form 16 (b) **Form 130** (c) Form 131 (d) Form 168 |
| 18 | The certificate of tax deducted otherwise than from salary is —<br>(a) Form 16A (b) Form 130 (c) **Form 131** (d) Form 140 |
| 19 | The certificate of tax deducted from salary must be issued by —<br>(a) 31 May (b) **15 June** (c) 31 July (d) 30 April |
| 20 | Forms 15G and 15H have been replaced by —<br>(a) Form 124 (b) **Form 121** (c) Form 128 (d) Form 97 |
| 21 | The declaration under section 393(6) may be furnished by —<br>(a) any person (b) **any person other than a company or a firm** (c) only a senior citizen (d) only an individual |
| 22 | An application for a certificate for lower or nil deduction is made in —<br>(a) Form 121 (b) **Form 128** (c) Form 131 (d) Form 168 |
| 23 | The section under which such a certificate is granted is —<br>(a) section 393 (b) **section 395** (c) section 396 (d) section 397 |
| 24 | Section 396 provides that tax deducted at source shall be —<br>(a) refunded (b) **deemed to be income received by the assessee** (c) ignored (d) treated as expenditure |

| No. | Question and options |
|---|---|
| 25 | Form 26AS has been replaced by —<br>(a) Form 140 (b) Form 144 (c) **Form 168** (d) Form 131 |
| 26 | The quarterly statement of tax deducted from salary is —<br>(a) Form 24Q (b) **Form 138** (c) Form 140 (d) Form 144 |
| 27 | The quarterly statement for the fourth quarter is due on —<br>(a) 30 April (b) **31 May** (c) 30 June (d) 31 July |
| 28 | The fee for late filing of a quarterly statement is —<br>(a) ₹100 a day (b) **₹200 a day** (c) ₹500 a day (d) ₹1,000 a day |
| 29 | Interest for failure to deposit tax after deducting it is —<br>(a) 1% per month (b) **1.5% per month** (c) 2% per month (d) 0.5% per month |
| 30 | A refund is claimed —<br>(a) by a separate application (b) **by furnishing a return of income** (c) by letter to the Assessing Officer (d) automatically |
| 31 | Interest on a refund is payable under —<br>(a) section 431 (b) section 433 (c) **section 437** (d) section 424 |
| 32 | The rate of interest on a refund is —<br>(a) 1% per month (b) **0.5% per month** (c) 1.5% per month (d) 6% per month |
| 33 | Where the return is furnished after the due date, interest on the refund runs from —<br>(a) 1 April (b) the end of the tax year (c) **the date of furnishing the return** (d) the date of the refund order |
| 34 | No interest is payable on a refund where the refund is less than —<br>(a) 5% of the tax determined (b) **10% of the tax determined** (c) ₹1,000 (d) ₹10,000 |
| 35 | Where income is clubbed in the hands of another person, the refund may be claimed by —<br>(a) the person whose income it is (b) **the person in whose total income it is included** (c) either (d) neither |
| 36 | The permanent account number is governed by —<br>(a) section 139A (b) **section 262 with Rule 159** (c) section 263 (d) section 430 |
| 37 | A person having no permanent account number furnishes a declaration in —<br>(a) Form 60 (b) **Form 97** (c) Form 98 (d) Form 121 |
| 38 | The fee for failure to intimate the Aadhaar number is charged under —<br>(a) section 234H (b) **section 430** (c) section 467 (d) section 426 |
| 39 | Under the Income-tax Act, 2025, section 263 deals with —<br>(a) revision of an order prejudicial to the revenue (b) **the return of income** (c) refunds (d) advance tax |
| 40 | Interest received on an income-tax refund is —<br>(a) exempt (b) **chargeable as income from other sources** (c) part of the refund (d) chargeable as salary |

## Answers

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 b | 2 b | 3 b | 4 b | 5 b | 6 c | 7 c | 8 b | 9 b | 10 c |
| 11 b | 12 c | 13 b | 14 c | 15 b | 16 b | 17 b | 18 c | 19 b | 20 b |
| 21 b | 22 b | 23 b | 24 b | 25 c | 26 b | 27 b | 28 b | 29 b | 30 b |
| 31 c | 32 b | 33 c | 34 b | 35 b | 36 b | 37 b | 38 b | 39 b | 40 b |

## 7.5 Fill in the blanks

1. Tax deducted from salary is governed by section _____. **[392]**
2. Tax collected at source is governed by section _____. **[394]**
3. Advance tax is payable where the tax payable for the year is ₹_____ or more. **[10,000]**
4. The cumulative percentages of advance tax are _____, _____, _____ and 100%. **[15%, 45%, 75%]**
5. Interest for deferment of advance tax is charged under section _____. **[425]**
6. Where the deductee furnishes no permanent account number, tax is deducted at the higher of the prescribed rate and _____ per cent. **[20]**
7. Where the buyer furnishes no permanent account number, tax is collected at twice the rate or _____ per cent, whichever is higher. **[5]**
8. Tax deducted in March must be deposited by _____. **[30 April]**
9. The certificate of tax deducted from salary is Form _____. **[130]**
10. Forms 15G and 15H have been replaced by Form _____. **[121]**
11. An application for a lower deduction certificate is made in Form _____ under section _____. **[128; 395]**
12. The tax credit statement is Form _____. **[168]**
13. Interest on a refund is payable at _____ per cent for every month or part of a month. **[0.5]**
14. A claim for refund must be made by furnishing a _____. **[return of income]**
15. The permanent account number is governed by section _____ read with Rule _____. **[262; 159]**

## 7.6 Short-answer and long-answer questions

### Short answer (4 to 6 marks)

1. Explain the meaning of advance tax and state who is liable to pay it.
2. State the due dates and the percentages of advance tax, and the position of a presumptive assessee.
3. Explain the exemption of a senior citizen from advance tax, stating all three conditions.
4. Distinguish interest under section 424 from interest under section 425.
5. State the two safe harbours in section 425 and explain why they exist.
6. Explain the concept of tax deduction at source and state four of its objectives.
7. Distinguish section 392 from section 393, and state what each covers.
8. State the due dates for deposit of tax deducted and for the quarterly statements.
9. Distinguish Form 130 from Form 131, stating who issues each, for what, and by when.
10. Explain the declaration under section 393(6) in Form 121, and the difference the age of the declarant makes.
11. Distinguish a declaration in Form 121 from a certificate under section 395 in Form 128.
12. State the consequences of failing to furnish a permanent account number to a deductor, and to a collector.
13. Explain section 396 and its effect on the computation of the deductee's income.
14. Explain the meaning and objective of tax collection at source, with three examples.
15. State the circumstances in which a refund arises, and the manner in which it is claimed.
16. Explain the interest on a refund under section 437, and the effect of filing the return late.
17. State who may claim a refund where the income of one person is included in the total income of another.
18. Explain the consequences of a permanent account number becoming inoperative.
19. What is Form 168, and what does it contain?
20. Explain the order of work a taxpayer should follow before furnishing a return.

### Long answer (10 to 15 marks)

1. “The Income-tax Act does not wait until the year is over to collect its tax.” Explain the scheme of collection and recovery of tax under the Income-tax Act, 2025, dealing with all four channels and the order in which they operate.
2. Explain the provisions relating to advance tax under sections 403 to 408, and the interest under sections 423 to 425, with illustrations.
3. Discuss tax deduction at source — its concept, objectives, importance, and the machinery of certificates, declarations and statements under the Income-tax Act, 2025.
4. “Tax management with tax deducted at source is a matter of reconciliation, not of deduction.” Discuss, with reference to Form 168, the annual information statement, and the consequences of a mismatch.
5. Explain the provisions relating to refunds under sections 431 to 438, and set out the measures by which a taxpayer may avoid needing a refund at all.
6. Compare tax deduction at source with tax collection at source, dealing with the person who acts, the person whose credit it is, the effect of not furnishing a permanent account number, and the management points under each.

7. Explain the role of the permanent account number in the scheme of collection and recovery, and the consequences of failing to obtain, quote or link it.
8. A salaried client with substantial interest income asks how to avoid both advance tax and a refund. Advise him fully, giving the sections and the forms.

## 7.7 Practical problems with solutions

**Problem 1 — advance tax, instalments and interest, in full**

Shri Lalit, aged 39, resident, taxed under **section 202(1)**. His estimated total income for Tax Year 2026-27 is ₹22,00,000, made up of business income of ₹16,00,000 and interest of ₹6,00,000. Tax deducted at source on the interest is ₹60,000. He pays ₹50,000 on 10 September 2026, ₹80,000 on 12 December 2026 and the balance on 28 March 2027. *Compute the advance tax, the instalments and the interest under section 425.*

**Tax on ₹22,00,000 under section 202(1):** nil to ₹4,00,000; 5% of ₹4,00,000 = ₹20,000; 10% of ₹4,00,000 = ₹40,000; 15% of ₹4,00,000 = ₹60,000; 20% of ₹4,00,000 = ₹80,000; 25% of ₹2,00,000 = ₹50,000. Tax ₹2,50,000; cess 4% ₹10,000. **Total ₹2,60,000.**

**Advance tax** = ₹2,60,000 − ₹60,000 = **₹2,00,000.**

**Instalments required** — 15 June 15% = ₹30,000; 15 September 45% = ₹90,000; 15 December 75% = ₹1,50,000; 15 March 100% = ₹2,00,000.

**Paid, cumulatively** — by 15 June, nil; by 15 September, ₹50,000; by 15 December, ₹1,30,000; by 15 March, ₹1,30,000 (the balance came on 28 March).

**Interest under section 425 —**

- **15 June:** required ₹30,000; the safe harbour is 12% = ₹24,000; paid nil. Shortfall ₹30,000. Interest 1% × 3 = **₹900.**
- **15 September:** required ₹90,000; safe harbour 36% = ₹72,000; paid ₹50,000. Shortfall ₹40,000. Interest 1% × 3 = **₹1,200.**
- **15 December:** required ₹1,50,000; paid ₹1,30,000. Shortfall ₹20,000. Interest 1% × 3 = **₹600.**
- **15 March:** required ₹2,00,000; paid ₹1,30,000. Shortfall ₹70,000. Interest 1% × 1 = **₹700.**

**Total interest under section 425 = ₹3,400.**

**Section 424.** The whole ₹2,00,000 was paid by 28 March, that is within the tax year, so advance tax paid is 100% of the assessed tax. **No interest under section 424.**

**Problem 2 — the salaried assessee with other income**

Smt. Manju, aged 41, has salary of ₹19,00,000 from which her employer will deduct ₹1,52,000 under section 392. She also expects bank interest of ₹3,00,000 (on which the banks will deduct ₹30,000) and a long-term capital gain on listed shares of ₹4,00,000 in November 2026. She is taxed under section 202(1). *Advise her on advance tax.*

**If she does nothing.** Her total income will be ₹19,00,000 − ₹75,000 + ₹3,00,000 = ₹21,25,000 of ordinary income, plus ₹4,00,000 of section 198 income. Tax on the ordinary income: ₹20,000 + ₹40,000 + ₹60,000 + ₹80,000 + 25% of ₹1,25,000 (₹31,250) = ₹2,31,250. Tax under section 198 on (₹4,00,000 − ₹1,25,000) at 12.5% = ₹34,375. Total ₹2,65,625, plus cess ₹10,625 = **₹2,76,250.** Less tax deducted ₹1,82,000. **Advance tax ₹94,250**, payable in instalments — and the June and September instalments fall due before the capital gain has even arisen.

**The proviso to section 425 saves her on the gain.** A capital gain that could not be foreseen bears no interest for the earlier instalments, provided the whole tax on it is paid in the remaining ones. So the tax of ₹35,750 on the gain must be paid by 15 December.

**The better course.** She reports the interest income to her employer under **section 392**. He then deducts on the aggregate, and her whole liability on salary and interest is covered by deduction at source. She is left with advance tax on the capital gain alone — ₹35,750, payable by 15 December — and she files no other challan and bears no interest at all.

*This is the model answer to "tax management with TDS: adjusting advance tax liability with TDS already deducted". Note that the capital gain cannot be routed through the employer, because section 392 permits only income under other heads and a loss under house property to be reported — and in practice an employer will decline a capital gain.*

**Problem 3 — refund, interest and the cost of delay**

Shri Naveen has tax deducted at source of ₹2,40,000 in Tax Year 2026-27. His actual liability for the year is ₹1,05,000. His due date is 31 July 2027. *Compute the refund and the interest on the two assumptions that he files (a) on 28 July 2027 and (b) on 20 January 2028; the refund is granted on 10 March 2028 in either case.*

**Refund** = ₹2,40,000 – ₹1,05,000 = **₹1,35,000** in both cases. The refund is more than 10% of the tax determined, so interest is payable.

**(a) Filed on time.** Interest under section 437 runs from **1 April 2027** to 10 March 2028 — twelve months, counting part months as whole — at 0.5% = 6% of ₹1,35,000 = **₹8,100.**

**(b) Filed late.** Interest runs from **20 January 2028** to 10 March 2028 — three months at 0.5% = 1.5% of ₹1,35,000 = **₹2,025.** In addition a fee for default is payable, and any loss of the year cannot be carried forward.

**Difference ₹6,075**, plus the fee.

**And the better course than either.** ₹1,35,000 was over-deducted through the year. Had Shri Naveen applied under **section 395 in Form 128** for a certificate for deduction at a lower rate, the over-deduction would never have occurred, he would have had the use of the money throughout, and there would have been no refund to wait for. **The interest of ₹8,100 at 6% simple is poor compensation for the loss of ₹1,35,000 for a year.**

## 7.8 Where to go next

Part B of this Unit takes the other half of tax management: the income-tax authorities who administer the Act, the return of income and its several kinds, the assessments — self, summary, scrutiny, best judgment and faceless — the time limits within which they must be completed, and the appeals and revisions by which an order may be challenged.

Read the two Parts together and in this order. Part A is about **money**: what is paid, when, and by whom. Part B is about **process**: what is filed, what is done with it, and what may be done if the result is wrong. The single question of 18 marks that this Unit carries will be set across both, with an internal choice.

**A CLOSING WORD ON PART A**

Four channels, a dozen dates and about fifteen forms. It looks like a chapter to be memorised, and it is not.

**Every one of the management points in this Part reduces to one of three sentences** — give your permanent account number; estimate honestly and pay on time; and read Form 168 before you file. A taxpayer who does those three things will never pay interest, never lose a credit and never wait for a refund he should not have been owed.

*And that, rather than the rate chart, is what the guidelines mean by tax management.*