UNIVERSITY OF DELHI

BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 1 · PART C

INTEREST, AND THE COLLECTION AND RECOVERY OF TAX

What the Assessee Pays for Being Late, What the Government Pays for Being Slow, and What Happens When Nobody Pays at All

Demand • Interest • Fees • Default • Certificate • Attachment • Sale • Arrest

Sections 411 to 422, with the interest in sections 423, 426 and 437
and the fees in sections 427 to 430
read with Rules 179, 222 to 230 and Forms 103, 153 to 160

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 1: ADVANCE PAYMENT OF TAX AND COLLECTION AND RECOVERY OF TAX (18 HOURS)

"Advance payment of Tax; Tax deduction/ collection at source: Provisions, documentation, returns and

Certificates; Interest payable by assessee/ Government; Collection and recovery of Tax."

Discipline Specific Elective Course 5.8 for B.Com (Hons.) and 5.7 for B.Com (Prog.), Department of Commerce, University of Delhi, under the Undergraduate Curriculum Framework 2022, as notified by CNC-II/093/1(28)/2023-24/282 dated 13.11.2023 and revised on 02.01.2025. The syllabus of DSE 5.8 and DSE 5.7 is identical for this Unit.

THE AUTHORITY FOR THIS SYLLABUS

Resolution No. 4-1-15 — "Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted." — **Appendix-103**

Placed before the **Executive Council of the University of Delhi, EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the **Academic Year 2026-27**.

The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in this material is in the numbering of the new Act. The corresponding provisions of the Income-tax Act, 1961 have no application to Tax Year 2026-27.

This booklet completes Unit 1. The three booklets in the series divide the Unit as follows:

Booklet	Content	Sections of the Income-tax Act, 2025
Unit 1 · Part A	Advance payment of tax — liability, computation, instalments, default, and the interest that a default attracts	403 to 410; 424 and 425
Unit 1 · Part B	Tax deduction at source and tax collection at source — provisions, documentation, returns and certificates	390 to 402; 427
Unit 1 · Part C *this booklet*	**Interest payable by the assessee and by the Government; fees; and the collection and recovery of tax**	**411 to 422; 423, 426, 427 to 430 and 437**

Two Halves of One Subject

The syllabus joins two topics in a single phrase, and it is worth seeing at the outset why they belong together. **Interest** is the price of time. It is charged when the assessee keeps the Government's money longer than the Act allows, and it is paid when the Government keeps the assessee's money longer than the Act allows. It is compensatory, not penal — a point on which the courts have been consistent, and a point that decides several examination questions. **Recovery** is what follows when the demand, with its interest, is not paid at all: a certificate, an attachment, a sale, and in the last resort a prison.

THE FOUR EXPRESSIONS THAT MUST NOT BE CONFUSED

- **Interest** — compensation for the delayed use of money. It is automatic, it needs no order and no hearing, and no "reasonable cause" excuses it. Sections 411(3), 423, 424, 425, 426, 398(3) and 437.
- **Fee** — a fixed charge for a failure of compliance, running by the day or by the default. It is also automatic. Sections 427 to 430.
- **Penalty** — a punishment. It requires an order, an opportunity of being heard, and it is not imposed where the default was for good and sufficient reasons. Section 412 is the penalty of this Part.
- **Assessee in default** — the status the assessee acquires under section 411(10) when the sum in a notice of demand is not paid in time. It is the doorway to sections 412 to 422.

How to Use this Booklet

Each chapter opens with the sections it covers. Chapters 2 to 6 deal with interest and fees; Chapter 7 with the status of an assessee in default; Chapters 8 to 11 with recovery. Chapter 12 contains full-length practical problems with solutions and

Chapter 13 the reckoner and the question bank. The interest under sections 424 and 425 — default in payment and deferment of advance tax — belongs to Unit 1 Part A and is not repeated here, but it appears in the consolidated table in Chapter 6 so that all seven interests may be seen together.

HOW A "MONTH OR PART OF A MONTH" IS COUNTED IN THIS BOOKLET

Every interest in this Part is charged for "every month or part of a month". Throughout this booklet a period is

counted as the number of calendar months which the period touches — so a period running from 9 October to

20 November is **two** months, and a period running from 1 August to 19 December is **five**. Any part of a month, however short, is a whole month. The same convention is used in Unit 1 Part A and Part B, and is best stated in one line before a computation is begun.

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

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 **411 to 422**, the interest in sections **423, 426 and 437**, and the fees in sections **427 to 430**
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	The rates and the fees in force for Tax Year 2026-27
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	**Rules 179 and 222 to 230**, and **Forms No. 103 and 153 to 160** — the notice of demand, the certificate, and the procedure for attachment, sale, arrest and the appointment of a receiver

ABOUT THIS BOOKLET

This booklet has been prepared by **Artificial Intelligence — Claude Opus 5.0 (Anthropic)** — under the guidance and supervision of **Advocate Dr. S. B. Rathore** from the bare text of the **Income-tax Act, 2025** and the **Income-tax Rules, 2026** as downloaded from **incometaxindia.gov.in**.

Date: **11-08-26** (Original) Updated on:

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CHAPTER ONE

The Notice of Demand and the Time to Pay

Sections 289 and 411(1), (2), (5) and (11) to (14) · Rules 179 and 222 · Forms No. 103 and 151

Everything in this booklet begins with a piece of paper. Until a notice of demand is served, there is nothing to pay late and nothing to recover.

1.1 When a notice of demand is issued [section 289]

"When any **tax, interest, penalty, fine or any other sum** is payable in consequence of any order passed under this Act, the Assessing Officer shall serve upon the assessee a **notice of demand** in such form as may be prescribed, specifying the sum so payable" [section 289(1)].

- The form is **Form No. 103** [Rule 179(1)]; but a notice served in pursuance of an order under section 407 — an advance-tax order — is in **Form No. 151** [Rules 179(2) and 222].
- Where a sum is determined to be payable under **section 270** (processing of the return) or **section 399**

(processing of a TDS or TCS statement), that intimation is deemed to be a notice of demand [section 289(2)].

This is why an intimation carries the same consequences as a demand, and why interest under section 411(3) can run on it.

- Where the income includes a start-up perquisite under section 17(1)(d), the tax or interest on it is payable within **fourteen days** of the earliest of — the expiry of **sixty months** from the end of the relevant tax year, the date of sale of the specified security or sweat equity share, or the date on which the assessee ceases to be the employee [section 289(3)].

1.2 The period allowed for payment [section 411(1)]

Any amount, **otherwise than by way of advance tax**, specified as payable in a notice of demand under section 289 shall be paid at the place and to the person mentioned in the notice within —

- **(a) thirty days** of the service of the notice; or
- **(b)** such shorter period as is specified in the notice **with the previous approval of the Joint Commissioner**, where the Assessing Officer has reason to believe that it will be **detrimental to revenue** to allow the full thirty days.

> **THREE WORDS THAT DECIDE CASES**
>
> **"Otherwise than by way of advance tax."** A demand for advance tax under section 407 is outside section 411(1); it is governed by the instalment dates in section 408 and by the interest in sections 424 and 425. The interest of section 411(3) never runs on advance tax.
>
> **"Service of the notice."** The thirty days run from **service**, not from the date of the order and not from the date of the notice. Where service is disputed, the burden is on the Department.
>
> **"Previous approval of the Joint Commissioner."** A shorter period fixed without that approval is bad, and the ordinary thirty days revive.

1.3 Validity of the demand pending appeal [section 411(2)]

Where a notice of demand has been served and an appeal or other proceeding is filed or initiated in respect of the amount specified in it, then —

- **(a)** the demand is **deemed to be valid till the disposal of the appeal by the last appellate authority**, or till the disposal of the proceedings; and
- **(b)** the notice has the effect specified in section 3 of the **Taxation Laws (Continuation and Validation of**

Recovery Proceedings) Act, 1964.

The practical result is that a fresh notice of demand need not be served every time an appellate order varies the figure. The original notice survives, and recovery proceedings taken under it are not invalidated by the appeal.

1.4 Extension of time and payment by instalments [section 411(5) and (11)]

Nothing in section 411(3) prevents the Assessing Officer, **where an application is made by the assessee before the expiry of the due date** under sub-section (1), from extending the time for payment or allowing payment **by instalments**, subject to such conditions as he thinks fit.

But the concession is fragile. If the assessee defaults in **any one** instalment within the time fixed —

- **(a)** he is deemed to be in default **as to the whole of the amount then outstanding**; and
- **(b)** the other instalment or instalments are **deemed to have become due on the same date** as the instalment actually in default.

Note the timing requirement: the application must be made **before** the thirty days expire. An application made after the assessee is already in default does not attract sub-section (5), though the Assessing Officer may in practice still grant time under his general powers.

1.5 The assessee treated as not in default [section 411(12)]

Where an assessee has presented an appeal under **section 356** (to the Joint Commissioner (Appeals) or the Commissioner (Appeals)) or **section 357**, the Assessing Officer **may, in his discretion** and subject to such conditions as he thinks fit, treat the assessee as **not being in default** in respect of the amount in dispute in the appeal, **even though the time for payment has expired**, so long as the appeal remains undisposed of.

Two points follow. First, the discretion is the Assessing Officer's, and the mere filing of an appeal is **not** a stay of demand. Second, the protection extends only to the **amount in dispute**; the undisputed part of the demand must be paid.

1.6 Income that cannot be brought into India [section 411(13) and (14)]

Where an assessee has been assessed on income arising outside India in a country **whose laws prohibit or restrict the remittance of money to India**, the Assessing Officer **shall** —

- **(a)** not treat him as in default in respect of that part of the tax which is due on the income which, by reason of the prohibition or restriction, cannot be brought into India; and
- **(b)** continue to treat him as not in default until the prohibition or restriction is removed.

Income is **deemed to have been brought into India** if it has been utilised, or could have been utilised, for any expenditure actually incurred by the assessee outside India, or if the income, whether capitalised or not, has been brought into India in any form [section 411(14)]. The word “shall” makes this a right and not a concession.

Interest for Default in Furnishing the Return — Section 423

Section 423, as amended by the Finance Act, 2026

One per cent a month for being late with the return — and the Act now states it as an algebraic formula.

2.1 The formula [section 423(1)]

Where the return of income for any tax year is furnished after the due date or is not furnished, the assessee is liable to pay simple interest as per the formula —

$$I = 1\% \times A \times T$$

I	the interest payable
A	the amount of tax on which interest is payable, as specified in sub-section (2)
T	the number of **months** in the period beginning on the day immediately following the **starting date** and ending on the **end date**, both specified in sub-section (2)

The Act of 2025 has replaced the words of section 234A of the repealed Act with a formula, but the substance is unchanged: 1% for every month or part of a month, on the tax that remained unpaid, for the period of the delay.

2.2 The four circumstances [section 423(2)]

Sl. No.	Circumstance	Starting date	End date	Amount of tax on which interest is payable (A)

1 The return is furnished under The **due date**

The **date of**

(a) where no regular assessment is made

section 263(1), (4) or (6), or in under section **furnishing** the return

— the tax on the total income as

response to a notice under section 263(1) determined under **section 270(1)**, as

268(1), after the due date

reduced by **tax paid**;

(b) where a regular assessment is made — the tax on the total income determined on **regular assessment**, as reduced by tax paid

2	**No return** has been furnished under section 263(1), (4) or (6), or in response to a notice under section 268(1)	The due date under section 263(1)	The **date of completion of the assessment** under section 271	The tax on the total income determined on regular assessment, as reduced by tax paid
3	A return is required by a notice under **section 280** issued after a determination under section 270(1) or after an assessment under section 270(10), 271 or 279, **and the return is furnished after the time allowed**	The **last date** of the time allowed under the notice	The date of furnishing the return	The amount by which the tax on the total income determined on the reassessment or recomputation **exceeds** the tax on the total income determined earlier under section 270(1), 271 or 279

4	The same notice under section 280, but **no return is furnished**	The last date of the time allowed under the notice	The **date of completion of the reassessment or recomputation** under section 279	The same excess as in Sl. No. 3

Where an assessment is made for the **first time under section 279**, that assessment is regarded as a **regular assessment** for the purposes of this section [section 423(5)].

2.3 "Tax paid" and what it includes [section 423(4)]

The amount "A" is the tax **as reduced by tax paid**. "Tax paid" is defined to mean —

- **(i)** advance tax, if any, paid;
- **(ii)** any tax **deducted or collected at source**;
- **(iii)** any relief of tax allowed under **section 157** (relief for arrears or advance of salary);
- **(iv)** and **(v)** relief under **section 159(1) and (2)** for tax paid in a country or specified territory outside India;
- **(vi)** the deduction allowed under **section 160** for tax paid in a country outside India; and
- **(vii)** any tax credit allowed to be set off as per **sections 206(2)(e) to (h) and 206(3) and (4)** — as substituted by the Finance Act, 2026.

Two further rules complete the computation. The tax on total income, whether determined under section 270(1) or on regular assessment, **does not include the additional income-tax payable under section 267** [section 423(4)(a)

AND (B)]. AND THE INTEREST PAYABLE IS REDUCED BY THE INTEREST ALREADY PAID UNDER SECTION 266 — SELF-ASSESSMENT —

towards the interest chargeable [section 423(4)(c)].

> **THE ORDER IN WHICH THE CREDITS ARE GIVEN**
>
> Interest under section 423 is computed on the tax **after** deducting advance tax and tax deducted at source but **before** deducting the self-assessment tax paid under section 266. Paying the self-assessment tax on the day the return is filed therefore does not reduce the interest for the months already gone; it only stops the clock. What section 423(4)(c) allows is a credit for the *interest component* already paid under section 266, not for the tax.

2.4 Increase and reduction on appeal [section 423(3)]

Where, as a result of an order under section 287 (rectification), 288, 359, 363, 365(10), 368, 377 or 378, the amount of tax on which interest was payable is increased or reduced, the interest is increased or reduced accordingly. Where it is **increased**, the Assessing Officer serves a notice of demand in the prescribed form, which is deemed to be a notice under section 289; where it is **reduced**, the excess interest paid is refunded.

2.5 Illustrations

ILLUSTRATION 2.1 — A LATE RETURN

Shri Anand, an individual not liable to audit, was required to furnish his return for Tax Year 2026-27 by **31 July 2027**. He furnished it on **19 December 2027**. His tax on the returned income was ₹3,80,000, against which he had paid advance tax of ₹2,00,000 and suffered tax deducted at source of ₹40,000. He paid the balance as self-assessment tax on the date of filing. *Compute the interest under section 423.*

Tax on the total income determined under section 270(1)	3,80,000
Less: advance tax paid	(2,00,000)
Less: tax deducted at source	(40,000)
A — the amount on which interest is payable	**1,40,000**

T — months from 1 August 2027 to 19 December 2027 (August to December)	5
I = 1% × ₹1,40,000 × 5	**₹7,000**

The self-assessment tax paid on 19 December 2027 does not reduce "A". Section 423(4)(d) lists advance tax and tax deducted or collected at source, but not the tax paid under section 266.

ILLUSTRATION 2.2 — NO RETURN AT ALL

Smt. Bhawna did not furnish her return for Tax Year 2026-27 at all. The Assessing Officer completed a regular assessment under section 271 on **26 March 2029**, determining a tax of ₹6,00,000, against which advance tax and tax deducted at source aggregated ₹1,50,000. *Compute the interest.*

Sl. No. 2 of the Table applies. A = ₹6,00,000 − ₹1,50,000 = **₹4,50,000**. T runs from the due date of 31 July 2027 to the date of completion of the assessment, 26 March 2029 — that is, **20 months** (August 2027 to March 2029). I = 1% × ₹4,50,000 × 20 = **₹90,000**.

Contrast Illustration 2.1. Where the return is filed, the clock stops on the date of filing; where it is not filed, it runs to the completion of the assessment. Nothing rewards silence.

CHAPTER THREE

Interest for Default in Payment of the Demand — Section 411

Section 411(3) to (9), as amended by the Finance Act, 2026

One per cent a month from the day the thirty days run out — and the one interest in the Act that a Commissioner may waive.

3.1 The charge [section 411(3)]

Section 411(3) was substituted by the Finance Act, 2026. As it now stands —

> **(3)(a)** If the amount specified in any notice of demand under section 289 is not paid within the period specified under sub-section (1) —
>
> - **(i)** the assessee shall be liable to pay **simple interest at 1% for every month or part of a month** comprised in the period; and
> - **(ii)** such period shall **commence from the day immediately following the end of the period mentioned in sub-section (1) and end with the day on which the amount is paid.**
>
> **(b)** **No interest shall be charged** under this sub-section in respect of any demand raised on account of a **penalty levied under section 439** —
>
> - **(i)** up to the date of passing of the order under **section 359**; and
> - **(ii)** up to the date of passing of the order under **section 363**, where the assessment or reassessment has been made in pursuance of directions issued by the **Dispute Resolution Panel** under section 275.

Clause (b) is new and it is a real relief. Under the old law interest ran on a penalty demand from the moment the thirty days expired, even while the assessee was contesting the penalty in first appeal. It now runs only from the date of the first appellate order.

3.2 No double interest [section 411(4)]

No interest shall be charged under sub-section (3) on any amount for any period **where interest is charged on the same amount for the same period under section 398(3)** on the tax specified in an intimation issued under section 399. A deductor who is already paying 1% or 1.5% a month under section 398(3) does not pay a second 1% under section 411(3) on the same money for the same months.

3.3 Reduction and revival on appeal [section 411(6)]

Where, as a result of an order under section 287, 288, 359, 363, 365(10), 368 or 378, or an order of the Settlement Commission under section 245D(4) of the Income-tax Act, 1961 —

- **(a)** the amount on which interest was payable is **reduced**, the interest is reduced accordingly and any excess interest paid is **refunded**; and
- **(b)** if, after such reduction, the amount is again **increased** by a later order under those sections or under section 377, the assessee is liable to interest under sub-section (3) **from the day immediately following the end of the period mentioned in the first notice of demand** and ending with the day on which the amount is paid.

The words "the **first** notice of demand" are the important ones. When an appellate order reduces the demand and a later order restores it, the interest does not start afresh from the second notice; it runs from the original one.

3.4 Waiver or reduction by the Commissioner [section 411(7) to (9)]

Irrespective of sub-section (3), the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner may, **on an application by the assessee**, **reduce or waive** the interest paid or payable, if he is satisfied that **all three** of the following are made out —

- **(a)** payment of the amount **has caused or would cause genuine hardship** to the assessee;
- **(b)** the default was due to **circumstances beyond the control** of the assessee; and
- **(c)** the assessee **has co-operated** in any inquiry relating to the assessment or in any proceeding for the recovery of any amount due from him.

Provision	Requirement
411(8)	The order accepting or rejecting the application, in full or in part, must be passed **within twelve months from the end of the month in which the application is received**.
411(9)	No order **rejecting** the application, in full or in part, shall be passed **unless the assessee has been given an opportunity of being heard**.

> **THE ONLY WAIVABLE INTEREST**
>
> Section 411(7) is the sole power of waiver of interest in this Part. There is **no** corresponding power for the interest under sections 423, 424, 425, 426 or 398(3). Where a question asks whether interest may be waived, the answer is that only the interest on a delayed demand may be, and then only if the three conditions in section 411(7) are cumulatively satisfied — the word in the section is "and", not "or".

3.5 Illustrations

ILLUSTRATION 3.1 — RUNNING THE INTEREST

A notice of demand under section 289 for ₹2,40,000 was **served** on Chandan Traders on **8 September 2027**. The firm paid ₹1,00,000 on 20 November 2027 and the balance on 14 February 2028. *Compute the interest under section 411(3).*

Thirty days from 8 September 2027 expire on **8 October 2027**; interest runs from **9 October 2027**	—
On ₹2,40,000 from 9 October 2027 to 20 November 2027 — 2 months or parts of months	₹2,40,000 × 1% × 2 = ₹4,800
On ₹1,40,000 from 21 November 2027 to 14 February 2028 — 4 months or parts of months	₹1,40,000 × 1% × 4 = ₹5,600
Total interest under section 411(3)	**₹10,400**

Count parts of months as whole months at both ends. And note that the clock starts on the day after the thirty days expire, not on the day the notice was served.

ILLUSTRATION 3.2 — A PENALTY DEMAND AFTER THE FINANCE ACT, 2026

A penalty of ₹5,00,000 was levied on Deep Udyog under section 439 by an order dated 12 May 2027; the notice of demand was served on 20 May 2027. The firm appealed, and the Joint Commissioner (Appeals) passed his order under section 359 on **28 February 2028**, confirming the penalty. The firm paid on 15 May 2028. *From when does interest run?*

Under the substituted section 411(3)(b)(i), no interest is charged up to the date of the order under section 359. Interest therefore runs from **1 March 2028** to 15 May 2028 — three months or parts of months. Interest = ₹5,00,000 × 1% × 3 = **₹15,000**.

Under the pre-amendment law, interest would have run from 20 June 2027 to 15 May 2028 — twelve months — and the charge would have been ₹60,000. This is the single most examinable change made by the Finance Act, 2026 in this Part.

CHAPTER FOUR

Interest on Excess Refund — Section 426

Section 426

Where the Government has paid out more than it should, it charges half a per cent a month for the loan.

4.1 The charge [section 426(1)]

Where a refund is granted to the assessee under **section 270(1)** — that is, on the processing of the return — and

- **(a) no refund is due** on regular assessment; or
- **(b)** the amount refunded under section 270(1) **exceeds** the amount refundable on regular assessment,

the assessee is liable to pay **simple interest at 0.5%** on the whole or the excess amount so refunded, **for every month or part of a month** in the period **from the date of grant of the refund to the date of the regular assessment**.

Element	What it is
Rate	0.5% for every month or part of a month — the same rate at which the Government pays interest on a refund under section 437
Amount	The **whole** refund where none was due, or the **excess** where too much was paid
From	The **date of grant** of the refund
To	The **date of the regular assessment** — not the date of repayment

4.2 Reduction where the refund is upheld [section 426(2) and (3)]

Where, as a result of an order under section 287, 288, 359, 363, 365(10), 368, 377 or 378, the refund granted under section 270(1) is **held to have been correctly allowed**, wholly or in part, the interest chargeable under sub-section

(1) is **reduced accordingly**. Where in relation to a tax year an assessment is made for the **first time under section 279**, that assessment is regarded as a regular assessment for this section [section 426(3)].

4.3 Illustration

ILLUSTRATION 4.1 — THE REFUND THAT HAD TO COME BACK

On processing the return of Ekta Ltd. for Tax Year 2026-27 under section 270(1), a refund of ₹4,00,000 was granted on **18 September 2027**. On regular assessment completed on **27 June 2029**, the refund properly due was found to be only ₹1,50,000. *Compute the interest under section 426.*

Excess refunded — ₹4,00,000 – ₹1,50,000	2,50,000
Period — 18 September 2027 to 27 June 2029, months or parts of months	22
Interest = ₹2,50,000 × 0.5% × 22	**₹27,500**

Note that the period ends on the date of the regular assessment and not on the date on which the company actually repays the money. From the date of the assessment onwards, the ordinary interest of section 411(3) at 1% a month takes over once the thirty days from the fresh notice of demand have expired.

CHAPTER FIVE

Interest Payable by the Government — Section 437

Sections 431 to 438 · Rule 230 · Form No. 160 The other half of the syllabus phrase. The Act does not only charge interest; it pays it.

5.1 The right to a refund [sections 431 to 436]

Section	What it provides
431	If a person satisfies the Assessing Officer that the tax paid by him or on his behalf, or treated as paid by him or on his behalf, for any tax year **exceeds the amount with which he is properly chargeable**, he is entitled to a refund of the excess.
432	Where the income of one person is included in the total income of another under any provision, **the latter alone** is entitled to the refund.
433	Every claim for refund **shall be made by furnishing a return** under section 263. There is no separate refund application.
434	A special refund for a payer who **bore the tax under an agreement** and later claims that no tax was deductible. The application is made **within thirty days** of payment of the tax, in **Form No. 160** [Rule 230], accompanied by a copy of the agreement; the Assessing Officer must pass an order within **six months** from the end of the month of receipt, and cannot reject it without a hearing. Interest in section 393(2) (Table: Sl. No. 17) is excluded.
435	Where a refund becomes due as a result of an appellate or other order, the Assessing Officer must refund it **without the assessee having to make any claim**. But where the assessment is set aside for fresh assessment, the refund arises only on the fresh assessment; and where it is annulled, only the excess over the tax on the returned income is refunded.
436	In a refund claim the assessee **cannot question the correctness of an assessment** that has become final and conclusive, nor ask for its review; he is entitled only to a refund of tax wrongly paid or paid in excess.

5.2 The three circumstances and the three periods [section 437(1)]

Where a refund is due to the assessee, he is entitled to receive, **in addition to the refund**, simple interest at **0.5% for every month or part of a month**, in the circumstances in column B for the period in column C.

Sl. No.	Circumstance	Period
1	The refund is out of **tax collected at source** under section 394, or **advance tax**, or tax **treated as paid under section 390(5)** — that is, tax deducted at source — during the financial year	**(a)** From the **1st day of April** of the year following the tax year to the date on which the refund is granted, **where the return has been furnished on or before the due date** under section 263(1); **(b)** from the **date of furnishing the return** to the date on which the refund is granted, in any other case
2	The refund is out of any tax paid under **section 266** — self-assessment tax	From the **date of furnishing the return or the date of payment of the tax, whichever is later**, to the date on which the refund is granted
3	**Any other case** — chiefly a refund of tax or penalty paid against a notice of demand which is later reduced	From the date or dates on and from which the tax or penalty specified in the notice of demand under section 289 was **paid in excess** of the demand, to the date on which the refund is granted

> **THE PREMIUM ON FILING ON TIME**
>
> Sl. No. 1 is the entry that most assessees rely on, and the two limbs of column C are the whole point. File the return **by the due date** and the interest runs from **1 April** of the following year — for Tax Year 2026-27, from 1 April 2027. File it late, and the interest runs only from the **date of filing**. An assessee who is due a large refund and files six months late gives away six months of interest. This is a favourite short-answer question.

5.3 The 10% threshold [section 437(2)]

No interest is payable under Sl. No. 1 or Sl. No. 2 of the Table **if the amount of refund is less than 10% of the tax as determined under section 270(1) or on regular assessment**. Two points follow: the threshold applies only to those two entries and not to Sl. No. 3; and it is a threshold on the **refund** measured against the **tax**, not an exemption of the first 10%. Once the refund reaches 10%, interest is payable on the whole of it.

5.4 Rectification, and the additional interest at 3% [section 437(3) and (4)]

- **Section 437(3)** — where a refund under Sl. No. 1 arises as a result of an order passed by the Assessing Officer **in consequence of an application by the assessee under section 288(1)** (Table: Sl. No. 11), interest at 0.5% a month is calculated **from the date of that application** to the date on which the refund is granted. The assessee who had to ask for a rectification does not get interest from 1 April; he gets it from the date he asked.
- **Section 437(4)** — where a refund arises on giving effect to an order under section 359, 363, 365(10), 368, 377 or 378, **otherwise than by making a fresh assessment or reassessment**, the assessee is entitled to **additional interest**, in addition to the interest under sub-section (1), computed at **3% per annum** for the period beginning on the day following the expiry of the time allowed under section 286(1) (Table: Sl. Nos. 9 and 10) and ending on the date the refund is granted.
- **Section 437(5)** — in computing that period, where assessment or reassessment proceedings are pending, the period during which the refund is **withheld** under section 438(3) is excluded.

The additional interest at 3% per annum is the Act's answer to administrative delay in giving effect to appellate orders. It is **per annum** and not per month, and it is over and above the 0.5% a month under sub-section (1).

5.5 Interest to a deductor [section 437(6)]

Where a refund becomes due to a **deductor** in respect of any amount paid to the credit of the Central Government under Chapter XIX-B, he is entitled to simple interest at **0.5% for every month or part of a month** from the date on which —

- **(a)** the **claim for refund is made** in the prescribed form — Form No. 139 [Rule 219(6)]; or
- **(b)** the **tax is paid**, where the refund arises on giving effect to an order under section 359, 363, 365(10) or 368,

to the date on which the refund is granted.

5.6 Delay attributable to the assessee [section 437(7) and (8)]

If the proceedings resulting in the refund are delayed for reasons attributable to the assessee or the deductor, wholly or in part, the period of that delay is **excluded** from the period for which interest is payable. Any question as to the period to be excluded is decided by the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner, **whose decision is final**.

Sub-sections (9) to (11) complete the scheme: where an order under section 270(10), 271, 279, 287, 288, 359, 363, 365(10), 368, 377 or 378 increases or reduces the amount on which interest was payable, the interest is increased or reduced accordingly; and where it is reduced, the Assessing Officer serves a notice of demand for the excess interest paid, which is deemed to be a notice under section 289.

5.7 Set off and withholding of refunds [section 438]

- **438(1)** — where a refund becomes due, the Assessing Officer, Commissioner, Principal Commissioner, Chief Commissioner or Principal Chief Commissioner may, **in lieu of payment**, **set off** the whole or part of it against any sum remaining payable under the Act by that person.

- **438(2)** — any such action is taken **after giving an intimation in writing** of the action proposed.
- **438(3)** — where part of the refund is set off, or none is, and a refund becomes due, the Assessing Officer may, having regard to the fact that assessment or reassessment proceedings are pending, **for reasons recorded in writing** and **with the previous approval of the Principal Commissioner or Commissioner**, **withhold** the

refund up to **sixty days** from the date on which the assessment or reassessment is made.

5.8 Illustrations

ILLUSTRATION 5.1 — THE COST OF FILING LATE

Shri Farhan's tax for Tax Year 2026-27 was ₹2,00,000. Tax deducted at source came to ₹3,20,000, so a refund of ₹1,20,000 was due. The refund was granted on **10 January 2028**. *Compute the interest under section 437 (a) if he filed his return on 28 July 2027, and (b) if he filed it on 30 November 2027.*

(a) Return filed by the due date of 31 July 2027 — interest runs from 1 April 2027 to 10 January 2028, that is 10 months	₹1,20,000 × 0.5% × 10 = **₹6,000**
(b) Return filed on 30 November 2027 — interest runs from 30 November 2027 to 10 January 2028, that is 3 months	₹1,20,000 × 0.5% × 3 = **₹1,800**

Four months of delay in filing cost him ₹4,200 of interest. The refund is unaffected — only the interest is. Check the threshold too: the refund of ₹1,20,000 is far more than 10% of the tax of ₹2,00,000, so section 437(2) does not defeat the claim.

ILLUSTRATION 5.2 — THE 10% THRESHOLD

Gopal Ltd.'s tax on regular assessment for Tax Year 2026-27 was ₹80,00,000. It had paid advance tax and suffered tax at source aggregating ₹80,70,000, leaving a refund of ₹70,000. It filed its return on time. *Is interest payable?*

No. Ten per cent of the tax determined is ₹8,00,000, and the refund of ₹70,000 is far below it. Section 437(2) denies interest where the refund under Sl. No. 1 or 2 of the Table is less than 10% of the tax. The company gets its ₹70,000 but no interest on it.

*Change one fact — suppose the refund had arisen because the company had paid ₹70,000 too much against a notice of demand which was afterwards reduced in appeal. That would fall under **Sl. No. 3**, to which the 10% threshold does not apply, and interest would run from the date of the excess payment.*

C H A P T E R   S I X

Fees, and Every Interest on One Page

Sections 427 to 430, as substituted and amended by the Finance Act, 2026

Part F of Chapter XIX is headed “Levy of fee in certain cases”. Four sections, all automatic, none excusable.

6.1 Fee for default in furnishing statements [section 427]

Section 427 was substituted by the Finance Act, 2026 and now has three sub-sections.

Sub-section	Default	Fee
427(1)	Failure to deliver a **statement of tax deducted or collected** as per section 397(3)(b) within the prescribed time	**₹200 for every day** for which the failure continues
427(2)	—	The fee shall **not exceed the amount of tax deductible or collectible**, and shall be **paid before** delivering the statement
427(3) *new*	Failure by a person required to furnish a **statement of financial transaction or reportable account** under section 508(1) to do so within the time prescribed under section 508(2)	**₹200 for every day**, subject to a maximum of **₹1,00,000**

6.2 Fee for default in furnishing the return, audit report and accountant's report [section 428]

Section 428 was also **substituted by the Finance Act, 2026**, and its scope has been widened considerably. Where any person —

Clause	Default	Fee
428(a)	Fails to furnish a **return of income** under section 263 within the due date under section 263(1)	**₹1,000** if the total income does not exceed ₹5,00,000; **₹5,000** in any other case
428(b) *new*	Furnishes a return under **section 263(5)** — an updated return — beyond **nine months** from the end of the relevant tax year	**₹1,000** if the total income does not exceed ₹5,00,000; **₹5,000** in any other case
428(c) *new*	Fails to get his accounts **audited** and to furnish the audit report as required by **section 63**	**₹75,000** for a delay up to one month; **₹1,50,000** thereafter
428(d) *new*	Fails to furnish a **report from an accountant** as required by **section 172** — the transfer pricing report	**₹50,000** for a delay up to one month; **₹1,00,000** thereafter

Clauses (c) and (d) are a significant change of approach. Under the repealed Act these were *penalties* under sections 271B and 271BA, subject to the reasonable-cause defence in section 273B. As **fees**, they are automatic and no reasonable cause excuses them.

6.3 Fee relating to a statement or certificate [section 429]

Where a research association, University, college or other institution referred to in section 45(3)(a), or a company referred to in section 45(3)(b), fails to deliver the prescribed documents or furnish the prescribed certificate under section 45(4)(a) within time; or where an institution or fund fails to deliver the statement under section 354(1)(e) or furnish the certificate under section 354(1)(g) — the fee is **₹200 for every day** during which the failure continues, **not exceeding the amount in respect of which the failure occurred**, and payable **before** the statement is delivered

or the certificate furnished.

6.4 Fee relating to the Aadhaar number [section 430]

Where a person is required to intimate his **Aadhaar number** under section 262(6) and fails to do so on or before the prescribed date, he is liable to pay such fee as may be prescribed, **not exceeding ₹1,000**, at the time of making the intimation after that date.

6.5 Interest, fee and penalty distinguished

Point	Interest	Fee	Penalty
Nature	**Compensatory** — the price of the use of money	**Regulatory** — the price of a compliance failure	**Punitive**
Order required	No — it is automatic	No — it is automatic	**Yes**
Hearing required	No	No	**Yes**
Reasonable cause a defence	No	No	**Yes** — section 412(3)(b)
Ceiling	None	Yes — the tax deductible, or a stated figure	The tax in arrears — section 412(2)
Waiver	Only under section 411(7)	None	Section 440 — waiver and immunity
Deductible in computing income	**No**	**No**	**No**
Recovery	All three are recovered in the manner provided for arrears of tax — **section 419**		

6.6 The seven interests of the Act on one page

Section	For what	Rate	From	To
Interest payable by the assessee				
398(3) *Part B*	Failure to deduct or collect / failure to pay after deducting	1% / **1.5%** a month	The date the tax was deductible / the date it was deducted	The date of deduction / the date of payment
411(3)	Non-payment of a demand	1% a month	The day after the thirty days in the notice expire	The day the amount is paid
423	Late or non-furnishing of the return	1% a month	The due date under section 263(1)	The date of furnishing, or of completing the assessment
424 *Part A*	Default in payment of advance tax — less than 90% of the assessed tax paid	1% a month	1 April following the tax year	The date of determination or of regular assessment
425 *Part A*	Deferment of advance tax — an instalment short	**3% (1% per month for a block period of 3 months) flat** on each of the first three shortfalls; **1%** on the fourth	A flat charge on the shortfall in each instalment; no running period	
426	Excess refund granted on processing	**0.5%** a month	The date of grant of the refund	The date of the regular assessment
Interest payable by the Government				

Section	For what	Rate	From	To
437(1)	Refund due to the assessee	**0.5%** a month	1 April following the tax year (return filed on time); or the date of filing; or the date of the excess payment	The date the refund is granted
437(4)	Additional interest where effect to an appellate order is delayed	**3% per annum**	The day after the time allowed under section 286(1) expires	The date the refund is granted
437(6)	Refund due to a deductor	0.5% a month	The date of the claim in Form No. 139, or the date of payment of the tax	The date the refund is granted

Every rate in the table is **simple** interest, and every monthly rate counts a **part of a month as a whole month**. Only section 425 charges a flat sum rather than a running rate, and only section 437(4) is expressed per annum.

CHAPTER SEVEN

Assessee in Default, and the Penalty

Sections 411(10) and (11), 412 and 419

The status that opens the door to Chapters 8 to 11, and the one penalty that this Part contains.

7.1 When the assessee is deemed to be in default

Section 411(10) provides that if the amount is not paid within the time specified under sub-section (1), or as extended under sub-section (5), at the place and to the person mentioned in the notice, **the assessee shall be deemed to be in default**. Section 411(11) adds the instalment case already noticed in Chapter 1.

Situation	Is the assessee in default?
Thirty days from service have expired and nothing is paid	**Yes** — section 411(10)
Time was extended under section 411(5) and the extended time has not expired	**No**
Instalments were allowed and one is missed	**Yes**, as to the **whole** outstanding amount, all instalments being deemed due on the date of the one in default — section 411(11)
An appeal is pending under section 356 or 357 and the Assessing Officer has exercised his discretion	**No**, to the extent of the amount in dispute, while the appeal is undisposed of — section 411(12)
An appeal is pending but the Assessing Officer has not exercised his discretion	**Yes** — the filing of an appeal is not itself a stay
The tax is on income which cannot be remitted from a foreign country	**No** — section 411(13); and the protection continues until the restriction is removed
A payer failed to deduct or, having deducted, failed to pay	**Yes** — but under **section 398(1)**, dealt with in Unit 1 Part B
An assessee failed to pay advance tax under section 407	**Yes** — but under **section 409**, dealt with in Unit 1 Part A

Three sections of the Act create the status of an assessee in default and they must not be confused: **section 409** for advance tax, **section 398(1)** for tax deducted or collected at source, and **section 411(10)** for a notice of demand. All three lead to the same place — the recovery machinery in sections 412 to 422.

7.2 Penalty payable when tax is in default [section 412]

When an assessee is in default or is deemed to be in default in making a payment of tax, he is liable, **in addition to the arrears and the interest payable under section 411(3)**, to pay by way of penalty —

- **(a)** such amount as the Assessing Officer may direct; and
- **(b)** in the case of a **continuing default**, such further amount or amounts as the Assessing Officer may from time to time direct.

The total amount of penalty shall not exceed the amount of tax in arrears [section 412(2)].

7.3 The three protections

Provision	Protection
412(3)(a)	No penalty unless the assessee has been given a **reasonable opportunity of being heard**.

412(3)(b)

No penalty where the assessee proves to the satisfaction of the Assessing Officer that the default was for

good and sufficient reasons. The burden is on the assessee, and the section is thus the counterpart of the old section 273B.

Provision

Protection

412(5)	Where, as a result of any **final order**, the tax in respect of which the penalty was levied is **wholly reduced**, the penalty **shall be cancelled** and any penalty paid **shall be refunded**.

Section 412(4) closes the obvious loophole: the assessee does not cease to be liable to penalty merely because he paid the tax **before** the penalty was levied. Payment after the event mitigates; it does not extinguish.

Finally, section 419 provides that any sum imposed by way of interest, fine, penalty or any other sum payable under the Act is recoverable in the manner provided in this Part for the recovery of arrears of tax. The whole of the recovery machinery that follows is therefore available not only for tax but for everything else the Act imposes.

CHAPTER EIGHT

The Tax Recovery Officer and the Certificate

Sections 413 to 415 · Rules 224 and 226 · Form No. 153

Recovery under the Act is not a suit. It is an administrative execution, and it begins with a certificate that the assessee may not challenge.

8.1 Drawing up the certificate [section 413(1), Rule 224, Form No. 153]

When an assessee is in default or is deemed to be in default in making a payment of tax, the **Tax Recovery Officer** may draw up **under his signature a statement specifying the amount of arrears** due from the assessee. That

statement is called the **certificate**, and it is drawn up in **Form No. 153** [Rule 224]. He then proceeds to recover the amount specified in it by one or more of the four modes, in accordance with the prescribed rules.

8.2 The four modes of recovery

Clause	Mode	Where the procedure is
413(1) (a)	**Attachment and sale of movable property** of the assessee	Rule 225(21) to (47)
413(1) (b)	**Attachment and sale of immovable property** of the assessee	Rule 225(48) to (70)
413(1) (c)	**Arrest of the assessee and his detention in prison**	Rule 225(75) to (83)
413(1) (d)	**Appointing a receiver** for the management of movable and immovable properties	Rule 225(71) to (74)

The Tax Recovery Officer may take action under section 413(1) **whether or not proceedings for recovery by any other mode have been taken** [section 413(2)]. The modes are cumulative, not alternative.

8.3 The certificate cannot be disputed [section 413(3) and (4)]

"The assessee shall not be entitled to dispute the correctness of any certificate drawn up by the Tax Recovery

Officer **on any ground**" [section 413(3)]. The bar is absolute so far as the assessee is concerned; his remedies lie against the assessment, in appeal, and not against the certificate.

The Tax Recovery Officer himself, however, **may cancel the certificate** if for any reason he considers it necessary, **or correct any clerical or arithmetical mistake** in it [section 413(4)]. Under **Rule 226** the Chief Commissioner or

Commissioner may, by general or special order, authorise a Tax Recovery Officer to exercise the powers of an Assessing Officer under **section 287** — rectification of a mistake apparent from the record — in respect of the order consequent to which the sum became payable, those powers being exercised **concurrently** with the Assessing Officer.

8.4 Property transferred to a spouse or minor child [section 413(5)]

For the purposes of section 413, the movable or immovable property of the assessee **includes** any property —

- **(a)** which has been transferred, directly or indirectly, **on or after 1 June 1973**, by the assessee to his **spouse, minor child, son's wife or son's minor child**, **otherwise than for adequate consideration**, and which is held

by, or stands in the name of, any of those persons; and

- **(b)** so far as property so transferred to a minor child or son's minor child is concerned, it continues to be included in the assessee's property **even after the minor attains majority**, for recovering arrears relating to any period **prior to** that date.

This is the recovery counterpart of the clubbing provisions. Note the two conditions that must both be satisfied — the transfer must be to one of the four named relations, and it must be **otherwise than for adequate consideration**. A sale at market price to a spouse is outside the sub-section.

8.5 Which Tax Recovery Officer [section 414]

The Tax Recovery Officer is —

- **(a)** the officer within whose jurisdiction the assessee **carries on his business or profession** or has the principal place of it; or
- **(b)** the officer within whose jurisdiction the assessee **resides**, or any of his movable or immovable property **is situated**,

the jurisdiction being that assigned under orders or directions of the Board, or of an income-tax authority not below the rank of Commissioner authorised in this behalf under section 241.

Where the assessee has property within the jurisdiction of **more than one** Tax Recovery Officer and the officer who drew up the certificate either cannot recover the whole amount within his own jurisdiction, or thinks it necessary for expediting or securing recovery, he may send the certificate — or a certified copy specifying the part to be recovered

— to the other officer, who then proceeds as if the certificate had been drawn up by him [section 414(2)].

8.6 Stay, amendment and cancellation [section 415]

- **415(1)** — the Tax Recovery Officer **may grant time** for the payment of any tax and, until the expiry of that time, **shall stay** the recovery proceedings for that tax.
- **415(2)** — where a certificate has been drawn up and the outstanding demand is afterwards **reduced** because the order giving rise to it has been modified in appeal or other proceeding, the Tax Recovery Officer shall — ◦ **(a) stay** the recovery of so much of the amount in the certificate as pertains to the reduction, for the period the further proceeding remains pending, if the order is the subject of a further proceeding; or ◦ **(b) amend the certificate, or cancel it**, if the order has become final and conclusive.

CHAPTER NINE

The Procedure for Recovery — Rule 225

Rule 225 of the Income-tax Rules, 2026 (ninety-five sub-rules), made under sections 413 and 475

What was the Second Schedule to the Act of 1961 is now a single rule. The substance is unchanged; the location is not.

> **A NOTE ON WHERE THE PROCEDURE NOW LIVES**
>
> Under the repealed Act, the whole procedure for recovery was in the **Second Schedule** and the procedure for distraint in the **Third Schedule**. The Act of 2025 contains no such Schedule. Section 413(1) recovers "as per the rules prescribed in this regard", and those rules are **Rule 225**, which runs to ninety-five sub-rules. A reference to "Rule 2 of the Second Schedule" is a reference to a repealed enactment.

9.1 The notice, and when execution may begin [Rule 225(2) and (3)]

When a certificate has been drawn up, the Tax Recovery Officer **shall cause a notice to be served on the defaulter** requiring him to pay the amount specified in the certificate **within fifteen days** from the date of service, and intimating that in default steps will be taken to realise the amount.

No step in execution shall be taken until those **fifteen days** have elapsed — with two exceptions [Rule 225(3)]:

- **(b)** where the Tax Recovery Officer is satisfied that the defaulter is **likely to conceal, remove or dispose of** the whole or part of his movable property and that recovery would in consequence be delayed or obstructed, he may at any time direct, **for reasons recorded in writing**, an attachment of the whole or part of that property; and
- **(c)** where the defaulter whose property has been so attached **furnishes security** to the satisfaction of the Tax Recovery Officer, the attachment shall be cancelled from the date the security is accepted.

Rule 225(5) makes recoverable, in the execution proceedings, the **interest under section 411(3)** on the amount to which the certificate relates, together with the costs and charges of executing the certificate.

9.2 Property exempt from attachment [Rule 225(10)]

All such property as is exempt from attachment and sale in execution of a decree of a civil court under the **Code of Civil Procedure, 1908** is exempt from attachment and sale under Rule 225; and the **decision of the Tax Recovery Officer** as to what property is so exempt **is conclusive**.

Section 60 of the Code exempts, among other things, the necessary wearing apparel, cooking vessels, beds and bedding of the judgment-debtor and his family; tools of an artisan; implements of husbandry and such cattle and seed grain as are necessary to earn a livelihood as an agriculturist; houses and buildings belonging to an agriculturist, labourer or domestic servant and occupied by him; a stipend or gratuity allowed to a pensioner of the Government; and wages and salary to the extent prescribed. Section 416(4) repeats the salary exemption for the purposes of recovery out of salary.

9.3 Attachment and sale of movable property [Rule 225(21) to (47)]

Sub-rule	Step	What it lays down
225(21)	Warrant	A warrant is issued and a copy served on the defaulter
225(22)	Attachment	If the amount is not paid **forthwith** after service of the copy of the warrant, the officer proceeds to attach
225(23) to (32)	Special kinds of property	Property in the defaulter's possession; **agricultural produce**; **debts and shares**; an attached **decree** of a civil court; a share in movable property; the **salary of a Government servant**; a **negotiable instrument**; property in the custody of a court or public officer; and an interest in **partnership property**

Sub-rule	Step	What it lays down
225(33) to (36)	Seizure	An **inventory** must be made on seizure; the attachment **shall not be excessive**; seizure must be made **after sunrise and before sunset**; and the officer may **break open doors** if admission is refused

225(37) to (39) Sale and proclamation The Tax Recovery Officer directs the sale; a proclamation is issued and made by any customary mode

Sub-rule	Step	What it lays down
225(40)	Time of sale	No sale **until fifteen days** have elapsed from the proclamation — except where the property is subject to **speedy and natural decay**, or where the expense of keeping it would exceed its value
225(41) and (42)	Agricultural produce and growing crops	Special provisions for the place and time of sale
225(43) and (44)	Auction	Sale by **public auction** in one or more lots; the price of each lot is paid **at the time of sale or as soon after as the officer directs**, and in default the property is **resold**
225(45)	Irregularity	An irregularity in publishing or conducting the sale **does not vitiate it**, but a person injured may sue for compensation
225(46) and (47)	Special assets	Negotiable instruments and shares in a corporation may be sold through a broker; attached **coin or currency notes** are paid over directly

9.4 Attachment and sale of immovable property [Rule 225(48) to (70)]

Sub-rule	Step	What it lays down
225(48) to (51)	Attachment	By an **order prohibiting** the defaulter from transferring or charging the property; a copy is **served on the defaulter** and **proclaimed** at or near the property; the attachment **relates back** to the date of service of the notice under sub-rule (2)
225(16)	Private alienation void	Once a notice has been served, any **private transfer or charge** by the defaulter is **void** against the claim in the certificate
225(52) to (54)	Proclamation of sale	Drawn up after notice to the defaulter, stating the property, the revenue assessed, the encumbrances, the amount for recovery of which the sale is ordered, the **reserve price** and other material particulars; made by beat of drum at or near the property and by affixing a copy in the office of the Tax Recovery Officer
225(55)	**Time of sale**	No sale, without the written consent of the defaulter, **until at least thirty days** from the date on which the copy of the proclamation was affixed on the property or in the office, whichever is later
225(56)	Auction and reserve price	Sale by public auction to the highest bidder, **subject to confirmation**; no sale if the highest bid is **below the reserve price**
225(57) and (58)	**Deposit by the purchaser**	**25%** of the purchase money **immediately** on the declaration, in default of which the property is **forthwith resold**; the **full amount on or before the fifteenth day** from the date of sale; in default the deposit may be **forfeited** and the property resold
225(60)	Setting aside on deposit	The defaulter or any person whose interests are affected may, **within thirty days** of the sale, apply to set it aside on depositing the amount in the proclamation with **interest at 15% per annum** from the date of the proclamation, and **5% of the purchase money as penalty** for payment to the purchaser (not less than ₹1)

Sub-rule	Step	What it lays down
225(61)	Setting aside for irregularity	Within **thirty days**, on the ground that the notice to pay was not served or that there was a **material irregularity** in publishing or conducting the sale; but only if the applicant has **sustained substantial injury**, and a defaulter's application is disallowed unless he deposits the amount recoverable
225(62)	No saleable interest	The **purchaser** may apply within thirty days on the ground that the defaulter had no saleable interest
225(63) and (65)	Confirmation and certificate	Where no application is made, or is made and disallowed, and the full purchase money has been paid, the sale is **confirmed and becomes absolute**; the Tax Recovery Officer then grants a **sale certificate**
225(66)	Postponement	The sale may be **postponed** to enable the defaulter to raise the amount by private sale, mortgage or lease of the property

225(70)

Time limit for sale

Sub-rule

Step

What it lays down

		No sale after **seven years** from the end of the financial year in which the order giving rise to the demand became final under Chapter XVIII; extendable by the **Board** for a further **three years** for reasons recorded; extended by **one year** where a re-sale is required or the sale is set aside; certain periods of stay and appeal are excluded, with a floor of **180 days**; and where the sale is not made in time, **the attachment is deemed to have been vacated**

9.5 Appointment of a receiver [Rule 225(71) to (74)]

- **225(71)** — where the property of the defaulter consists of a **business**, the Tax Recovery Officer may attach it and appoint a person as **receiver** to manage it.
- **225(72)** — where **immovable property** is attached, the Tax Recovery Officer may appoint a receiver for its management.
- **225(73)** — the receiver has the powers conferred on him; the profits or rents realised are applied in discharge of the arrears.
- **225(74)** — the attachment and management may be **withdrawn at any time** at the discretion of the Tax Recovery Officer, or if the arrears are discharged or the management is no longer required.

9.6 Arrest and detention [Rule 225(75) to (83)]

This is the gravest of the four modes, and the rules hedge it about with safeguards.

Sub-rule	Safeguard or step
225(75)(a)	No order of arrest and detention unless a **notice to show cause** has been issued and served, and the Tax Recovery Officer is satisfied, **for reasons recorded in writing**, either that the defaulter has **dishonestly transferred, concealed or removed** part of his property after the certificate was drawn up, with the object or effect of obstructing execution; or that he **has, or has had, the means to pay** the arrears or a substantial part and **refuses or neglects** to pay
225(75)(b)	A warrant of arrest may be issued **without** such notice if the Officer is satisfied, by affidavit or otherwise, that the defaulter is **likely to abscond** or leave the local limits, with the object or effect of delaying execution
225(75)(d)	A person arrested must be brought before the Tax Recovery Officer **within twenty-four hours** of arrest, excluding the time of the journey; and if he pays the amount in the warrant and the costs of arrest, the officer **shall at once release him**
225(75)(e)	Where the defaulter is a **Hindu undivided family**, the **karta** is deemed to be the defaulter

Sub-rule	Safeguard or step
225(76) and (77)	The defaulter must be given a **reasonable opportunity** of showing cause; pending the inquiry he may be detained in custody or released on security
225(78)	On the conclusion of the inquiry an **order of detention** may be made; but the Officer may first leave the defaulter in custody, or release him on security, **for a period not exceeding fifteen days** to enable him to satisfy the arrears
225(79)	Period of detention — **six months** where the certificate is for a demand **exceeding ₹250**, and **six weeks** in any other case. Release follows on payment to the officer-in-charge of the civil prison, or on the request of the Tax Recovery Officer. **Release does not discharge the liability**, but the defaulter **cannot be rearrested** under the same certificate
225(80) and (81)	Release on **full disclosure** of property placed at the Officer's disposal without bad faith — with power to rearrest if the disclosure proves untrue, the aggregate detention not exceeding the period in sub-rule (79); and release on the ground of **illness**
225(82)	Special provision for **entry into a dwelling house** to make an arrest
225(83)	**No arrest or detention of a woman, or of any person who in the Officer's opinion is a minor or of unsound mind**
225(91)	**Subsistence allowance** of the detained defaulter is borne by the Tax Recovery Officer, on the scale fixed by the State Government for judgment-debtors, and is treated as costs — but the defaulter is not detained or arrested on account of it

9.7 Appeal, review and surety [Rule 225(88) to (90)]

- **225(88) — Appeal.** An appeal from any original order of the Tax Recovery Officer under Rule 225, **not being an order which is conclusive**, lies to the **Chief Commissioner or Commissioner of Income-tax**, and must be

presented **within thirty days** of the order. Execution may be stayed pending the appeal **if the appellate authority so directs, but not otherwise**.

- **225(89) — Review.** Any order under the rule may, **after notice to all persons interested**, be reviewed by the authority who made it or his successor, **on account of any mistake apparent from the record**.
- **225(90) — Recovery from surety.** A person who has become surety for the amount due may be proceeded against **as if he were the defaulter**.
- **225(86) and (87).** A certificate does **not cease to be in force by reason of the death of the defaulter**; on death, the proceedings continue against the **legal representative**.
- **225(84).** Every Chief Commissioner, Commissioner, Tax Recovery Officer or other officer acting under the rule is deemed to be **acting judicially** within the meaning of the Judicial Officers Protection Act, 1850 and the Judges Protection Act, 1985.
- **225(9).** The **jurisdiction of civil courts is barred** in respect of matters arising under the rule, **save where fraud is alleged**.

9.8 The whole procedure on one page

Step	What happens	Authority
1	An order is passed and a **notice of demand** is served in Form No. 103	Section 289; Rule 179
2	**Thirty days** to pay (or a shorter approved period)	Section 411(1)
3	Non-payment — **interest at 1% a month** begins, and the assessee is **deemed to be in default**	Section 411(3) and (10)
4	**Penalty** not exceeding the tax in arrears, after a hearing	Section 412
5	The Tax Recovery Officer **draws up a certificate** in Form No. 153	Section 413(1); Rule 224

Step	What happens	Authority
6	A **notice** is served requiring payment **within fifteen days**	Rule 225(2)
7	On default, **attachment** — movable or immovable; or a **receiver**; or **arrest**	Section 413(1); Rule 225(4)
8	**Proclamation** and **sale** — 15 days for movables, **30 days** for immovables	Rule 225(40) and (55)
9	**25% deposit** at once, balance **within fifteen days**	Rule 225(57)
10	**Thirty days** to apply to set aside the sale; then **confirmation** and a **sale certificate**	Rule 225(60) to (65)
11	**Appeal** to the Commissioner within thirty days; **review** for a mistake apparent	Rule 225(88) and (89)

CHAPTER TEN

Other Modes of Recovery — Sections 416 to 422

Sections 416 to 419, 421 and 422

Recovery without a certificate, recovery from third parties, recovery abroad — and the rule that no mode excludes any other.

10.1 Who may use them [section 416(1) and (2)]

- **416(1)** — where **no certificate** has been drawn up under section 413, the **Assessing Officer** may recover the tax by one or more of the modes in section 416.
- **416(2)** — where a certificate **has** been drawn up, the **Tax Recovery Officer** may, **without prejudice** to the four modes in section 413, also recover by the modes in section 416.

The division of labour is worth remembering. Before a certificate, the modes of section 416 belong to the Assessing Officer. After a certificate, they belong to the Tax Recovery Officer, in addition to attachment, sale, arrest and receivership.

10.2 Recovery out of salary [section 416(3) and (4)]

If an assessee is in receipt of income chargeable under the head **"Salaries"**, the Assessing Officer or the Tax Recovery Officer **may require any person paying it to deduct** from any payment made after the date of the requisition **any arrears of tax** due from the assessee; and that person **shall comply** and shall pay the sum deducted to the credit of the Central Government or as the Board directs.

Sub-section (4) preserves the civil-law protection: nothing in sub-section (3) applies to any part of the salary **exempted from attachment in execution of a decree of a civil court under section 60 of the Code of Civil** Procedure, 1908.

10.3 The garnishee notice [section 416(5)]

This is the most used, and the most examined, of the alternative modes. The Assessing Officer or Tax Recovery Officer may, at any time, **by notice in writing**, require any person —

- **(i) from whom money is due or may become due** to the assessee; or
- **(ii) who holds or may subsequently hold money for or on account of** the assessee, to pay, either **forthwith upon the money becoming due or being held**, or at or within the time specified in the

notice, so much of the money as is sufficient to pay the arrears, or the whole of it where it is equal to or less than the arrears.

Clause	What it provides
416(5)(b) and (c)	The notice may be issued to a person holding money **jointly** with another; and the shares of the joint holders are **presumed to be equal until the contrary is proved**
416(5)(d)	A **copy** of the notice is forwarded to the assessee, and in the case of a joint account to **all the joint holders**
416(5)(e)	Every person to whom the notice is issued is **bound to comply**; and where it is issued to a **post office, banking company or insurer**, no pass book, deposit receipt or policy need be produced before payment, **irrespective of any rule, practice or requirement to the contrary**
416(5)(f)	Any claim to the property arising **after the date of the notice** is **void** as against the demand in the notice
416(5)(g)	The recipient may **object by a statement on oath** that the sum is not due to the assessee or that he holds no money for him — and is then not required to pay
416(5)(h)	But if the statement is discovered to be **false in any material particular**, he is **personally liable** to the extent of his own liability to the assessee on the date of the notice, or of the assessee's liability under the Act, **whichever is less**

Clause	What it provides
416(5)(i) and (j)	The notice may be **amended or revoked**, or the time extended; and a **receipt** is granted for any amount paid, the payer being **fully discharged** to that extent from his liability to the assessee
416(5)(k)	A person who **discharges any liability to the assessee after receiving the notice** is **personally liable** to the extent of the liability so discharged, or of the assessee's liability, whichever is less

416(5)(l)

Clause

What it provides

	A person who fails to pay is **deemed to be an assessee in default** for the amount specified, recoverable from him as an arrear of tax under sections 413 to 415; and the notice has **the same effect as an attachment of a debt** by the Tax Recovery Officer

10.4 Money in the custody of a court, and distraint [section 416(6) and (7)]

- **416(6)** — the Assessing Officer or Tax Recovery Officer may **apply to the court** in whose custody there is money belonging to the assessee, for payment of the whole of it, or of so much as will discharge the tax.
- **416(7)** — if authorised by an income-tax authority **not below the rank of Commissioner**, by general or special order, he may recover arrears by **distraint and sale of the assessee's movable property** in the prescribed

manner. This replaces the Third Schedule to the repealed Act.

10.5 Recovery through a State Government [section 417]

Where the recovery of tax in any area has been **entrusted to a State Government** under article 258(1) of the Constitution, the State Government may direct that the tax be recovered in that area **with, and as an addition to, any municipal tax or local rate**, by the same person and in the same manner as the municipal tax or local rate is recovered.

10.6 Recovery under an agreement with a foreign country [section 418]

- **418(1)** — where an agreement has been entered into with the government of a country outside India for the recovery of income-tax, and that government or a specified authority sends the **Board** a certificate for the recovery of tax due under the corresponding law from **a resident** or **a person having any property in India**, the Board may forward the certificate to the Tax Recovery Officer having jurisdiction, who shall **proceed to recover it as if it were his own certificate under section 413** and **remit the sum recovered to the Board after deducting his expenses**.
- **418(2)** — conversely, where an assessee in default **is a resident of such a country or has property there**, the Tax Recovery Officer may forward his certificate to the Board, and the Board may take such action as it thinks appropriate having regard to the terms of the agreement.

10.7 Recovery of penalties, fine and interest [section 419]

"Any sum imposed by way of interest, fine, penalty, or any other sum payable under the provisions of this Act shall

be recoverable in the manner provided in this Part for the recovery of arrears of tax." One sentence, and it

carries the whole of Chapters 8 to 10 across to every charge in the Act.

10.8 Recovery by suit not affected [section 421]

The several modes of recovery in this Part **shall not affect in any way** —

- **(a)** any other law in force relating to the **recovery of debts due to Government**; or
- **(b)** the right of the Government to **institute a suit** for the recovery of the arrears,

and it is lawful for the Assessing Officer or the Government to have recourse to such a law or suit **irrespective of the fact that the tax is being recovered by any mode specified in this Part**.

10.9 Recovery from the assets of a non-resident [section 422]

Irrespective of section 304(1) or (5), where the person entitled to the income referred to in section 9(2) is a **non-resident**, the tax chargeable on it — whether in his own name or in the name of his agent liable as a representative assessee — **(a)** may be recovered by **deduction under Chapter XIX-B**; and **(b)** any arrears may also be recovered **from any assets of the non-resident which are, or may at any time come, within India**.

10.10 Illustrations

ILLUSTRATION 10.1 — THE BANK THAT PAID OUT AFTER THE NOTICE

A notice under section 416(5) for ₹8,00,000 was served on the Chandni Chowk branch of a bank on **4 August 2027** in respect of arrears due from Shri Kailash, who had ₹6,00,000 in his savings account. On 6 August 2027 the branch allowed him to withdraw ₹5,00,000, and paid the Assessing Officer only ₹1,00,000. *What is the position of the bank?*

Under section 416(5)(k), a person who discharges any liability to the assessee after receipt of the notice is

personally liable to the extent of his own liability to the assessee so discharged, or of the assessee's liability under the Act, **whichever is less**. The bank discharged ₹5,00,000; the assessee's liability was ₹8,00,000; the lower is **₹5,00,000**, and the bank is personally liable for it. Under section 416(5)(l) it is **deemed to be an assessee in default** for that amount and it may be recovered from the bank as an arrear of tax under sections 413 to 415.

Change one fact — had the branch stated on oath under clause (g) that it held no money for Shri Kailash, and had that been true, it would have been under no obligation. Had it been false in a material particular, clause (h) would have made it personally liable to the extent of ₹6,00,000, the money it in fact held.

ILLUSTRATION 10.2 — WHICH OFFICER, AND WHICH MODE

Arrears of ₹22,00,000 are outstanding from Lalit Enterprises. No certificate has yet been drawn up. The Assessing Officer wishes to (a) attach and sell the firm's delivery vans; (b) require the firm's largest customer, who owes it ₹9,00,000, to pay him instead; and (c) require the firm's bank to attach its current account. *Advise.*

- **(a)** He **cannot** do this himself. Attachment and sale of movable property is a mode under **section 413(1)(a)**, available only to the **Tax Recovery Officer after a certificate** has been drawn up. He must first have the certificate drawn up in Form No. 153.
- **(b)** He **can**. A garnishee notice under **section 416(5)** may be issued by the Assessing Officer where no certificate has been drawn up [section 416(1)], and it reaches a person "from whom money is due or may become due" to the assessee.
- **(c)** He **can**, on the same footing — a bank is a person who "holds or may subsequently hold money for or on account of the assessee", and section 416(5)(e) expressly dispenses with the production of the pass book.

CHAPTER ELEVEN

Tax Clearance Certificate — Section 420

Section 420 · Rules 227 to 229 · Forms No. 154 to 159

The Act's one power to stop a person at the airport — and it is narrower than most people suppose.

11.1 The person not domiciled in India [section 420(1) and (2)]

Subject to such exceptions as the Central Government may notify, **no person** —

- **(a)** who is **not domiciled in India**;
- **(b)** who has **come to India in connection with business, profession or employment**; and
- **(c)** who has **income derived from any source in India**, shall **leave the territory of India by land, sea or air** unless he furnishes to the prescribed authority **an**

undertaking from his employer, or from the person through whom he receives the income, to the effect that the tax payable by him **shall be paid by that employer or person**. On receipt of the undertaking the prescribed authority shall **immediately** give him a **no objection certificate** for leaving India.

The three conditions in clauses (a), (b) and (c) are **cumulative**. And sub-section (2) puts the matter beyond doubt: nothing in sub-section (1) applies to a person not domiciled in India who **visits India as a foreign tourist, or for any other purpose not connected with business, profession or employment**.

11.2 The person domiciled in India [section 420(3) to (6)]

Every person **domiciled in India** shall, at the time of his departure, furnish to the prescribed authority, in the prescribed form —

- **(a)** his **Permanent Account Number** allotted under section 262;
- **(b)** the **purpose** of his visit outside India; and
- **(c)** the **estimated period** of his stay outside India.

Where no Permanent Account Number has been allotted, or his total income is not chargeable to tax, or he is not required to obtain a PAN, he furnishes a **certificate** in the prescribed form instead [section 420(4)].

> **WHEN A PERSON DOMICILED IN INDIA ACTUALLY NEEDS A TAX CLEARANCE CERTIFICATE**
>
> Under section 420(5), a person domiciled in India may not leave the country unless he obtains a certificate from an income-tax authority stating that he has **no liability** under this Act, the Wealth-tax Act, 1957, the Gift-tax Act, 1958, the Income-tax Act, 1961, the Expenditure-tax Act, 1987 or the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, or that **satisfactory arrangements have been made** for payment — but **only** where "circumstances exist which, in the opinion of an income-tax authority, render it necessary".
>
> And section 420(6) fetters even that. No income-tax authority shall require a person domiciled in India to obtain
>
> **such a certificate unless he (a) records the reasons and (b) obtains the prior approval of the Principal Chief**
>
> **Commissioner or Chief Commissioner**. The ordinary Indian traveller therefore needs nothing beyond the information in sub-section (3).

11.3 The liability of the owner or charterer [section 420(7) and (8)]

If the **owner or charterer of any ship or aircraft** carrying persons from India to a place outside India allows a person to whom sub-section (1) or (5) applies to travel **without first satisfying himself** that the person holds the required certificate, he is **personally liable to pay the whole or part of the tax** payable by that person, as the

Assessing Officer may determine having regard to the circumstances.

For any sum so payable, the owner or charterer **(a)** is **deemed to be an assessee in default**, and **(b)** the sum is **recoverable from him as if it were an arrear of tax** [section 420(8)]. The expressions "owner" and "charterer" include any representative, agent or employee empowered to allow persons to travel [section 420(10)].

11.4 The prescribed authority and the forms [Rules 227 to 229]

Provision	Prescribed authority [Rule 227]	Form [Rule 228]
420(1)	The Chief Commissioner or Director- General having jurisdiction over persons not domiciled in India, or an authority authorised by him	Undertaking by the employer or payer — **Form No. 154**; no objection certificate — **Form No. 155**, valid for the period mentioned in it
420(3)	The Chief Commissioner having jurisdiction over persons domiciled in India, or an authority authorised by him	Information by a person domiciled in India — **Form No. 156**
420(4)	—	Application where no PAN has been allotted — **Form No. 157**
420(5)	The **Assessing Officer** having jurisdiction to assess the person	Application — **Form No. 158**; **tax clearance certificate — Form No. 159**, valid for the period mentioned in it

Under Rule 228(7), a copy of the undertaking in Form No. 154 and of the no objection certificate in Form No. 155 must be forwarded to the Chief Commissioner or Director General having jurisdiction. Under **Rule 229**, any person leaving India shall, **at the request of any Customs Officer**, produce for examination the tax clearance certificate or the exemption certificate, as the case may be.

CHAPTER TWELVE

Practical Problems with Solutions

Nine problems in the form in which the University of Delhi has set them, worked at the provisions in force for Tax Year 2026-27.

PROBLEM 1 — INTEREST UNDER SECTIONS 423 AND 411 TOGETHER

Vidya Traders, a firm not liable to audit, was required to furnish its return for Tax Year 2026-27 by **31 July 2027**. It furnished the return on **12 February 2028**, showing a tax of ₹9,00,000, against which advance tax of ₹4,20,000 had been paid and tax of ₹80,000 had been deducted at source. The balance was paid as self- assessment tax on the date of filing. The return was processed under section 270(1) and a further demand of ₹1,50,000 was raised, the intimation being served on **9 June 2028**. The firm paid the demand on **27 October 2028**. *Compute the interest under sections 423 and 411(3).*

(a) Interest under section 423 — default in furnishing the return	
Tax on the total income determined under section 270(1)	9,00,000
Less: advance tax paid	(4,20,000)
Less: tax deducted at source	(80,000)
A	**4,00,000**
T — from 1 August 2027 to 12 February 2028 (August to February)	7
I = 1% × ₹4,00,000 × 7	**₹28,000**
(b) Interest under section 411(3) — default in payment of the demand	
Intimation under section 270 served 9 June 2028; it is deemed to be a notice of demand [section 289(2)]. Thirty days expire on 9 July 2028; interest runs from 10 July 2028	—
Period 10 July 2028 to 27 October 2028 (July to October)	4
₹1,50,000 × 1% × 4	**₹6,000**
Total interest	**₹34,000**

Interest under sections 424 and 425 on the shortfall in advance tax is separately payable; it belongs to Unit 1 Part A. Note that the self-assessment tax paid on 12 February 2028 does not reduce "A" for section 423.

PROBLEM 2 — INTEREST PAYABLE BY THE GOVERNMENT

Shri Harish's tax on regular assessment for Tax Year 2026-27 was ₹5,00,000. He had suffered tax at source of ₹1,60,000 and paid advance tax of ₹4,40,000, so that a refund of ₹1,00,000 became due. He furnished his return on **29 July 2027**, within the due date. The refund was granted on **22 September 2028**. *Compute the interest under section 437.*

Is interest payable at all? Refund ₹1,00,000 against tax of ₹5,00,000 = 20%, which is not less than 10%	**Yes** — section 437(2) is satisfied
The refund is out of advance tax and tax deducted at source, and the return was filed on time — Sl. No. 1(a) of the Table	—
Period from 1 April 2027 to 22 September 2028	18 months
Interest = ₹1,00,000 × 0.5% × 18	**₹9,000**

Change one fact — had he filed the return on 12 October 2027, the interest would have run only from 12 October 2027 to 22 September 2028, that is 12 months, and would have been ₹6,000.

PROBLEM 3 — AN APPLICATION FOR WAIVER

Ishwar Ltd. has been served with a notice of demand for ₹40,00,000. The company's factory was destroyed by flood two weeks before the notice was served, its bank accounts have been frozen by an unrelated attachment, and it has produced every book and record called for during the assessment. Interest under section 411(3) now exceeds ₹4,00,000. *Advise the company.*

Its remedy is an **application under section 411(7)** to the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner to **reduce or waive** the interest. All three conditions must be satisfied **cumulatively**, and on these facts they appear to be —

- **(a) genuine hardship** — the factory has been destroyed and the accounts frozen;
- **(b) circumstances beyond the company's control** — a flood, and an attachment by a third party; and
- **(c) co-operation** — every book and record called for has been produced.

The order must be passed **within twelve months** from the end of the month in which the application is received [section 411(8)], and the application cannot be rejected in whole or in part **without an opportunity of being heard** [section 411(9)]. The power extends only to the **interest**; the tax itself cannot be waived under this section, though the company may seek time or instalments under section 411(5).

PROBLEM 4 — THE INSTALMENT THAT WAS MISSED

A demand of ₹12,00,000 was served on Jagat Enterprises on **5 March 2028**. On **28 March 2028** the firm applied under section 411(5) and the Assessing Officer allowed payment in four monthly instalments of ₹3,00,000 each, falling due on 30 April, 31 May, 30 June and 31 July 2028. The firm paid the first two instalments on time but failed to pay the third. *What is its position on 1 July 2028?*

Under section 411(11) the firm is deemed to be in default as to the whole of the amount then outstanding —

₹6,00,000 and not merely the ₹3,00,000 missed. Further, the fourth instalment is **deemed to have become due on the same date** as the third, that is 30 June 2028. Interest under section 411(3) runs on ₹6,00,000, and the Tax Recovery Officer may draw up a certificate under section 413 for that amount.

*Note also that the application was made on 28 March 2028, which is **before** the thirty days from service on 5 March 2028 expired on 4 April 2028. Had it been made after that date, section 411(5) would not have been available at all.*

PROBLEM 5 — WHICH MODE, AND BY WHOM

State, with reasons, which officer may take each of the following steps against an assessee in default, and under which provision.

Step	Answer
(a) Requiring the assessee's employer to deduct the arrears from his salary	The **Assessing Officer or the Tax Recovery Officer** — section 416(3), subject to the exemption of salary under section 60 of the Code of Civil Procedure
(b) Attaching and selling the assessee's factory	The **Tax Recovery Officer only**, and only after drawing up a certificate — section 413(1)(b), Rule 225(48) to (70)
(c) Requiring a debtor of the assessee to pay the Department	The **Assessing Officer** where no certificate has been drawn up, or the **Tax Recovery Officer** where one has — section 416(5)
(d) Appointing a receiver to run the assessee's business	The **Tax Recovery Officer** after a certificate — section 413(1)(d), Rule 225(71)
(e) Applying to a civil court in whose custody money of the assessee lies	The **Assessing Officer or the Tax Recovery Officer** — section 416(6)
(f) Recovering by distraint and sale of movable property without a certificate	The **Assessing Officer or the Tax Recovery Officer**, but only **if authorised by an authority not below the rank of Commissioner** — section 416(7)
(g) Instituting a suit for the arrears in a civil court	Permissible — the modes in this Part **do not affect** the Government's right to sue [section 421], and the suit may be brought even while recovery proceeds under this Part

PROBLEM 6 — MAY THE DEFAULTER BE ARRESTED?

A certificate has been drawn up against Smt. Kanta for arrears of ₹18,00,000. She has no attachable property. The Tax Recovery Officer proposes to arrest her and detain her in civil prison. *Advise.*

The proposal is **bad in law**. **Rule 225(83)** provides in terms that the Tax Recovery Officer **shall not order the arrest and detention in civil prison of a woman**, or of any person who in his opinion is a minor or of unsound mind. The prohibition is absolute and does not depend on the size of the arrears or on the absence of other property. The Officer must proceed by the other modes — attachment and sale of any property that exists, appointment of a receiver, or the alternative modes in section 416, including a garnishee notice.

*Change one fact — suppose the defaulter were her husband. Even then arrest is not automatic. Rule 225(75)(a) requires a **notice to show cause**, and a satisfaction **recorded in writing** either that he has dishonestly transferred, concealed or removed property after the certificate was drawn up, or that he has or has had the means to pay and refuses or neglects to do so. Mere inability to pay is not a ground for arrest.*

PROBLEM 7 — WHO NEEDS A TAX CLEARANCE CERTIFICATE?

Advise each of the following, all leaving India in October 2026.

1. Mr. Tan, a Singapore national, who has been working in India for eighteen months as a project manager with an Indian company and draws a salary here. — He is not domiciled in India, has come in connection with employment and has income from a source in India. All three conditions of **section 420(1)** are satisfied. His employer must furnish an undertaking in **Form No. 154**, and the prescribed authority will immediately issue a no objection certificate in **Form No. 155**.

2. Ms. Rivera, a Spanish national, who has spent three weeks in India as a tourist and has no Indian income. — Nothing is required. **Section 420(2)** excludes a person not domiciled in India who visits as a foreign tourist or for a purpose unconnected with business, profession or employment.

3. Shri Mohit, an Indian citizen domiciled in India, travelling to Dubai on holiday, with no proceedings pending against him. — He furnishes only the information required by **section 420(3)** — his PAN, the purpose of the visit and the estimated period of stay — in **Form No. 156**. He does **not** need a tax clearance certificate.

4. Shri Nagpal, domiciled in India, against whom a demand of ₹3 crore is outstanding and a search has been conducted. — Here circumstances may well exist which render a certificate necessary under **section 420(5)**. But the income-tax authority may require it only if it **records the reasons** and obtains the **prior approval of the Principal Chief Commissioner or Chief Commissioner** [section 420(6)]. If required, he

applies in **Form No. 158** to the Assessing Officer and the certificate issues in **Form No. 159**.

PROBLEM 8 — INTEREST ON AN EXCESS REFUND

On processing the return of Om Prakash & Sons for Tax Year 2026-27 under section 270(1), a refund of ₹6,50,000 was granted on **4 November 2027**. The regular assessment completed on **30 January 2029** determined that no refund at all was due and that a further ₹90,000 was payable. The notice of demand for ₹90,000 was served on **14 February 2029** and paid on **20 May 2029**. *Compute the interest under sections 426 and 411(3).*

Section 426 — no refund being due on regular assessment, the whole ₹6,50,000 is caught. Period from 4 November 2027 to 30 January 2029 = 15 months	₹6,50,000 × 0.5% × 15 = **₹48,750**
Section 411(3) — thirty days from 14 February 2029 expire on 16 March 2029; interest runs from 17 March 2029 to 20 May 2029 = 3 months	₹90,000 × 1% × 3 = **₹2,700**

The two periods do not overlap and the two interests are on different sums, so section 411(4) — which bars a double charge — has no application. Section 411(4) bars only a second charge on the same amount for the same period already charged under section 398(3).

PROBLEM 9 — THE SALE THAT WAS SET ASIDE

A house belonging to Shri Prem was sold by public auction on **8 June 2027** in execution of a certificate for ₹15,00,000. The purchaser bid ₹28,00,000 and paid 25% at once. On **2 July 2027** Shri Prem applied to set aside the sale. *What must he deposit, and what follows?*

The application is within thirty days of the sale, so **Rule 225(60)** is available. He must deposit —

- **(i)** the amount specified in the proclamation of sale as that for the recovery of which the sale was ordered — ₹15,00,000 — **with interest at 15% per annum** from the date of the proclamation to the date of deposit; and
- **(ii)** for payment to the purchaser, **as penalty, a sum equal to 5% of the purchase money** — 5% of ₹28,00,000 = **₹1,40,000** — but not less than ₹1.

If the deposit is made within thirty days of the sale, the Tax Recovery Officer shall make an order setting aside the sale, after notice to the persons affected [Rule 225(63)(b)]. The money paid by the purchaser, together with the penalty and such interest as the Officer may allow, is then returned to him [Rule 225(64)].

*Shri Prem could instead have applied under **Rule 225(61)** on the ground of non-service of the notice or a material irregularity — but then he would have had to show that he had **sustained substantial injury**, and his application would be disallowed unless he deposited the amount recoverable. And he cannot pursue both: Rule 225(60)(b) bars an application under sub-rule (60) while an application under sub-rule (61) is on foot.*

C H A P T E R   T H I R T E E N

Revision, Ready Reckoner and Question Bank

Everything in this Part reduced to tables that can be revised in an hour, followed by the questions the topic attracts.

13.1 Old section to new section

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Notice of demand	156	289
When tax payable — thirty days	220(1)	**411(1)**
Validity of demand pending appeal	220(1A)	411(2)
Interest for late payment of a demand	**220(2)**	**411(3)**
Waiver or reduction of that interest	220(2A)	411(7) to (9)
Extension of time and instalments	220(3)	411(5)
Assessee deemed to be in default	220(4)	411(10)
Default in one instalment	220(5)	411(11)
Assessee not treated as in default pending appeal	220(6)	411(12)
Income that cannot be remitted to India	220(7)	411(13) and (14)
Penalty payable when tax in default	**221**	**412**
Certificate by the Tax Recovery Officer	**222**	**413**
Tax Recovery Officer by whom recovery is effected	223	414
Validity of the certificate not open to dispute	224	413(3)
Stay, amendment and cancellation of the certificate	225	415
Other modes of recovery — salary, garnishee, court, distraint	**226**	**416**
Recovery through a State Government	227	417
Recovery under an agreement with a foreign country	228A	418
Recovery of penalties, fine, interest and other sums	229	419
Tax clearance certificate	**230**	**420**
Recovery by suit not affected	232	421
Recovery of tax from the assets of a non-resident	173	422
Procedure for recovery — attachment, sale, arrest, receiver	**Second Schedule**	**Rule 225**
Procedure for distraint	Third Schedule	Section 416(7) and Rule 225
Interest for default in furnishing the return	**234A**	**423**
Interest for default in payment of advance tax	234B	424 *(Part A)*
Interest for deferment of advance tax	234C	425 *(Part A)*
Interest on excess refund	**234D**	**426**
Fee for late filing of a TDS or TCS statement	234E	427

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Fee for late filing of the return	234F	428
Fee for default relating to a statement or certificate	234G	429
Fee for default relating to the Aadhaar number	234H	430
Penalty for failure to get accounts audited	271B	**Now a fee — section 428(c)**

Penalty for failure to furnish the accountant's report 271BA

Now a fee — section 428(d)

Subject

Income-tax Act, 1961

Income-tax Act, 2025

Refunds	237	431
Person entitled to claim a refund	238	432
Form of claim for refund	239	433
Refund for denying liability to deduct tax	239A	434
Refund on appeal	240	435
Correctness of assessment not to be questioned	242	436
Interest on refunds	**244A**	**437**
Set off and withholding of refunds	245	438
Rectification of a mistake apparent from the record	154	287
Appeal to the Commissioner (Appeals)	246A / 250	356 / 359

13.2 Every form of this Part

Form	What it is	Provision
103	Notice of demand	Section 289; Rule 179(1)
139	Deductor's claim for refund *(old Form 26B)*	Rule 219(6); section 437(6)
151	Notice of demand in pursuance of an order under section 407 *(old Form 28)*	Rules 179(2) and 222
152	Estimate of advance tax under section 407(8) *(old Form 28A)*	Rule 223
153	**Statement (certificate) drawn up by the Tax Recovery Officer** *(old ITCP-1)*	Sections 413 and 414; Rule 224
154	Undertaking by the employer or payer of a person not domiciled in India *(old Form 30A)*	Section 420(1); Rule 228(1)
155	No objection certificate for leaving India *(old Form 30B)*	Section 420(1); Rule 228(2)
156	Information furnished by a person domiciled in India *(old Form 30C)*	Section 420(3); Rule 228(3)
157	Application where no Permanent Account Number has been allotted	Section 420(4); Rule 228(4)
158	Application for a tax clearance certificate	Section 420(5); Rule 228(5)
159	**Tax clearance certificate**	Section 420(5); Rule 228(6)
160	Claim for refund by a payer who bore the tax *(old Form 29D)*	Section 434; Rule 230

Form	What it is	Provision
161	Application for waiver of penalty and immunity from prosecution *(old Form 68)*	Section 440; Rule 231
168	Annual Information Statement *(old Form 26AS / AIS)*	Rule 245

13.3 Objective questions

A. State whether True or False, with reasons

1. Interest under section 411(3) runs from the date of service of the notice of demand.

False. It runs from the day **immediately following** the expiry of the period specified in the notice — ordinarily thirty days from service.

2. The filing of an appeal automatically stays a demand.

False. Section 411(12) gives the Assessing Officer a **discretion** to treat the assessee as not in default in respect of the amount in dispute; it is not automatic.

3. An assessee may dispute the correctness of a certificate drawn up by the Tax Recovery Officer.

False. Section 413(3) bars him **on any ground**. Only the Tax Recovery Officer may cancel or correct it, under section 413(4).

4. Interest under section 423 is charged on the tax after deducting the self-assessment tax paid.

False. "Tax paid" in section 423(4)(d) covers advance tax, tax at source and certain reliefs — **not** the tax paid under section 266.

5. The Government pays interest on every refund.

False. Section 437(2) denies interest where the refund out of advance tax, tax at source or self-assessment tax is **less than 10%** of the tax determined.

6. Interest on a refund always runs from 1 April of the year following the tax year.

False. That is so only where the return was furnished **on or before the due date**. Otherwise it runs from the date of furnishing the return.

7. A woman may be detained in civil prison for arrears of income-tax.

False. Rule 225(83) prohibits the arrest and detention of a woman, a minor or a person of unsound mind.

8. The Tax Recovery Officer may sell attached immovable property at any time.

False. Rule 225(55) requires at least **thirty days** from the proclamation, and Rule 225(70) bars a sale after **seven years** from the end of the financial year in which the order became final.

9. A person who receives a notice under section 416(5) and pays the assessee anyway is safe if he acted in good faith.

False. Section 416(5)(k) makes him **personally liable** to the extent of the liability discharged or of the assessee's liability, whichever is less. Good faith is not a defence.

10. A foreign tourist leaving India must obtain a tax clearance certificate.

False. Section 420(2) expressly excludes a person not domiciled in India who visits as a tourist or for any purpose unconnected with business, profession or employment.

11. The penalty under section 412 may exceed the tax in arrears where the default continues.

False. Section 412(2) caps the **total** penalty, including amounts directed for a continuing default, at the tax in arrears.

12. Failure to furnish the audit report attracts a penalty which may be excused for reasonable cause.

False. Since the Finance Act, 2026 it is a **fee** under section 428(c) — ₹75,000 for a delay up to one month and ₹1,50,000 thereafter — and it is automatic.

B. Multiple choice

1. The time allowed by a notice of demand is —

(a) 15 days (b) **30 days** (c) 45 days (d) 60 days *Answer: (b), section 411(1)*

2. Interest for default in payment of a demand is charged at —

(a) 0.5% a month (b) **1% a month** (c) 1.5% a month (d) 12% a year *Answer: (b), section 411(3)*

3. The formula for interest on a late return is —

(a) I = 0.5% × A × T (b) **I = 1% × A × T** (c) I = 1.5% × A × T (d) I = 3% × A *Answer: (b), section 423(1)*

4. Interest payable by the Government on a refund is —

(a) 1% a month (b) **0.5% a month** (c) 6% a year (d) 9% a year *Answer: (b), section 437(1)*

5. The certificate drawn up by the Tax Recovery Officer is in —

(a) Form No. 103 (b) Form No. 151 (c) **Form No. 153** (d) Form No. 159 *Answer: (c), Rule 224*

6. The notice issued by the Tax Recovery Officer under Rule 225(2) requires payment within —

(a) 7 days (b) **15 days** (c) 30 days (d) 60 days *Answer: (b)*

7. The maximum period of detention in civil prison where the demand exceeds ₹250 is —

(a) 6 weeks (b) 3 months (c) **6 months** (d) 1 year *Answer: (c), Rule 225(79)*

8. An appeal against an original order of the Tax Recovery Officer lies to —

(a) The Assessing Officer (b) **The Chief Commissioner or Commissioner** (c) The Appellate Tribunal (d) The High Court *Answer: (b), Rule 225(88)*

9. The fee for a return of income furnished after the due date, where the total income is ₹4,20,000, is —

(a) Nil (b) **₹1,000** (c) ₹5,000 (d) ₹10,000 *Answer: (b), section 428(a)(i)*

10. Interest on an excess refund under section 426 runs to —

(a) The date of repayment (b) **The date of the regular assessment** (c) The end of the tax year (d) The date of the notice of demand *Answer: (b), section 426(1)*

11. A tax clearance certificate under section 420(5) is issued in —

(a) Form No. 154 (b) Form No. 156 (c) Form No. 158 (d) **Form No. 159** *Answer: (d), Rule 228(6)*

12. The purchaser of immovable property sold in execution must deposit, immediately on being declared purchaser —

(a) 10% (b) 20% (c) **25%** (d) The whole amount *Answer: (c), Rule 225(57)(a)*

13.4 Fill in the blanks

1. The amount specified in a notice of demand shall be paid within __ days of the service of the notice. — *thirty* [section 411(1)] 2. Interest for default in payment of a demand is charged at __% for every month or part of a month. — *1* [section 411(3)] 3. The total penalty under section 412 shall not exceed the amount of __. — *tax in arrears* [section 412(2)] 4. An order on an application for waiver of interest must be passed within __ months from the end of the month in which the application is received. — *twelve* [section 411(8)] 5. The four modes of recovery under section 413(1) are attachment and sale of __ property, attachment and sale of __ property, __ of the assessee, and appointment of a __. — *movable; immovable; arrest; receiver* 6. The procedure for recovery is contained in Rule __ of the Income-tax Rules, 2026. — *225* 7. No sale of immovable property shall take place until at least __ days from the affixing of the proclamation. — *thirty* [Rule 225(55)] 8. No sale of attached immovable property shall be made after __ years from the end of the financial year in which the order became final. — *seven* [Rule 225(70)] 9. Interest payable by the Government on a refund is __% for every month or part of a month. — *0.5* [section 437(1)] 10. No interest is payable on a refund out of advance tax or tax at source if the refund is less than __% of the tax determined. — *10* [section 437(2)] 11. The additional interest where effect to an appellate order is delayed is __% per annum. — *3* [section 437(4)] 12. The Tax Recovery Officer shall not order the arrest and detention of a __, a minor or a person of unsound mind. — *woman* [Rule 225(83)]

13.5 Short answer questions

1. When is an assessee deemed to be in default, and what are the consequences? 2. Explain the circumstances in which interest under section 411(3) may be reduced or waived. 3. Distinguish between interest, fee and penalty under the Income-tax Act, 2025. 4. Explain the formula in section 423(1) and state what "tax paid" means for that section.

5. State the circumstances and the periods for which the Government pays interest on a refund under section 437. 6. What is the effect of a default in one instalment where payment by instalments has been allowed? 7. Write short notes on — (a) the certificate under section 413; (b) the garnishee notice under section 416(5); (c) the tax clearance certificate under section 420. 8. Explain the four modes of recovery available to a Tax Recovery Officer and state where the procedure for each is to be found. 9. State the safeguards which the Rules provide before a defaulter may be arrested and detained in civil prison. 10. Explain the provisions relating to set off and withholding of refunds under section 438. 11. What property of an assessee is deemed to be his own for the purposes of recovery under section 413(5)? 12. State the fees leviable under sections 427 to 430, with the amount and the ceiling in each case.

13.6 Long answer questions

1. Explain fully the provisions of section 411 relating to the time for payment of a demand, the interest for default, the extension of time and instalments, and the circumstances in which an assessee is not to be treated as in default. 2. "Interest is compensatory; penalty is punitive; fee is regulatory." Examine this statement with reference to sections 411(3), 412, 423, 426, 427 to 430 and 437 of the Income-tax Act, 2025. 3. Describe in detail the procedure for the recovery of tax by attachment and sale of immovable property under Rule 225, from the drawing up of the certificate to the grant of the sale certificate. 4. Explain the provisions relating to the arrest and detention of a defaulter, and the safeguards which the law provides. 5. Set out the other modes of recovery available under section 416 and state, in each case, which officer may resort to them and in what circumstances. 6. Explain the whole of section 437, including the three circumstances, the 10% threshold, the additional interest, the interest payable to a deductor, and the exclusion of delay attributable to the assessee. 7. Discuss the provisions relating to the tax clearance certificate under section 420, distinguishing the position of a person not domiciled in India from that of a person domiciled in India, and state the liability of the owner or charterer of a ship or aircraft. 8. Explain the changes made by the Finance Act, 2026 in sections 411, 423, 427 and 428, and state their practical effect. 9. An assessee has furnished his return late, has been assessed to a further demand, has failed to pay it within thirty days, and has obtained a refund on processing which the regular assessment has shown to be excessive. State every interest to which he is liable, with the section, the rate and the period in each case. 10. "The several modes of recovery specified in this Part shall not affect in any way the right of the Government to institute a suit." Examine the relationship between the recovery machinery of the Act and the general law, with reference to sections 419, 421 and 422.

End of Unit 1. Parts A, B and C together cover the whole of Unit 1 — advance payment of tax; tax deduction and collection at source; interest payable by the assessee and by the Government; and the collection and recovery of tax.