

Common mistakes in filling up Income Tax Return (ITR) form that result in reduction of refund or additional tax demand during processing by the Income Tax Department- AY 2008-09

A. Reasons for mistakes in calculation of Income.

The accurate and complete filling up of the relevant column or detail in the Income Tax Return (ITR) form is most crucial for correct calculation of income by the Income Tax Department. As a general principle during processing, in case of any inconsistency between the values as entered in the Schedules and the cross-referenced values in other Schedules or Totals / Summary in PART B-TI,

- for Incomes, the higher value may be taken and
- for Expenses, Losses or Deductions, the lower value may be taken

for final computation of Income. In case of e>Returns using Department software these inconsistencies will not arise. However, if you are using other commercially available software for return preparation, please contact the software provider in case of such inconsistencies.

In case the computation of Income or refund is different than what had been entered or what is expected, please verify the accuracy of the data entered by you in the ITR. Except for limited number of complicated tax returns, for most taxpayers, the simple check points are the following:

a. Salary

from all employers, irrespective of whether Form 16 has been issued or not, should be entered in Item 1 of ITR 1 or details in Schedule Salary in ITR 2.

- Additionally, the final amount of Salary should be entered in Item 1 of Schedule Part B TI- Computation of total income in ITR 2. The same amount should be entered in Schedule CYLA- Current Year Loss Adjustment in the row 'Salaries', below column (i) in ITR 2.

b. Interest

income from fixed deposits, savings bank account etc should be entered in Item 2b of ITR 1 or Item 1b of Schedule OS-Income from Other Sources in ITR 2. The total in Item 2c of ITR 1 and intermediate totals in Items 1e, 1g, and 3 of Schedule OS-Income from Other Sources in ITR 2 should be correctly entered.

- Additionally, the final amount of Income from Other Sources should also be correctly entered in Item 4a and the total in Item 4c of Schedule Part B TI in ITR 2.
- The same amount should be entered in Schedule CYLA- Current Year Loss Adjustment in the row 'Other sources (incl. profit from owning race horses)', below column (v) in ITR 2

c. House Property Income

should be entered in Item 1a, Municipal taxes paid should be entered in Item 1c and the intermediate total should be entered in Item 1e of Schedule HP-Income from House Property in ITR 2.

- A flat deduction of 30% of the amount in Item 1e is the only deduction permissible for repairs and such expenses and this should be entered in Item 1f.
- Deduction for Interest on housing loan should be entered in Item 1g and is restricted to Rs 1,50,000 for 'Self Occupied' house. Therefore, correctly Tick if the house property is 'Let Out' for rent.
- Accordingly, the final value of Income from House Property should be entered in Item 1i.
- In case of multiple house properties, details of **each** house property have to be entered completely as mentioned above.
- Additionally, the final amount of Income from House Property should also be correctly entered in Item 3c of Schedule HP and the same value should be entered in Item 2 of Schedule Part B TI in ITR 2.
- In case, the value in Item 3c of Schedule HP is Negative i.e. net result is a loss, then the value without the negative sign should be entered in Schedule CYLA- Current Year Loss Adjustment in the row 'Losses to be adjusted' below column 2 in ITR 2.

d. Income from Short Term Capital Gains

should be entered in Item A of Schedule CG-Capital Gains in ITR 2.

- For Short Term Capital Gain (STCG), the total sale value, typically, should be entered in 'From assets in the case of others' in Item 2a of ITR 2.
- Against this sale value, cost of acquisition / improvement and allowable expenditure etc should be entered in Item 2b of ITR 2. No benefit of indexation is permissible for short term assets.
- The balance value of STCG should be entered in Item 2c, 2f of ITR 2.
- Total value of STCG should be correctly entered in Item 6 of A of Schedule CG.
- Out of this value, **the amount of STCG attributable to STCG from sale of shares**, typically, should be entered in Item A5 namely, 'Short term capital gain under section 111A included in 4'.
- Moreover, the STCG under 111A as entered in Item A5 is taxed at a lower flat rate of 10% and the same amount has to be mentioned correctly under the code '1A' in Schedule SI- Income chargeable to Income tax at special rates.
- The residual value, where the STCG is due to sale of assets OTHER THAN SHARES, if any, should be entered in Item A6, 'Short term capital gain other than referred to in section 111A (A4 – A5)'.
- The STCG due to sale of assets OTHER THAN SHARES is taxed at the normal slab based rates of tax.

- **Most mistakes in STCG are due to incomplete filling of the Schedule CG, incorrect apportionment of Total STCG as determined in Item A4 between Items A5 and A6 and incorrect or incomplete filling up of the correct code and corresponding value of STCG under section 111A in Schedule SI- Income chargeable to Income tax at special rates.**

e. Income from Long Term Capital Gains

should be entered in Item B of Schedule CG-Capital Gains in ITR 2.

- For Long Term Capital Gain (LTCG), the total sale value of assets such as house property, typically, should be entered in '**Asset in the case of others where proviso under section 112(1) not applicable**' in Item 2a of ITR 2 in case the benefit of indexation is claimed.
- Against this sale value, the **indexed** cost of acquisition / improvement and allowable expenditure etc should be entered in Item 2b of ITR 2.
- The balance value of LTCG should be entered in Item 2c, and after exemption in 2d, if any, in Item 2e of ITR 2.
- LTCG in case of 'Asset in the case of others where proviso under section 112(1) not exercised' as entered in Item 2e of ITR 2 is taxed at a lower flat rate of 20% and the benefit of indexation is allowed the same amount has to be mentioned correctly under the code '21' in Schedule SI- Income chargeable to Income tax at special rates.
- Where the benefit of indexation is NOT claimed then total sale value of assets such as house property, should be entered in '**Asset in the case of others where proviso under section 112(1) applicable**' in Item 3a of ITR 2.
- Against this sale value, the cost of acquisition / improvement and allowable expenditure etc should be entered in Item 3b of ITR 2.
- The balance value of LTCG should be entered in Item 3c, and after exemption, if any, in Item 3e of ITR 2.
- LTCG in case of 'Asset in the case of others where proviso under section 112(1) exercised', where the benefit of indexation is NOT allowed, as entered in Item 3e is taxed at a lower flat rate of 10% and the same amount has to be mentioned correctly under the code '22' in Schedule SI- Income chargeable to Income tax at special rates.
- Total value of LTCG should be correctly entered in Item 5 of B of Schedule CG for ITR 2.
- **Most mistakes in LTCG are due to incomplete filling of the Schedule-CG and incorrect or incomplete filling up of the correct code and corresponding values of LTCG in Schedule SI- Income chargeable to Income tax at special rates.**

f. Adjustment of current year and brought forward losses- Schedules CYLA, BFLA and CFL

Most taxpayers have left these Schedules completely blank. These schedules are used for permissible adjustment of current year loss of one type of income against another type of income and is available only in ITR 2. The main checkpoints are:

- **Only positive values need to be entered. No negative value is required to be entered in CYLA, BFLA & CFL.**
- **Carry forward of Current year losses though computed and shown in intimation will not be allowed if the return is not filed with due date applicable.**
- No value should be entered in the 'Greyed out' boxes.
- Loss from House Property should be entered in the row 'Loss to be adjusted' under Column 2 of Schedule CYLA
- Loss from Other Sources should be entered in the row 'Loss to be adjusted' under Column 3 of Schedule CYLA
- Income of the various types should be entered in column 1- Income of current year.
- Loss adjustment is permissible only to the extent of income available.
- Total of all adjustments cannot exceed the loss available.
- Subject to the above the details have to be entered in the form of a matrix or table in Schedule CYLA.
- Total of all current year loss adjustments should be entered in Item 6 of Part B TI.
- Winnings from lottery should be excluded while entering value in row for 'Other sources (incl. profit from owning race horses)' under Column 1 in Schedule CYLA.
- Balance income of a specific type e.g. LTCG after adjustment of current year losses can be utilized to adjust brought forward losses of the same type only.
- The adjustment of such losses against income should be entered in Schedule BFLA.
- Total of all earlier year loss adjustments should be entered in Item 8 of Part B TI.
- Details of earlier year losses as at the beginning of the year before any adjustment should be entered in Schedule CFL.

g. Income chargeable to Income tax at special rates- Schedule SI

Most mistakes have occurred in this Schedule since taxpayers have not correctly filled the codes, rates or values. The following points may be considered:

- The Schedule SI must be filled based on final amounts of income chargeable under special rates as derived from Schedules OS, CG and BP and **AFTER ADJUSTMENT OF ALL CURRENT YEAR LOSSES AND BROUGHT FORWARD LOSSES**. Therefore, before entering this Schedule, losses should be correctly entered and adjusted using Schedules CYLA, BFLA and CFL and balance income entered in this Schedule.
- The correct code to be entered in this Schedule for
 - i. STCG under 111A is '1A' and the tax rate is 10%.
 - ii. LTCG in case of 'Asset in the case of others where proviso under section 112(1) not exercised' where benefit of indexation is allowed is '21' and the tax rate is 20%.
 - iii. LTCG in case of 'Asset in the case of others where proviso under section 112(1) is exercised' where the benefit of indexation is NOT allowed is '22' and the tax rate is 10%.
 - iv. Winnings from Lottery is '5BB' and the tax rate is 30%.
- The amount of Income chargeable to special rate tax should be adjusted for basic exemption threshold, if applicable.
- The total value of Special Rate tax in Schedule SI should be entered in Item 1b of PART B –TTI: Computation of Tax Liability.

h. Deductions from Income under Chapter VIA

Most mistakes have occurred due to incomplete details or leaving blank of value of deduction claim in ITR 1 or in the Schedule VIA in ITR 2. In most cases only the total deduction value is mentioned.

- **The deduction amount claimed should be entered in Items 4a to 4l in ITR 1 and in Items a to m in Schedule VIA in ITR 2.**
- Total of all deductions claimed should be entered in Item 4m in ITR 1 and Item n in Schedule VIA in ITR 2.
- Eligible donation for the purpose of deduction under 80 G for donations to charitable institutions (other than certain specified institutions or funds such as Prime Minister's Relief Fund or Rajiv Gandhi Foundation) is restricted to 10% of total income after excluding income chargeable to special rates of tax. The actual deduction under 80G that can be claimed is 50% of such eligible deduction.
- Likewise, typically all deductions have specific criteria and limits for claims.
- The sum of all deductions also cannot exceed the total income.
- Deduction cannot be claimed against income chargeable to special rate tax.

B. Reasons for difference in calculation of Tax or Interest under 234A, B or C and Interest on Refund.

There may be a difference in calculation of tax or interest due to the following reasons:

- a. Mistakes in computation of Income as mentioned above leading to an increase in Income.
- b. Mistake in correctly entering data or code of Income chargeable to tax at special rates such as STCG on sale of shares, LTCG where indexation benefit is claimed, winnings from lottery.
- c. Incorrectly computing special rates of tax
- d. Mistakes in entering or leaving blank, important fields relevant for computation of tax such as date of birth (relevant for senior citizens) or gender (relevant for female taxpayers), resident or non-resident, status (relevant in case of HUF).
- e. In case of any shortfall of tax payment either due to non-payment or due to non-matching of the tax payment or TDS, interest may be charged. Typically, interest till the date of processing under 234A is charged if the return is filed beyond due date, interest under 234B is charged for shortfall in payment of advance tax and interest under 234C is charged for deferment of advance tax.
- f. Interest under 234C is also charged in case advance tax on account of STCG under 111A, LTCG or Winnings from lotteries is not paid, beginning from the next quarter from the quarter in which the income is earned.
- g. Details of quarterwise breakup of STCG, LTCG and Winnings from Lottery as mentioned in Schedule SI after adjustment of Losses and adjustment of basic exemption threshold, if applicable, are used for calculation of advance tax liability and interest under 234C.
- h. The period for which interest under 244A is calculated on refund of tax is reduced by the period of delay in filing of return.

C. Reasons for mistakes in Credit for tax payments or TDS

A major reason for difference in refund amount during processing is that the details of tax payment or TDS do not match the data available with the Department. The critical checkpoints are as under:

- a. Corresponding deduction of tax (TDS) on salary by all Employers should be correctly entered in Item 21- Tax Deducted at Source from Salary in ITR 1 or in Schedule TDS 1 for ITR 2.
- b. The total of all TDS from all employers should be entered in Item 15b of

ITR 1 or in Item 9b of Schedule Part B TTI- Computation of tax liability on total income of ITR 2.

- c. Corresponding deduction of tax (TDS) on Interest by all Banks should be correctly entered in Item 22- Tax Deducted at Source on Interest in ITR 1 or in Schedule TDS 2 for ITR 2.
- d. The total of all TDS from all Banks should be added to Item 15b of ITR 1 or to Item 9b of Schedule Part B TTI- Computation of tax liability on total income of ITR 2.
- e. TDS on salary should be entered in Schedule TDS1 ONLY and TDS on other Income should be entered in Schedule TDS 2 ONLY.
- f. Tax deduction Account Number (TAN) of the Employer or Bank is the unique identifier for matching TDS claims made against TDS reported by Employers or Banks. **The TAN number is mentioned on the Form 16 given by the Employer or on the Form 16A given by the Bank.** In case the TAN of the Employer or Bank is not correctly mentioned, no matching is possible and TDS credit will not be given. The correct structure of TAN is mentioned below:

B	L	R	W	3	9	5	6	7	H
⏟			↑	⏟					↑
RCC Code : Bangalore			First Alphabet of Organisation Name	Numeric (5 places)					Alphabet

- g. If the TAN has been correctly entered but the Employer or Bank does not report the same TDS details to the Department, especially the taxpayer Permanent Account Number (PAN), then also the TDS cannot be matched. The taxpayer should confirm from the Employer or Bank that TDS details have been reported to the Department.
- h. In case of Tax payments of Advance tax or Self Assessment tax, the PAN used to submit the tax challan to the bank should be the same as the PAN used to submit the return. Without a valid PAN the tax payment received from the bank would be in suspense and cannot be matched with tax payment claim as entered in the return.
- i. While making the tax payment at the Bank, NO MISTAKE should be made in the challan while entering the PAN, Name, Type of tax payment (advance tax (code 100), self assessment tax (code 300)), tax applicable (Income tax other than companies).
- j. Any tax payment made under code 400 corresponding to 'Tax on regular Assessment' cannot be used for matching and accordingly credit cannot be given against advance tax or self assessment tax claims.
- k. The Challan Identification Number (CIN) is the combination of BSR code (any bank branch's unique 7 digit identification number issued by RBI), date of deposit of challan (DD-MM-YY), and the running serial number of the challan, and is mentioned by the Bank while accepting tax payment on its seal. In case this is not clearly legible, the Bank can be requested to provide correct details. This must be entered correctly in the return while claiming credit.

D. Miscellaneous mistakes

Mistakes in address etc do not affect processing but cause mis-delivery or non-delivery of communication or in case of Bank Account error cause rejection of refund credit to taxpayer account. The following points may be noted:

- a. The name in the return should be entered as it appears in the PAN card, to the extent possible.
- b. Address should be correctly filled with correct city, state and PINCODE for faster and accurate delivery of communication from the Department.
- c. For faster credit of Income Tax refunds, correct bank account number and MICR code in the return should be mentioned. In case of any mistake in MICR or Bank Account number, the refund will not be credited. and a cancelled cheque showing correct particulars would be required to be submitted to CPC for correction in bank account number or MICR code.
- d. **In case of Refunds below Rs 100, no refund is issued and if Demand is below Rs 100, it need not be paid.**

E. How to rectify the mistake and to get the correct refund

Mistakes in the ITR due to any of the reasons may be corrected by submitting a rectification form. Some basic information is provided below:

- a. The procedure for rectification and correction of mistakes will be available shortly. In case of any queries please call at 080-43456700.
- b. In case of any difference in date of birth or gender in Department records or in case of any need to correct the address, the data may be corrected by submitting a revised PAN application form (quoting the existing PAN number) with correct details and providing relevant proof at any TIN facilitation center.
- c. In case of any mistake in MICR or Bank Account number a cancelled cheque showing correct particulars would be required to be submitted to CPC for correction in bank account number or MICR code.
- d. In case the charging of additional tax and interest is only because of non- matching of tax payment or TDS, upon correction of the details by taxpayer or employer / bank, the additional tax and interest will be automatically reduced or eliminated.