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Lied in your tax return? Rectify the lapses now

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NEW DELHI: When a friend told Ashish Kumar how a tax preparer had got him a huge tax refund, the Pune-based executive decided to also try his luck. Kumar sent his Form 16 and other details to the tax preparer. Within a few days his tax return had been filed with a refund of over Rs 50,000.

This story doesn't have a happy ending. The tax preparer filed the return by deflating Kumar's gross income by Rs 1.65 lakh, which resulted in the refund of over Rs 50,000. The difference in the incomes mentioned in Kumar's Form 16 and his tax return might get noticed when his return is assessed. From this year, the tax forms require a taxpayer to give a break-up of the various exemptions claimed in the return. "The tax preparer has no skin in this game. It will be the taxpayer who will have to do the explaining when he gets a notice," says a chartered accountant. Thousands of taxpayers like Kumar may have already filed faulty tax returns.

No documents in online filing

This is easy because no documents have to be submitted while filing tax returns. "One can claim exemption for house rent allowance and deduction for medical insurance, home loan, education loan or even disability without having to submit any evidence," points out a Mumbai-based chartered accountant.


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Tax experts have warned that falsifying information in the tax return can have severe implications. “If a taxpayer claims a deduction or exemption but does not have the required documents to support that claim, it is tantamount to tax concealment,” says Amit Maheshwari, Partner, Ashok Maheshwary & Associates. Under Section 270A, misreporting of income attracts a penalty of 200 per cent of the tax sought to be evaded. “If the assessing officer finds malafide intention, he may also initiate prosecution of the taxpayer,” says Raj Khosla, chartered accountant and managing director, MyMoneyMantra.

Claims under scrutiny

For its part, the tax department is now putting every claim under the scanner. “Most of the exemptions under Sec 10, including LTA and medical allowance, can be claimed only by submitting proof of expense to the employer,” says Archit Gupta, Founder and CEO, Cleartax.

Some exemptions, such as HRA can be claimed even at the tax filing stage. “If the employee fails to submit proof by the deadline set by the company, he can claim HRA exemption in the ITR,” says chartered accountant Karan Batra. However, the taxpayer has to submit the PAN of the landlord if the HRA exemption sought is more than □1 lakh in a year. If a taxpayer claims a very high exemption for HRA, the department will also see whether the landlord (whose PAN has been mentioned) has paid tax on the rent received.

The assessment itself has become more stringent. Till recently, the TDS details in an individual’s Form 26AS used to be reconciled with the tax declared in the return at the time of assessment. “Now the tax department is also checking the Form 16 and reconciling it with the income declared in the return,” says Sudhir Kaushik, CFO and Co-founder, Taxspanner.

Claiming false deductions

The Chapter VI-A deductions are a fecund area for fraudulent claims. Some taxpayers are not able to finish their tax planning by the 31 March deadline. Others don’t have enough liquidity for tax-saving investment. But they can still claim the entire Rs 1.5 lakh under Section 80C and Rs 25,000-55,000 under Section 80D for medical insurance. Some deductions can be significant, such as Rs 1.25 lakh for severe disability of self (Section 80U) or dependant (Section 80DD).

Tax experts warn that it has become easier for the department to detect fraudulent claims. “The Aadhaar number of individuals is now in every financial transaction. So the tax department can find out if you actually bought the medical policy for which you claimed deduction,” says Shubham Agarwal, Senior Taxation Adviser, Taxfile.

Donating a fraud

One big area of tax fraud is donation to charities. Under this, a taxpayer donates an amount to a charitable organisation eligible for deduction under Section 80G. The amount is paid back to the taxpayer in cash. The taxpayer gains by claiming deduction for the amount paid while the charity gains by converting unaccounted cash donations into legitimate money. The deduction is usually for 50 per cent of the donated amount. So, if a person in the highest 30 per cent tax bracket donates Rs 1 lakh, he will be able to claim deduction for Rs 50,000 which will reduce his tax by Rs 15,450. It’s a neat trick that thousands of taxpayers resort to every year.

If your return is rejected

“Fraudulent claims for refunds has become a big problem for the Income Tax Department,” says Batra. Earlier this year, a tax refund racket was busted in Bengaluru. Another scam involving tax returns of defence personnel has also been unearthed.