Filing tax returns? Ways to avoid errors or invite a tax notice

The government may be set to change, but the Income Tax Department's drive for increased compliance continues unabated. The new tax forms notified by the department last month are aimed at seeking more details about your income, exemptions and expenses. Here are some of the changes that you should be aware of.

Details of exempt income

Until last year, taxpayers were required to declare their exempt income in the returns, but only had to enter a consolidated figure for the tax-free allowance they received during the year. This time, however, they will have to provide the details as well. "The new ITR-2 form requires taxpayers to give a detailed break-up of tax-exempt allowance in schedule S (for salary income)," says Vaibhav Sankla, director of tax consulting firm, H&R Block. Many employees get house rent allowance (HRA), leave travel assistance (LTA) and travel allowance as part of their salaries. These allowances are exempt if certain conditions are met.

Till now, the taxman had no issues if you mentioned a consolidated figure in your return, but now he wants to know how much you received under different heads. "You will have to separately mention the figures for, say, HRA and LTA," says Kuldip Kumar, executive director, tax and regulatory services, PwC. The tax exemptions are increasingly being put under the scanner by the CBDT. In October last year, it had declared that the salaried taxpayers who claim HRA exemption will have to report their landlord's PAN if the total rent in a year exceeded Rs 1 lakh.

"In case the landlord does not have a PAN, the employee will have to submit a declaration to this effect from the landlord, along with his name and address," said the circular issued by the CBDT. Earlier, you were not required to submit the landlord's PAN details if the total rent paid was less than Rs 15,000 a month. The new rule effectively reduced this limit to Rs 8,333 a month. Though this was meant to plug tax evasion by salaried professionals who submitted fake rent receipts to maximise their HRA exemption, even honest taxpayers had to suffer the collateral damage. The new rule created problems for many employees because landlords are generally reluctant to provide PAN on rent receipt to tenants.

Break-up of capital gains

The taxman is not stopping at the exempted income. He also wants you to provide a detailed break-up of the capital gains made during the year. The new ITR-2 asks for information on capital gains under several categories.

Capital gains are taxed at different rates depending on the nature of asset and the holding period. Gains from equity funds and listed shares are tax-free after a year, but taxed at 15% if the holding period is less than 365 days. Gains from debtoriented funds, gold

ETFs and unlisted shares are treated as long-term gains after a year and taxed at 10% flat or 20% after indexation.

In case of property and bullion, the holding period must be at least three years before these are treated as long-term gains. Since you will be required to mention the gains separately, a broad estimate will no longer work. According to Sankla, the new categories added to the capital gains section will ensure accurate tax calculation on capital gains.

Capital gains from property

Property investments are also under scrutiny. If you sell property after three years, any profit made is treated as long-term capital gain and taxed at 20% (with indexation benefit).

However, you can avoid paying this if it is reinvested in another property or bonds issued by the NHAI or REC under Section 54. From this year onwards, the ITR-2 seeks details of such transactions as well. "The taxpayers will have to mention the cost of the property or the amount invested in bonds, the date of purchase and investment, as well as the amount deposited in the capital gains saving account scheme," says Sankla.

First-time home buyers

Serial investors are not the only ones to be asked for such details. Even first-time home buyers are now in the tax net. If you have purchased your first house in the previous financial year with a loan, you will be eligible for an additional deduction of Rs 1 lakh on the interest under Section 80EE. This will be over and above the Rs 1.5 lakh deduction of home loan interest under Section 24(b). "This new provision has now made its way into the ITR forms, which was expected. The new form includes a box for deduction of interest on housing loans taken by first-time home buyers," says Vineet Agarwal, director, KPMG India.

However, there is no change in the classification of tax filing forms that are to be used by various categories of taxpayers. If you have an income from salary or pension, own no more than one house and the only other sources of income is interest, you can use form ITR-1 (Sahaj). If you own more than one house or if your earnings include capital gains and other sources, including the winnings from lottery and horse racing, you will have to use ITR-2.

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