Tax exemption to those with income up to Rs 5 lakh? No taxpayer can avail this

The previous year, just a few weeks before the tax return deadline of 31 July, the Central Board of Direct Taxes (CBDT) exempted those with an income of up to Rs 5 lakh from filing returns. But, as ET Wealth pointed out, the conditions were so restrictive that no one was eligible for the exemption.

For instance, you were eligible for the exemption if you had reported the interest income from your savings bank account to your employer and tax had been duly deducted on that income. The CBDT had announced this at the end of June 2011, when most companies had already finished preparing the Form 16s of their employees.

The CBDT has woken up early this year. Last month, it announced a similar exemption for the current financial year as well. But the conditions are no less impractical than they were in 2011.

No income from investments

The exemption is for salaried taxpayers who have income only from salary and the interest from their savings bank account. Surely, a person earning Rs 30,000-40,000 a month would have invested in fixed deposits, recurring deposits, bonds and other investments as well. This includes tax saving investments in NSCs, infrastructure bonds and tax saving fixed deposits.

Who is exempt from filing income-tax returns

To avail of the exemption from filing tax returns, a person will have to fulfill all the conditions given below.

- The total income should not exceed ₹**5 lakh**.
- Income should be only from salary and interest from a savings bank account.
- The interest earned on bank accounts should not exceed ₹**10,000**.
- The bank interest must be reported to the employer and tax should be deducted on it.
- Permanent Account Number (PAN) should be notified to the employer.
- Form 16 from the employer should mention PAN, income and TDS details.
- No more tax should be payable by the taxpayer.
- There should not be any refund claim in the year.
- The taxpayer should have received salary from only one employer.

If the taxpayer puts money in any of these options, he would also earn interest from these investments, which will disqualify him for the exemption from filing returns. Only a person who has no tax saving investments and lets all his money idle in a savings bank will be eligible.

Investors in property also won't make the cut. If they have any rental income, they are not eligible. Even if their second house is lying vacant, they will have a notional income from the property.

Practical difficulties

Even if the taxpayer has no income other than his salary and the bank interest, there is a practical difficulty. The interest on a savings bank account is credited to the account on a half-yearly basis. The interest from October 2011 to March 2012 will get credited after 31 March. But since it accrued this year, tax will have to paid on it right now.

However, the CBDT says that to avail of exemption from filing his return, the taxpayer should have declared his bank interest to his employer. It should be mentioned in the Form 16 and tax should be deducted on it. To do this, the taxpayer will have to estimate the interest income on the basis of his bank balance in the past 5-6 months.

Proof of income

Experts say that it is not a good idea to avoid filing your tax returns. Your tax return is your proof of income. Most banks and housing finance companies want to look at your income-tax returns when they extend you a loan. Some countries also insist on knowing how much you earn before they issue you a visa. Sure, the Form 16 is a valid legal document and mentions your income. However, the income-tax return is a more widely accepted document in this regard.

Curiously, the exemption is aimed at the salaried taxpayer rather than retirees with pension income who may be more inclined to not file their tax returns.

Is it worth the trouble?

Filing your tax return is not the cumbersome exercise it used to be 5-6 years ago. Online tax filing portals have made it child's play. If he has all the required documents at one place, it will take a novice taxpayer less than 30 minutes to file his tax online. In comparison, he might have to struggle to meet all the conditions set by the CBDT.

Many companies don't take into account your income from other sources while deducting tax at source. If any income is missed, and there is tax payable on it, you miss the exemption. Even if you are lucky and your employer factors in the bank interest into the Form 16, don't expect that all deductions will also be included.

While the Form 16 will mention your tax saving investments under Sections 80C, 80D (medical insurance) and 80CCF (infrastructure bonds), many deductions are not included. If you have donated to a recognised organisation, you are eligible for a tax benefit under Section 80G. However, to get that refund, you will have to file your tax returns.

Given the plethora of paperwork required to avail of the exemption and the possible repercussions of not filing your return, it seems that spending 25-30 minutes online is a far simpler option.

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