Advance Tax

Payment of advance tax is governed by sec. 207,208,209,210 and 211 of the Income Tax Act 1961.

Payment of Advance Tax is also known as 'pay tax as and when you earn'. As per the provision, tax payable on income of a previous year is to be fully paid with in the previous year itself. One can not defer the tax payment to the assessment year. The Advance tax liability arises only to those assesses whose tax liability for the previous year is Rs. 10,000/- or more.

Advance tax helps Govt. to receive constant tax receipt throughout the year. Advance tax is to be paid by all assesses before filing the Income Tax Return.

For individuals who have only salary income, advance tax payment would be taken care by the TDS made by the employer. The details of TDS will be specified in Form 16 issued to the employee.

Advance tax payment schedules:-

Corporate Assesses	
Due date of Payment	Amount payable
On or before 15 th June	Not less than 15 % of Advance Tax liability
On or before 15 th Sep	Not less than 45 % of Advance Tax liability less already paid
On or before 15 th Dec	Not less than 75 % of Advance Tax liability less already paid
On or before 15 th March	Not less than 100 % of Advance Tax liability less already paid

Non Corporate Assesses	
Due date of Payment	Amount payable
On or before 15 th Sep	Not less than 30 % of Advance Tax liability
On or before 15 th Dec	Not less than 60 % of Advance Tax liability less already paid
On or before 15 th March	Not less than 100 % of Advance Tax liability less already paid

Advance tax is to be paid on all incomes. Therefore, it is payable on capital gain also. However, as the capital gain can not be estimated in advance, advance tax is paid on all capital gains when they arise in the immediately next advance tax due date.

<u>Interest on late payment of Advance Tax</u>

Interest on late payment of Advance Tax is governed by sections 234 A, 234 B and 234 C .

Interest under section 234A – Default in furnishing the return of Income:

If an assessee has not filed the return of income within the due date, a simple interest @ 1% for every month or part of a month shall be payable. It is calculated from the due date to date of furnishing the return.

Example:

A company files its return on 15th December. Due date of filing return of income is 30th September. Let us assume that the tax payable by the company is Rs.1,00,000. Interest will be calculated as follows:

Tax Liability Rs. 1,00,000/-

Delay = 3 months ie October, November and December.

Interest payable = Rs.1,00,000 X 3%= Rs. 3,000/-

Interest under section 234B- Default in payment of Advance Tax:

If an assessee who is liable to pay advance tax , but not paid the same or or if the advance tax paid by him is less than 90% of the assessed tax, he is liable to pay simple interest at 1% every month or part of a month.

Interest is calculated from April 1st of the next financial year to the date of determination of total income under Section 143 (1). But, if regular assessment u/s. 143 (3) is completed, then interest is charged up to the date of regular assessment.

Interest shall be calculated on the amount equal to the assessed tax in case no advance tax is paid, or on the amount by which the advance tax paid falls short of the assessed tax.

Example:

Mr. X has a tax liability of Rs. 5,00,000/-. TDS Rs. 1,00,000/-

Advance tax payment made by Mr. X for the year is as below:-

15th Sept 2012 Rs. 25,000/-

15th Dec 2012 Rs. 50,000/-

15th Mar 2013 Rs. 25,000/-

Total advance tax paid Rs.1,00,000 /-

Interest u/s 234B is calculated as follows:

Tax on income   Rs. 5,00,000
Less TDS   Rs. 1,00,000

Assessed tax   Rs. 4,00,000

90% of assessed tax = 400000 X 90% = Rs. 3,60,000 /-
Advance tax paid by Mr. X - Rs.1,00,000 /-

Since there is a shortfall in payment of advance tax, Sec 234B is attracted.

Shortfall = Rs. 3,60,000– Rs. 1,00,000 = Rs.2,60,000/-

(Shortfall means difference between assessed tax and advance tax paid).

Interest under section 234 B = 260000*1%*4 months (Apr-July) = Rs.10,400 /-

Interest under section 234C

If the advance tax paid is in underestimated instalments or if it s not paid at all, Section 234C gets attracted.

Interest is calculated on the difference between the instalment paid and instalment payable. Rate of interest is @ 1% p.m. for a period of 3 months for every deferment. But, for last instalment on 15th March, interest would be 1% for 1 month only.

Example:

Mr. X gives the following details:

Tax liability on total income Rs. 5,00,000/-
TDS = Rs. 1,00,000

Payment of advance tax:
15 Sept 2012   Rs. 50,000/-
14 Dec 2012   Rs.1,00,000/-
15 Mar 2013   Rs. 1,50,000/-
Total advance tax paid Rs. 3,00,000/-

Solution:-

Tax liability   Rs. 5,00,000
Less TDS   Rs. 50,000

Assessed tax   Rs.450000 [5,00,000 minus 50,000]

Interest u/s 234C is computed as under:

Sept 15

30% of 4,50,000 = 135000 minus 50000 ie; Rs. 85,000 short paid
Interest = 85,000*1% X 3months = 2,550/-

Dec 14

60% of 4,50,000 = 2,70,000 minus 1,50,000/- = Rs. 1,20,000/- paid short.

Interest = 1,20,000*1% X 3months = 3,600/-

15 Mar

100% of 4,50,000 = 450000 minus 3,00,000 = Rs. 1,50,000 /- paid short

1,50,000 X 1% X 1month = Rs. 1500/-

Total Interest payable u/s. 234C is Rs. 2,550+ 3,600+ 1,500 = 7,650/-

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