

Nine reasons for getting income tax notice: -

The Income Tax Department has launched a drive to ensure greater tax compliance. In recent months, thousands of taxpayers have been served notices after discrepancies were noted in their tax returns or their TDS details. This sudden rise in the number of tax notices is not because people have stopped paying tax or filing their returns. It's just that the tax authorities now have an integrated database on taxpayers and can track all financial transactions. Here are some common reasons for getting a notice.

1) Not mentioning PAN or quoting incorrect PAN: -

The PAN is now mandatory for high-value transactions. If you do not submit it while making an investment or taking up a job, your income will be subjected to a higher TDS of 20%, instead of 10%. If the PAN is incorrect, you could even be slapped with a penalty of up to 10,000. The bigger problem of an incorrect PAN is that the TDS will not be credited to your account. What's more, the tax refund can be credited to another account if you submit the wrong PAN.

2) Not checking Form 26AS before filing: -

The Form 26AS has details of the tax paid by an individual during a financial year. You can easily access your Form 26AS online. Some banks also provide this facility to their Net banking customers. If your bank, bond issuer or employer has deducted TDS, make sure it is mentioned in your Form 26AS. Also, check whether all the investments with TDS have been duly mentioned in the tax return. Any mismatch will lead to a notice from the department.

3) Mismatch in income and expenses & investments: -

Financial services firms, registration authorities and merchant establishments are supposed to report certain high-value transactions to the CBDT. The Income Tax Department gets all information on the basis of your PAN. The CASS matches this information with the returns filed by the taxpayer and promptly issue a notice if there is a mismatch in the income you have declared and your investments and spending.

4) Not filing returns if income is above 2 lakh: -

If your gross taxable income before deduction under any section is above 2 lakh, it is mandatory for you to file your return. If you don't file it, you can be slapped with a penalty of up to 300% of the outstanding tax. Even if there is no tax liability, you have to file the return if the gross income before various deductions is more than the basic exemption limit.

5) Not filing return by the due date: -

You can file your income tax return till the end of the assessment year if there is no tax due. For example, the tax return for 2012-13 can be filed till 31 March 2014 without incurring any penalty if the tax has been paid. But if some tax remains unpaid, filing your return after the deadline could lead to a penalty of 5,000. Also, you are not allowed to carry forward losses or revise the return if you file after the due date.

6) Not declaring the previous employer's income: -

This is a common problem and was easily missed by the tax authorities in the past. However, now that the tax database has been integrated, don't think you can ignore your income from a previous job. If your employer deducted TDS on your income, the details would be available in your Form 26AS, and the CASE will immediately flag this discrepancy. You can be levied a penalty of up to 300% of the tax evaded.

7) Avoiding TDS by misusing Forms 15G and 15H: -

If the interest income on bank deposits exceeds 10,000 a year, the bank deducts TDS. You can avoid TDS by submitting Form 15G or 15H if you are not liable to tax. However, if you are trying to avoid TDS, you can get a notice from the tax department. Submitting a wrong declaration can invite a penalty of 10,000. Splitting the deposits in different banks or branches to avoid TDS won't help as the PAN gives you away.

8) Not declaring interest on deposits and savings: -

The interest earned on bonds, fixed deposits, recurring deposits and savings accounts is taxable and should be mentioned in your tax return. Up to 10,000 earned on your savings bank account is tax-free, but it still needs to be included in your total income for the year. Likewise, the PPF interest income is tax-free, but should be included in the exempt income.

Interest on savings account is exempt up to 10,000 for the assessment year 2013-14 while interest from post office savings is exempt up to 4,000, or 8,000 for joint accounts.

9) Not responding to notice from tax department: -

Don't ignore the messages and notices from the tax department. If you do not respond, the interest and penalty keeps on increasing in case of any pending tax liability and the Income Tax Department will take a final decision that may not be beneficial for you.