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Failure to include all incomes in ITR can lead to penalty

Capital gains on switching between MF plans and notional income are often overlooked

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Many early income-tax return (ITR) filers have got notices from the tax department for not reporting various incomes. Even if you are getting your returns filed by a tax professional, you must disclose the required details. Failure to do so leads to incorrect filing and under-reporting of income, with adverse consequences. The complexity of tax laws and taxpayers' ignorance are both contributing to this.

Pratyush Miglani, managing partner, Miglani Varma & Co. (Advocates, Solicitors and Consultants), says, "Errors and omissions by taxpayers are common because of the complexity of income-tax (I-T) forms and lack of awareness of I-T laws."

Citing one example, he says many taxpayers are under the impression that incomes subject to deductions or exemptions don't have to be disclosed, leading to omissions.

Capital gains on switch transactions in mutual funds

Mutual funds (MFs) allow investors to transfer their money from one plan to another — say, from the growth to the dividend option, or from the regular plan to the direct plan, and so on, within the same scheme.

Sandeep Bajaj, managing partner, PSL Advocates & Solicitors, says, "Even such a switch is treated as a sale transaction that may lead to a capital gain or loss, and hence attracts capital gains tax. Such transactions also attract securities transaction tax (STT) on purchase and sale of equity fund units which must be paid."

Taxpayers must obtain detailed transaction statements of all their MF investments and provide them to their accountants, so that capital gains and losses can be calculated.

TAX-FREE INCOME MUST BE REPORTED

- All incomes must be reported in ITR, irrespective of whether they are taxable or tax-free
- Interest income from PF and tax-free bonds generated during the fiscal year must be include
- Doing so will safeguard the taxpayer from the risk of being charged of tax evasion
- After disclosing, claim exemptions under the provisions of the IT-Act
- Report these incomes under the exempt income schedule of the ITR form

Source: Victoriam Legalis

Notional rental income

The provision of notional rent was included in I-T to discourage property owners from leaving their properties vacant. If an individual owns a house, apart from the self-occupied house, and it lies vacant, the expected rent from such a property must be calculated and added to the individual's gross total income.

Aditya Chopra, managing partner, Victoriam Legalis-Advocates & Solicitors, says, "Tax must be paid on this notional income. Its non-reporting can lead to various penalties." One benefit of such reporting, he adds, is that the taxpayer can avail of a tax deduction on the interest paid on the home loan taken to purchase the property.

Clubbing of minor's income

Passive income earned by minors is another element that taxpayers often omit, either due to forgetfulness or lack of awareness.

Miglani says, "Passive income earned by children exceeding ₹1,500, whether it is in the form of a gift or on account of investments made by the parents, must be clubbed with the taxpayer's income and disclosed without fail."

Income from other sources

Salaried taxpayers often miss out on reporting details of their other incomes as they rely only on Form 16 for filing their returns.

Utsav Trivedi, partner, TAS Law, says, "All the interest that a taxpayer earns from various deposit schemes, like fixed deposits, must form a part of the ITR to avoid a notice from the I-T department."

Exemption under Section 80TTA (on interest income earned from deposits in banks, post office, and cooperative societies) is limited to ₹10,000.

Taxpayers often forget to include the interest income earned from old bank accounts.

Archit Gupta, chief executive officer, Clear, says, "The I-T department now shows your interest earnings from banks in the annual information statement (AIS) available on the compliance portal. Taxpayers must report such income accurately, even if it is not taxable due to Section 80TTA, to avoid receiving notice."

Failure to report all incomes can have adverse consequences.

Suresh Surana, founder, RSM India, says, "In case any income is not declared in the ITR, the taxpayer can be subjected to a penalty under Section 270A of the I-T Act at 50 per cent of the tax payable on such under-reported income."

Failure to claim any eligible deduction or exemption, which is not mentioned in Form 16 but which ought to have been claimed, can lead to the payment of excess tax.