Know these rules before filing ITR if you had pay cuts or withdrew PF

If your salaries were deferred, you must ensure that you have paid the right amount of tax on your salary income

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The tax-filing season has started. Last year, due to the pandemic, many people faced certain unprecedented situations such as pay cuts, pay deferments and job losses. These have impacted their incomes. Many people withdrew their savings to fund their immediate cash needs. The government also brought certain changes in tax rules to provide certain relief to the taxpayers. For example, it allowed tax-free withdrawal from employees' provident fund (EPF). Although this withdrawal is tax-free, one needs to show this in the income tax return (ITR). Apart from these, there are other aspects that one should keep in mind while filing the ITR for this financial year.

Tax liability may be higher in case of pay deferment: Due to covid-19, many people faced salary delays, apart from pay cuts and job losses. Therefore, in case salaries were deferred, you need to make sure that you have paid the right amount of tax on your salary income.

Generally, salaried employees are not bothered about the tax deduction as the employer does it for them. However, there is an anomaly in the tax law that may lead to you paying lower tax or your employer deducting less. This may lead to a notice or penalty from the tax department. So, let us first understand the tax law around the taxability of the salary.

"According to the Income Tax Act, salary income becomes taxable on due or received basis, whichever is earlier, while the employer is liable to deduct TDS (tax deducted at source) at the time of payment," said Tarun Kumar, a Delhi-based chartered accountant.

So, suppose the employer has deferred the salary for March and paid the same in April, that is the next financial year, the tax on the same became due in March. As salaried employees are also subject to advance tax, you are supposed to pay tax on the same despite the fact that the employer will deduct TDS while paying salary.

"Where the employer has not deducted tax on a portion of salary, as its payment has been deferred, the employee is responsible to pay advance tax or self-assessment tax on that portion. because salary is taxable on due basis. Any failure in doing so will trigger levy of interest and penalty," said Kumar.

New tax points

The pandemic has created tax blind spots to be careful about.

- **IF YOU** have been handed a pay cut, ensure that your cost to company is revised accordingly and a new contract is issued.
- **IN CASE** of deferred salary, make sure you pay advance tax on salary income if tax has not been deducted at source in the same fiscal year.
- **IF YOU** have withdrawn money from public provident fund or employees' provident fund, the amount may be tax-exempt; but you must show in your income tax return (ITR).
- **ALLOWANCES OR** reimbursements received to buy furniture are fully taxable and should be shown in ITR.
- **FINANCIAL HELP** received for covid-19 treatment is tax-exempt.

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The TDS deducted by the employer in the next financial year for the deferred part can be claimed as refund.

Apart from this, in case of pay cuts, you should ensure that the same is reflected on each component of the salary slip and you get a revised contract. As in case of mismatch in tax deducted or tax due amount, the same can be shown as a proof to the tax department. "In case the CTC is revised (cut or hike), then the same should be reflected in the salary slip also. All the components of the salary such as basic pay and allowances should be revised accordingly," said Kumar.

If you had pay cuts, you should ensure that the same is reflected in each component of your salary slip

Showing exempt income: Last year, as many people faced financial crunch, they withdrew money from their provident fund account. The government allowed withdrawal of non-refundable advance by employees from their provident fund account. Further, even a second advance with regards to such EPF withdrawal was permitted.

In accordance with such withdrawals, the EPF member could avail a non-refundable advance of three months of the basic wages and dearness allowances or up to 75% of the amount standing to member's credit, whichever is lower. Such withdrawals are tax-free. However, the taxpayer is required to show them in the ITR. "The 'FAQs On EPF Advance to Fight Covid-19 Pandemic' issued by EPFO specifically exempted such advance/withdrawal by way of providing that 'income tax is not applicable on any advance availed under EPF scheme'. Accordingly, the amount of such withdrawal may be declared 'exempt income' in the ITR," said Suresh Surana, founder, RSM India.

Apart from this, a person can make provident fund withdrawal under certain conditions, which will have tax implications depending on the duration of employment of the person. You should show such cash flows in the ITR in the appropriate manner.

Allowances are fully taxable: Many employers have given a lump sum or reimbursed the employee for spending money on buying furniture due to work-from-home conditions. Any such payment by the employer to the employee is fully taxable.

"Not many employers have deducted TDS on such payments. But these allowances or reimbursements are fully taxable. Therefore, in case an employee has received such allowance or has got bills reimbursed, he/she should ensure that the same is reflected in the form 16; otherwise he/she should pay tax on the same," said Shailesh Kumar, partner, Nangia & Co. LLP.

Show financial help received for covid-19 in ITR: As per the newly announced relief measure by the government, any financial help received by an employee for covid treatment from the employer or any other person will be tax exempt for FY21 and subsequent years. Such exempted income is generally shown under the 'exempt income' section of the ITR. However, final guidelines are awaited on the same.

So, if you are filing or planning to file the ITR for FY21, make sure you avoid such mistakes.