

27 Payment of Advance Tax and Calculation of Interest

As per provisions of *Income Tax Act 1961*, every Assessee has to assess the expected tax liability, which may arise at the end of financial year, after considering all permissible deductions. If the estimated tax liability is more than Rs. 10,000 then the assessee has to pay Advance Tax in instalments, as per the following schedule:

Due date for payment of Advance tax during financial year	Installments of Total estimated Advance Tax (in %)	
	For All except 'A'	'A' -Other tax payers filing return under estimated income scheme u/s44AD
15 th June	15%	upto 100%
15 th September	30% i.e. total 45 %	
15 th December	30% i.e. total 75%	
15 th March	25% i.e. total 100%	
31 st March	Tax due on Income, which arises after 15 th March	

Advance Tax can be paid by challan No. ITNS 280 at any Nationalised Bank. SBI & some other banks offer online payment facility of Income Tax,

- Income Tax paid up to 31st March against the Income earned, in the same Financial Year is called Advance Tax.
- Generally, the Salaried Assessee need not pay Advance Tax as the Employer deducts TDS on salary on months basis and deposits it to in Income Tax Department regularly. But if they have Income from other than salary head due to which the tax liability increases by more than Rs. 5,000 then they may be liable to pay Advance Tax as above.

27.1 Calculation of interest in case of short payment or excess payment of Income Tax

- Rate of Interest - Leviable on shortfall in payment of Tax @ 1% per month or part thereof subject to the following conditions.
 - Quantum of shortfall in payment of tax should be more than 10% of total tax liability.
 - No interest u/s 234C is leviable where the shortfall in payment of Advance Tax instalments is on account of underestimate / non-estimation of any capital gains or winning from lotteries, crossword prize, races etc.
 - For the purpose of calculating interest, the amount of shortfall shall be rounded to nearest Rs. 100, ignoring any fraction of 100. *For example; if shortfall is Rs. 2168, then take Rs. 2100 for calculation of interest.*
- Where the Advance tax paid is more than Net tax liability, the excess shall be refundable to the Assessee. Where the excess is more than 10% of the tax assessed, the Govt. will pay interest @ 0.5% for every month or part thereof from the 1st day of the assessment year (1 April) to the date of grant of refund.

[Sec.244A]
- Chief Commissioners and D.G. (Investigations) are authorised to reduce or waive penal interest in some cases.



27.2 Interest Payable due to Deferment of Advance Tax

Advance tax is said to have been deferred if any of the instalments are not paid or paid less than the specified amount. In case of deferment of advance taxes simple interest @ 1% per month shall, be payable for the period as specified in following table. [U/S 234(C)]

For deferment in any of the quarter i.e. June / Sept / Dec.	Simple interest on the <i>cumulative</i> amount of short fall @ 1% per month for 3 months .
For the deferment in the last quarter i.e. in March	Simple interest on the <i>cumulative</i> amount of short fall @ 1% per month for 1Month

2. If total tax paid (Advance Tax + TDS) is less than the net tax liability, then interest @ 1% /month or part thereof shall be leviable on amount of shortfall, for the period - from the 1st day of assessment year (1st April) to actual date of payment of tax. [U/S 234 (B)]

Example: Mr. Ram, has estimated the tax liability, for FY 2013-14 as Rs. 10,000 and paid advance tax in 3 instalments as

*Rs. 3,000 up to Sept. 15th 2012,
Rs. 3,000 on Dec. 15th 2012 &
Rs. 4,000 on March. 15th 2013.*

But at the time of preparation of return the final tax liability came as Rs. 15,000. Calculate the balance tax & interest liability to be paid on July, 10th 2013 before filing of return.

Sol: (A) Short payment of tax = Net tax liability – Advance tax paid
= 15,000 – 10,000
= 5,000

- (B) Interest payable due to short payment of advance tax (U/S 234C) - up to the end of financial year i.e. 31st March.

Due date	Cumulative tax payable	Actually paid	Balance	Net Interest Due
Up to 15 Sept.	15,000 x 30% = 4,500	3,000	1,500	1,500 x 1% x 3 months = 45
Up to 15 Dec.	15,000 x 60% = 9,000	6,000	3,000	3,000 x 1% x 3 months = 90
Up to 15 Mar	15,000 x 100% = 15,000	10,000	5,000	5,000 x 1% x 1 months = 50
Total			5,000	185

- (C) Interest payable due to short payment *after the end of financial year:* [U/S 234B]

Expected date of payment of short tax is July 10, 2013.

So interest payable = Short payment x 1% x period (1 April to 10 July)

Rs. 200 = Rs. 5000 x 1% x 4 month

- (D) Total tax payable on July, 10, 2013 = Balance Income Tax + Interest
= 5000 + (185 + 200)
= 5383