5 Major Reasons Behind Income Tax Notices

Although it’s quite common to receive notices from IT department, people do get scared when they get one. What one needs to know is it’s not as big deal as one believes it to be, and if handled tactfully, one can get rid of any further complications. Following are some common reasons why people recieve Tax Notices. You can also avoid the same mistakes for good.

**1. Return not filed or delayed**

Employer deducted tax from your salary. However, Employee did not file the return. In such case, the tax department will send a notice asking employee to file the return. The notice has to be responded to within the given time. Otherwise, employee may be penalized. Such a notice can be sent for any of the previous six assessment years. In case of delayed filing, the department can levy a penalty of Rs 5,000 a year. However, the penalty is not mandatory, and depends upon

the discretion of the assessing officer. However, if any tax is due, the department charges 1% interest per month from the due date.

**2. Mismatch in tax credit**

Tax deducted at source, or TDS, figure in your Form 16 may be different from the actual tax credit mentioned in Form 26 AS, a document issued by the income tax department that has all your tax-related information such as tax deducted, refund, etc, against your permanent account number (PAN). In case there is mismatch between the two, the department goes by the figure in Form 26 AS. The mismatch could be because either the employer has not deposited the tax deducted from your salary with the department or has credited it in someone else’s account. In such a case, you have to file a rectified return. If the employer has not paid the TDS to the tax department, point this out to him. In case the tax has being credited to someone else’s account, furnish the TDS certificate to the assessing officer for making the necessary changes.

**3. Investments in the name of spouse**

Many individuals resort to purchasing assets in the name of their spouse, children or other close family members in the hope of evading taxes. Assets in this case refer to any kind of investment like land, buildings, fixed deposits, mutual funds, shares, debentures etc.

Let’s say x bought mutual funds in his wife’s name. As per section 64 of the Income Tax Act, any income x generates out of these mutual funds is still considered x income and x will be taxed for it. You need to ensure that you declare such income at the time of filing your return, else you will attract attention from the taxman and receive a notice for the same.

**4. High Value Transactions**

High value transactions need to be updated to the Income Tax department by the entity with which you carry out such a transaction. This is in order to ensure taxes are levied as required on each of these transactions in a timely manner. Failure to do so is an invitation for a tax notice.

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***What qualifies as a high value transaction?***

Cash deposits in a bank worth Rs 10 lakh or more in a year, Credit card purchases of Rs 2 lakh or more, Mutual fund investments for Rs 2 lakh or more, Purchase of bonds and debentures worth Rs 5 lakh or more in a year, Sale or purchase of property worth Rs 30 lakh or more.

**5. Non-disclosure of assets for wealth tax**

If you own assets whose net value is over Rs.30 Lakhs, you are liable to pay wealth tax at the rate of 1% of the amount that is above the Rs.30 Lakhs limit. If you do disclose such assets that you own or do not pay taxes on them, there is a good chance that you might receive an IT notice.

Assets can include anything from land, second homes, cars, yachts, gold jewellery, antiques, art etc. If you are unsure about the exact value of the assets you own, you can approach government approved valuers for this purpose.

Source courtesy:taxguru.in