

Interest on Payments Default u/s 201(1A)

Section 220(2) of the Income Tax Act consists of provisions for late payment of demand of tax, interest and penalty. This article seeks to explore its various provisions and applicability.

Section 156

Before going further with this article, we need to have a sneak preview of Section 156 of the Income Tax Act, which states that, on instances where any tax, penalty, fine or any other sum is payable in accordance with the Act, the Assessing Officer shall serve upon the assessee a notice of demand in Form No.7 specifying the amount to be paid.

Getting back to the context of this article, if the amount specified in any notice of demand as mentioned above is not paid within 30 days of the service of notice, the assessee shall be liable to pay a simple interest at the rate of 1% for every month or part of the month, and the period of interest will range from the due date until the payment is met.

Note:- The Assessing officer can reduce the period of payment, making it lesser than 30 days, provided that the reason for the same is valid.

Increase or Decrease on Interest payable under Section 220(2)

According to first proviso to Section 220(2), if the taxes payable under this section has been reduced, interest shall be reduced accordingly, and excess interest paid, if any, shall be refunded.

Further to the above, Second proviso under Section 220(2) states that, as a result of an order under in the first proviso, the interest payable under this section has been reduced, subsequently, based on an order under this Section or Section 263, interest payable under Section 220 is increased. The assessee would be hereby liable to pay interest under Section 220(2) on the amount payable of such order, immediately after the lapse of the due date. Payment of interest must continue until the date of final payment.

Issue of Notices

The Assessing Officer is responsible in issuing prior notices under Section 220(2), demanding the taxpayer to meet the payments required. Besides that, in cases where the Assessing Officer alters his/her assessment, a fresh notice of demand must be issued. The second demand notice will replace the initial one.

Reduction/Waiver of Section 220(2)

Notwithstanding anything contained in Section 220(2), the concerned officer may reduce the interest payable on the satisfaction of the following conditions:

- Payment of such amount may cause genuine hardship to the assessee.

- Default in the payment of the interest payable was due to circumstances beyond the control of the assessee.
- The assessee has extended his/her co-operation in any inquiry relating to the assessment of any proceeding for the recovery of any amount due from him.

Time-Limit for Adjudicating the Application for Waiver of Interest

The decision on waiver of interest must be made within a period of 12 months from the end of the month in which the application is received. Before deciding on rejection, the assessee, like in many cases, must be given an opportunity of being heard.

Note:- Petition of waiver of interest under Section 220(2A) can be filed even after the payment of interest by the assessee.

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