

CHAPTER 15

ADVANCE TAX & INTEREST

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

Solution

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an Assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the Assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @ 30% under section 194B and 194BB. Therefore, advance tax liability would arise only in respect of the health and education cess element of such tax, if the same along with tax liability in respect of other income, if any, is INR 10,000 or more.

Concept Problem 2

Mr. Jay having total income of INR 8,70,000, did not pay any advance tax during the previous year 2021-22. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2022. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2022? Assume that he does not exercise the option under section 115BAC.

Solution:

Obligation to pay advance tax arises in every case, where the advance tax payable is INR 10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest on default of payment of advance tax (section 234B) and interest for deferment of advance tax (section 234C) before filing of his return.

Total tax due on returned income of INR 8,70,000 is INR 89,960 [(20% of 3,70,000 + 12,500) + cess @ 4%]

Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2022 till the time he deposits the whole tax under self-assessment.

Interest will be levied on tax liability of INR 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

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The interest under section 234B amount to INR 3,596

Interest under section 234C

Assessee, other than assessee who declares profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 instalments during the previous year. Section 234C is attracted, if the actual instalment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under –

Date	Tax payable (1) (rounded off to nearest 100, ignoring fraction)	Cumulative Tax paid (2)	Default (2-1)	Interest
15.06.2021	$89,990 \times 15\%$ = 13,400	0	13,400	$13,400 \times 1\% \times 3 = 402$
15.09.2021	$89,990 \times 45\%$ = 40,400	0	40,400	$40,400 \times 1\% \times 3 = 1,212$
15.12.2021	$89,990 \times 75\%$ = 67,400	0	67,400	$67,400 \times 1\% \times 3 = 2,022$
15.03.2022	$89,990 \times 100\%$ = 89,990	0	89,990	$89,990 \times 1\% \times 1 = 899$
Total interest under section 234C				4,535

Mr. Jay needs to pay INR 98,091 as total of tax and interest on or before filing of return in month of July, 2022.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 3

Sheetal has paid advance tax as given below:

Particulars	Amount
Upto June 15, 2021	Nil
Upto September 15, 2021	45,000
Upto December 15, 2021	95,000
Upto March 15, 2022	1,70,000

She had long term capital gains of INR 3,00,000 on 01.01.2022 and her income under the head business/profession is INR 11,00,000.

She has filed return of income on 10.12.2022 and has paid difference of the tax on 10.12.2022.

Last date for filing of return is 31.07.2022.

Compute interest payable under section 234A, 234B, and 234C.

Solution

Computation of Tax Liability	Amount
Normal Income	11,00,000
Long term capital gains	3,00,000
Total Income	14,00,000

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Computation of Tax Liability	Amount
Tax on INR 3,00,000 @ 20% u/s 112	60,000
Tax on INR 11,00,000 at slab rate	
Upto 250,000	Nil
250,000 – 500,000 @ 5%	12,500
500,000 – 10,00,000 @ 20%	100,000
Above 10,00,000 (100,000 @ 30%)	30,000
Tax on slab (b)	1,42,500
Tax before health and education cess (a+b)	2,02,500
Add: Health and education cess @ 4%	8,100
Tax Liability (R/off)	2,10,600
(Tax liability excluding capital gains INR 11,00,000 at slab rate + EC @ 4%)	1,48,200

Interest u/s 234C

Since capital gains arise on 1st January 2022, instalments for 15th June 2021, 15th September 2021 and 15th December 2021 shall be checked without including tax on capital gain. Instalment for 15th March, 2022 shall be checked including tax on capital gain as given below:

Date	Tax payable (1)	Cumulative Tax paid (2)	Minimum Tax payable (3)	Default (2-1)	Interest
15.06.2021	1,48,200*15% = 22,230	0	1,48,200*12% = 17,784	22,230	22,200 x 1% x 3 = 666
15.09.2021	1,48,200*45% = 66,690	45,000	1,48,200*36% = 53,352	21,690	21,600 x 1% x 3 = 648
15.12.2021	1,48,200*75% = 1,11,150	95,000	-	16,150	16,100 x 1% x 3 = 483
15.03.2022	2,10,600*100% = 2,10,600	1,70,000	-	40,600	40,600 x 1% x 1 = 406
Interest under section 234C					2,203

Total Interest

Interest u/s 234C	2,203
Interest u/s 234B (40,600 x 1% x 9)	3,654
Interest u/s 234A (40,600 x 1% x 5)	2,030
Total (R/off)	7,887

Concept Problem 4

Tax Ltd. has paid advance tax for the previous year 2021-22 as given below:

Particulars	Amount
Upto 15.06.2021	50,000
Upto 15.09.2021	1,50,000
Upto 15.12.2021	3,00,000
Upto 15.03.2022	6,00,000

- Actual tax liability was found to be INR 7,00,000 and balance tax was paid on 10.12.2021. Compute interest payable under section 234A, 234B, and 234C.
- Assume actual tax liability to be INR 6,50,000.
- Presume actual tax liability to be INR 400,000 and refund was granted on 10.11.2022. Also compute interest

Solution

Interest under section 234C shall be computed in the manner given below:

Date	Tax payable (1)	Cumulative Tax paid (2)	Minimum Tax payable (3)	Default (2-1)	Interest
15.06.2021	7,00,000*15% = 1,05,000	50,000	7,00,000*12% = 84,000	55,000	55,000x 1% x 3 = 1,650
15.09.2021	7,00,000*45% = 3,15,000	1,00,000	7,00,000*36% = 2,52,000	1,65,000	1,65,000x 1% x 3 = 4,950
15.12.2021	7,00,000*75% = 5,25,000	3,00,000	-	2,25,000	2,25,000x 1% x 3 = 6,750
15.03.2022	7,00,000*100% = 7,00,000	6,00,000	-	1,00,000	1,00,000x 1% x 1 = 1,000
Interest under section 234C					14,350

Interest under section 234B shall be computed from 01.04.2022 to 10.12.2022 and is as given below:

$7,00,000 - 6,00,000 = 1,00,000 \times 1\% \times 9 =$	9,000
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Interest under section 234A shall be computed from 01.11.2022 to 10.12.2022 and is as given below:

$1,00,000 \times 1\% \times 2 =$	2,000
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Total Interest

Interest u/s 234C	14,350
Interest u/s 234B	9,000
Interest u/s 234A	2,000
Total	25,350

(b) Presume actual tax liability is INR 6,50,000.

Interest under section 234C shall be computed in the manner given below:

Date	Tax payable (1)	Cumulative Tax paid (2)	Minimum Tax payable (3)	Default (2-1)	Interest
15.06.2021	6,50,000*15% = 97,500	50,000	6,50,000*12% = 78,000	47,500	47,500 1% x3 = 1,425
15.09.2021	6,50,000*45% = 2,92,500	1,00,000	6,50,000*36% = 2,34,000	1,42,500	1,42,500 x 1% x3 = 4,275
15.12.2021	6,50,000*75% = 4,87,500	3,00,000	-	1,87,500	1,87,500 x 1% x 3 = 5,625
15.03.2022	6,50,000*100% = 6,50,000	6,00,000	-	50,000	50,000x 1% x 1 = 500
Interest under section 234C					11,825

Interest under section 234B

Advance tax paid is more than 90% of actual tax liability, hence no interest is payable.

Interest under section 234A shall be computed from 01.11.2022 to 10.12.2022 and is as given below:

50,000 x 1% x 2 =	1,000
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Total Interest

Interest u/s 234C	11,825
Interest u/s 234B	Nil
Interest u/s 234A	1,000
Total	12,825

(c) Presume actual tax liability is INR 4,00,000 and refund was granted on 10.11.2022. Also compute interest under section 244A.

Solution:**Interest under section 244A**

2,00,000 x 0.5% x 8 = INR 8,000

Concept Problem 5

The following details are provided by Mr. Divakar, an individual, for the assessment year 2022-23:

	Amount
Total estimated tax payable	4,40,000
TDS (deductible but not deducted)	55,000

Determine the advance tax payable with their due dates for the assessment year 2022-23.

Solution

Computation of Advance tax payable for the A.Y. 2022-23.

Particulars	Amount
Tax Payable	4,40,000
TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Net Tax Payable	4,40,000

Due dates for payment of advance tax

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Due date of installment	Amount payable
On or before 15 th June, 2021	INR 66,000 [15% of 4,40,000]
On or before 15 th September, 2021	INR 1,32,000 [1,98,000 (45% of 4,40,000) less 66,000, (amount paid in earlier installment)]
On or before 15 th December, 2021	INR 132,000 [INR 3,30,000 (75% of 4,40,000) Less 1,98,000 (amount paid in earlier installment or installments)]
On or before 15 th March, 2022	INR 1,10,000, [INR 4,40,000 (whole amount of advance tax liability less 3,30,000 (amount paid in earlier installment or installments)]

Concept Problem 6

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During the previous year 2021-22, total turnover of his business was 105 lakhs (out of which 15 lakhs was received by way of account payee cheques and balance in cash). Mr. Ayaansh does not opt to pay tax as per the provisions of section 115BAC.

What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of account audited.

Solution

Computation of advance tax of Mr. Ayush under presumptive Income Scheme as per section 44AD.

The total number of Mr. Ayaansh, a dealer of garments, is 105 lakhs. Since his total turnover from such business is less than 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD.

Particulars	Amount
6% of 15 lakhs, being turnover effected through account payee cheque	90,000
8% of 90 lakhs, being cash turnover	7,20,000
	8,10,000

An eligible assessee option for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability for Mr. Ayaansh as per normal provisions of Income – tax Act, 1961

Particulars	Amount	Amount
Total Income	8,10,000	
Tax on 8,10,000		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000@5%	12,500	
5,00,001 – 8,10,000@20%	62,000	74,500
Add: Health and Education cess@4%		2,980

Particulars	Amount	Amount
Tax Liability		77,480

Accordingly, he is required to pay advance tax of 77,48000 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the act.

Concept Problem 7

Mr. Jay is having total income of 6,90,000 during the P.Y. 2021-22 consisting of Income from business of 40,000, lottery winnings (gross) 5,60,000, income by way of salary (computed) 1,20,000 and loss from house property 30,000. Compute his tax liability and advance tax obligations for A.Y. 2022-23.

Solution

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2022-23

Particulars	Amount
Income under the head PGBP	40,000
Income under the head Other Sources	5,60,000
Income under the head Salary	1,20,000
Less: Loss under the head House Property	(30,000)
Total Income	6,90,000
Tax @ 30% u/s 115BB [5,60,000 x 30%]	1,68,000
Normal Income taxable at slab [6,90,000 – 5,60,000] = 1,30,000	Nil
Tax before health and education cess	1,68,000
Health and education cess @ 4%	6,720
Tax Liability	1,74,720
Less: TDS	1,68,000
Tax payable	6,720

Note: Since tax payable is less than 10,000, liability to pay advance tax does not arise.