

'Verify status of PAN-Aadhaar link before making payment'

TAX CHECK. Experts advise scrutiny as companies get notices for short deduction of TDS

Shishir Sinha
New Delhi

A check about the status of the deductee's PAN (Permanent Account Number) before making payment can help in avoiding notice from the Income Tax Department, tax experts have said.

This is critical as some deductors, especially companies, have received notices for lower deduction because PAN was not linked with Aadhaar.

Experts advise that once deductors get notice, they should pay the differential as it is their responsibility to see that PAN is operative. According to the Income Tax Department, as on March 31, 2024, over 74.67 crore PAN was issued to various categories of taxpayers, of which over 73 crore were for individuals.

Till the same date, over 60.51 crore PANs were linked with Aadhaar. Taking into account some addition in linkage, there is likelihood that around 10 crore PANs are yet to be linked and have possibly become inoperative. These could pose a challenge to deductors.

With effect from July 1, 2023, in case of inoperative PAN, TDS needs to be deducted at rates between 5 per cent and 20 per cent as against regular rate of 0.1 per cent to 10 per cent. In case, deductor do not check the status and deduct lower than these rates for inoperative PAN on the date of deduction, it will get notice post filing of return. In April, a circular was issued to allow deduction at



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standard rates if transactions entered into up to March 31, 2024, in cases where the PAN becomes operative (as a result of linkage with Aadhaar) on or before May 31, 2024.

WHAT EXPERTS SAY

According to Amit Maheshwari, Tax Partner with AKM Global, this circular was issued by department to extend the deadline for linking the PAN and Aadhaar, which was earlier set as June 30, 2023. "Notices are being sent to deductors for those cases where taxpayers have failed to link PAN and Aadhaar even by 31 May 31, 2024," he said.

Yogesh Kale, Executive Director at Nangia Andersen LLP, said notices are issued because of Rule 114AAA of Income Tax Rules 1962 which prescribes that if the PAN of a person has become inoperative due to non-linking with

Aadhaar, then such person shall be liable for higher TDS for the period during which his/her PAN is inoperative.

About the course of action after issuance of notice, Maheshwari said that if the notices pertain to those cases where PAN and Aadhaar were not linked before May 31, 2024, deductors would be liable to pay the tax demand. However, they may recover this tax from the deductee.

LOWER DEDUCTION

"We have observed that notices are being sent to employers even for those employees where salary does not exceed the taxable limit. In these cases, it would not practically possible for deductors to recover the tax demand from the employees if their salary does not cross taxable threshold or employees have left the organisation," he said

while pitching for a clarificatory notification from the CBDT.

Kale advised that the deductor should make good the default of lower tax deduction by paying the differential TDS amount and revising the respective quarter's TDS return. The deductor may then adjust the higher TDS deducted from the deductee's future payments, wherever possible.

Further, the deductor should follow up with such deductees for making their PAN operative to avoid higher TDS deduction in the future.

Also, "to be fully compliant, the deductor should periodically check the PANs of all its vendors in the government's utility provided and start deducting TDS at higher rates for the vendors having inoperative PANs," he said.