



## YOUR MONEY

### WRONGFUL TAX DEDUCTIONS

# File revised, updated ITR before taxman discovers false claim

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A recent media report reveals that around 90,000 salaried individuals from public and private sector companies withdrew tax deduction claims worth ₹1,070 crore as on December 31, 2024. With extensive data available to the Income-Tax (I-T) Department from multiple sources, the likelihood of detecting wrongful claims is now significantly high.

#### Modus operandi

Employers grant tax deductions based on receipts and proofs submitted by employees. "The employer accepts these documents in good faith and cannot independently verify their authenticity beyond basic checks," says Neeraj Agarwala, partner, Nangia & Co.

Employees can also bypass employer checks altogether by claiming deductions directly. "An employee can claim appli-

cable deductions directly in their income tax return (ITR) and claim a refund for the excess tax deducted by the employer, or get the excess tax adjusted against some other income," says Agarwala.

When employees ask for proofs, some employees generate fake documents using editing software. Forged tickets are also employed to avail of leave travel allowance (LTA). Fraud also occurs via wrongful donations to charitable trusts or political parties, where the donor receives cash kickbacks after paying a small commission.

House rent allowance (HRA) is also claimed falsely. "Many taxpayers claim this exemption without making an actual payment to a landlord," says Naveen Wadhwa, vice president, research and advisory, Taxmann.

#### How are frauds detected?

Tenants paying over ₹1 lakh per annum must disclose their

smallcap and hybrid funds, while using SIPs and STPs to manage risk.

#### Is it time for smallcap investments?

Smallcap stocks offer attractive valuations after consolidation and are best for long-term growth.

#### What are the big themes of

## CRUCIAL GUIDELINES FOR TAXPAYERS

- Retain all supporting documents for a minimum of six years
- If you receive a tax enquiry and have not engaged in any wrongful conduct, respond promptly with all relevant proofs and bank transaction records
- If calculations show that the new tax regime is more advantageous for you, consider adopting it to avoid the hassle of claiming deductions or exemptions
- Be aware that in recent years, charitable trusts have come under increased scrutiny by the tax department
- Avoid claiming deductions beyond those stated in Form 16 unless you can provide sufficient and valid supporting documents
- Refrain from adopting tax-saving practices suggested by others without verifying their legality

landlord's permanent account number (PAN). "Once the I-T Department has the landlord's PAN, it can cross-check if the rental income is reflected in the landlord's ITR. If not, the department may initiate an enquiry to verify the existence of a rental agreement and whether the landlord actually receives rent," says Arvind Rao, founder, Arvind Rao & Associates.

In case of charitable donations, trusts must submit Form IOBD to the I-T Department, providing the donor's name, PAN, amount received, and so on. Trusts also issue Form IOBE to donors, acknowledging the donation. "Fraudulent transactions may be uncovered during search proceedings, if tax officials find documents containing details of fake donors," says Wadhwa. Suspicious spikes in contributions to trusts or political parties often trigger a scrutiny. Rao underscores the point

that an employee may face scrutiny based on not just their ITR, but on data from third parties.

#### Penal consequences

Once a wrongful claim is detected, penalties follow. "The tax benefit obtained must be repaid with interest under sections 234B and 234C of the I-T Act. Additional penalties under Section 270A range from 50-200 per cent of the tax evaded. Severe cases may lead to prosecution under Section 276C for wilful tax evasion," says Suresh Surana, a Mumbai-based chartered accountant.

Taxpayers can rectify claims by submitting a revised return before the due date. After the due date, an updated ITR can be filed within two years of the end of the relevant assessment year, but it involves additional taxes. Finally, if taxpayers voluntarily withdraw a claim and pay the appropriate tax before detection, no penalty is levied.

## Market outlook for India in 2025 and investment tips

With strong domestic growth prospects for medium and long-term and evolving global dynamics, investors need to stay informed about these key trends:

#### Where should investors invest?

Investors should consider a diversified portfolio with flexi-cap,

**2025?** Big themes of 2025 are India's strong economic fundamentals, a revival in consumption, growth in the manufacturing sector and financial services.

#### How will global conditions impact India?

While US Fed rate decisions and oil price volatility may affect India,

strong fundamentals of the economy and corporate health should sustain growth.

#### How should investors save tax in 2025?

Investors should consider options like NPS, ELSS, PPF, and tax-saving fixed deposits, depending on their needs and investment horizon.