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Opinion: Petition for Symmetry in Interest Rates under the New Income-tax Act



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FCA

To

Respected Smt. Nirmala Sitharaman

Hon'ble Minister of Finance

Government of India

Subject: Request for Symmetry in Interest Rates under the New Income-tax Code (Effective FY 2026–27)

Respected Madam,

I write to respectfully draw your kind attention to the prevailing disparity in the rates of interest prescribed under various provisions of the Income-tax Act, 1961 (and its successor 2025 Code applicable from FY 2026–27), which creates an inequitable and economically distortive outcome for taxpayers.

1. Present Position and Mismatch

Under the current law:

- (i) Sections 234A/B/C: Interest on delayed filing of return/any slips in payment of advance tax is 1% per month (12% p.a.). This interest is neither tax-deductible nor do the taxpayer can seek set off with interest received, making the effective cost ~1.42% per month (~17% p.a.) for a taxpayer in the 30% bracket.
- (ii) Section 201(1A): Interest on failure to deposit TDS is 1.5% per month (18% p.a.).
- (iii) Section 201(1A): Interest on failure to deduct TDS is 1.0% per month (12% p.a.).
- (iv) Section 244A: Interest on refund of excess tax paid is 0.5% per month (6% p.a.).

From FY 2026–27, Section 437 of the new Income-tax Code retains the same 6% refund interest rate, despite broadening the scope of tax deduction at source to payments that are not income in nature and also when taxpayer compliance costs are continually rising.

2. Practical Impact

- (i) Significant amount of taxes are withheld on non-income payments (e.g., certain capital purchases such as property, motor vehicles, foreign remittances through LRS etc.).
- (ii) A large proportion of this withholding is refunded upon filing of returns by the taxpayers.
- (iii) While taxpayers and deductors face effective rates of 17–18% p.a. for shortfalls or delays, they receive only

6% p.a. for refunds, often after prolonged withholding.

- (iv) This asymmetry places an undue working capital burden on compliant taxpayers and undermines the perception of fairness in tax administration.

3. International Practice

- (i) The OECD policy principles emphasise neutrality and fairness in tax systems.
- (ii) Several jurisdictions (e.g., USA, Norway) adopt symmetrical or near-symmetrical rates for interest charged and interest paid, to ensure equity and avoid economic distortion.

4. Judicial Position

In *Union of India v. Budh Singh* [1995] 6 SCC 233, the Supreme Court held the Income-tax Act to be a self-contained code for interest provisions, limiting courts from awarding higher rates.

Consequently, any correction must come through legislative amendment, making it imperative that this matter be addressed by your good self in the new Code before it takes effect.

5. Suggested Reform

Today when withholding covers non-income payments and taxpayer compliance costs are getting higher there is need for resetting of interest rate u/s 437. It is therefore respectfully proposed that the interest rate on refunds under Section 437 be aligned to the rates under Sections 234A/B/C or 201(1A) and the taxpayer may be allowed to mitigate interest paid with interest received in computing any disallowance under new section 35- amounts not deductible. This will:

- (i) Ensure equitable treatment between the taxpayer and the Revenue,
- (ii) Reduce economic distortions and improve cash flow predictability,
- (iii) Align India with global best practices, and
- (iv) Enhance taxpayer trust in the fairness of the system,

6. Conclusion

The new Income-tax Code presents a once-in-a-generation opportunity to modernize and rationalize interest provisions. A symmetric, benchmark-linked approach will not only uphold the principle of equity under Article 14 of the Constitution but also strengthen the credibility of our tax regime internationally. I sincerely urge you to consider this reform in the new Code, so that it may take effect from FY 2026–27.

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