

Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

Dated 8th February, 2014

Press Release

This is with reference to the news report appearing in The Hindu, Delhi on 8.2.2014 with the headline "Finance Ministry pays Rs.37, 365 cr. in interest on excess tax refund" and similar reports in some other newspapers. The emphasis of the reports is that huge interest was paid by the Government on refund of excess taxes during 2006-2007 to 2010-2011 and that as per PAC report of January 31, 2014; such interest is without the authorisation of Parliament.

2. These news reports have not taken into consideration the fact that the rate of interest and entitlement to interest on excess taxes are determined by the statutory provisions of the Income Tax Act, enacted by the Parliament. Interest payment is a statutory obligation and nondiscretionary in nature, which during 2006-2007 to 2010-2011 constituted 14.5% of refund. Such interest payment aggregated to Rs.21263 crore during 2001-2002 to 2005-2006, constituting 20.79% of refunds.

3. Government has been of the view that non reflection of interest on refund separately as expenditure in the Annual financial statement laid before both the houses of the Parliament did not violate any constitutional provision. It may also be clarified that the practice of not seeking specific appropriation for interest on refund as expenditure and treating it as reduction from gross tax revenue, has been consistently followed since the Income Tax Act came into force in 1961, with an exception in Budget Estimate (BE) for F.Y. 2001-2002, where estimated interest was separately shown as expenditure . However, in the Revised Estimate for the same year (as presented in the Budget for F.Y 2002-2003), the interest was reduced to nil. No BE for such interest was given in the Budgets for F.Y 2002-2003 onwards. The learned Attorney General for India in his opinion dated 6.5.2013 also affirmed that refund on excess tax is not an expenditure under Article 112(1) of the Constitution and such outgo cannot be considered with other operational expenses.

4. The Report of PAC dated 31.1.2014 was laid in Parliament on 6.2.2014 and the recommendations and observations of the Committee will receive due consideration and responded to within 6 months of the presentation, as per the requirement of the Committee.

(Rekha Shukla)
Commissioner of Income Tax (M&TP)
Official Spokesperson, CBDT