

Expect an income tax refund rush before new law dawns

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New Delhi, 13 August

Ahead of the implementation of the new income tax (IT) law cleared by Parliament, the government plans to release a slew of pending tax refunds in the current financial year, including cases dating back up to a decade, according to a senior government official.

These refunds, reckoned to be close to ₹1,000 crore, largely relate to tax demand cases in which taxpayers had secured favourable orders from appellate authorities but the refunds had not been issued due to systemic issues.

The exercise is part of a pre-migration clean-up in the IT department to ensure that legacy refund cases are settled before the Income Tax Act of 2025 replaces its 64-year old predecessor and back-end systems aligned with it take effect

from April 1, 2026.

“There are new sections in the Bill, and the systems have to be aligned accordingly. We want to clear these pending refunds so that no issues arise once the new Act takes effect,” the official said. “If old refund cases linger, they could get entangled in the new processes. By settling these now, we ensure that the transition to the new act is seamless and free of legacy baggage,” he elaborated.

According to another official, aligning the IT department systems to the provisions of the new legislation will require a fresh mapping of processes within the Central Board of Direct Taxes (CBDT), including the protocols for issuing refunds.

“The refunds in question largely pertain to cases where the tax demand has been reduced at the Commissioner of Income Tax (Appeals) or

THE GOVERNMENT TO PAY BACK PENDING TAX DUES TO AVOID TRANSITIONAL GLITCHES AFTER THE INCOME TAX ACT OF 2025 KICKS IN ON APRIL 1, 2026

Income Tax Appellate Tribunal (ITAT) level. Even if such orders are subject to further appeal by the department, the refund amount will be released in accordance with the existing legal provisions,” the second official added. “We have already cleared a large chunk of this refund and will clear the backlog in coming months,” he said.

When asked if there will be any adverse impact on the Government’s revenue expecta-

tions for the year due to this refund exercise, the official said these payouts had already been accounted for and a negative effect on revenue collections is not likely.

An email sent to the finance ministry remained unanswered until press time.

“The move to expedite issue of refunds is aligned with the stated objectives of the government, as reiterated by the Finance Minister in her speech while introducing the Finance Bill of 2025. This will greatly ease the financial difficulties faced by the taxpayer on one hand, while at the same time, the interest burden on delayed refunds will be reduced for the exchequer,” said Riaz Thinga, partner with Grant Thornton.



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“While there may be some impact on cash flows for the revenue, it will be sustainable against the tax collection trends,” Thinga further said.

“In the present fiscal year so far, the net direct tax collections have registered a decline of 3.95 per cent, which is a result of a modest dip in collections and the increase of about 10 per cent in refunds to taxpayers. However, the dip in collections is

largely attributed to the extended deadline [of September 15] for income tax return filing and therefore, expected to correct in the next month,” he noted.

Moreover, all refunds will be due for payment even where the tax department has gone in for further appeal unless the refund is adjusted against outstanding demands of the taxpayer for other years, Thinga pointed out.