

Tax dept detects HRA fraud with illegal usage of PANs

Finds 8K-10K Cases Of ₹10L Or More, Employees Face Action

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New Delhi: The income tax department has detected a fraud involving unauthorised use of permanent account numbers (PAN) by individuals to claim house rent allowance when they were not even tenants. So far, at least 8,000-10,000 high value cases have been detected with amounts running into Rs 10 lakh or more.

The cases first came to light when authorities found alleged rent receipts of around Rs 1 crore by an individual. When confronted, the individual whose PAN reflected the "rental income" denied any knowledge. Further probe revealed that the individual indeed did not receive the rent that was shown against his name.

The case prompted the income tax department to further investigate the matter and it turned out that there was rampant misuse of PANs by unscrupulous individuals to claim tax deduction from their employers. So much so that officials have now come across cases where employees

HOW CASE CAME TO LIGHT

- > Authorities found alleged rent receipts of around **₹1 crore** by an individual
- > The individual, whose PAN reflected the "rental income",

- > Further investigation showed rampant misuse of PANs by unscrupulous individuals to claim tax deduction from their employers

- > Employees of certain companies have used same

denied any knowledge

- > Probe revealed individual did not receive rent shown against his name



PAN to claim tax deduction

- > Fault entirely lies with employee and employer cannot be held liable even if multiple individuals quote same PAN for rent payment, say tax officials



of certain companies have used the same PAN to claim tax deduction.

Tax officials said the department is now going after those employees, who have made bogus claims to recover the tax. It is unclear if legal action is also planned against them. The case reflects another instance of PAN being misused without the holder actually knowing about it. In this case, what has complicated the matter is that currently TDS

(tax deducted at source) is applicable only for monthly rent of over Rs 50,000 or annual payment in excess of Rs 6 lakh. So, a lot of employees have been misusing the benefit to avoid paying tax on rental income.

"Most of the financial transactions are linked to PAN. With use of latest technology and automated processes and data analytics, it is not very difficult for tax authorities to track fake claims. This may not only entail tax pay-

ments later but also will result in levy of penal interest, penalty and even lead to prosecution in extreme cases. Where rent is paid to the parent, the rent should be paid through cheque or by way of electronic transfer (and not through cash) to demonstrate the genuineness of the transaction and that parent too needs to report that rental income in his or her return," said Kuldip Kumar, partner at Mainstay Tax Advisors.

Tax officials said the fault entirely lies with the employee and the employer cannot be held liable even if multiple individuals quote the same PAN for rent payment. "Employers are not expected to make a deep investigation, but the onus is also on them to have reasonable checks and balances, while obtaining the proof of rent paid to allow HRA exemption. In fact, in some of the cases, employers have their policy that where any employee is caught having submitted a fake claim for HRA or LTA etc, such employee may be terminated from employment," said Kumar.