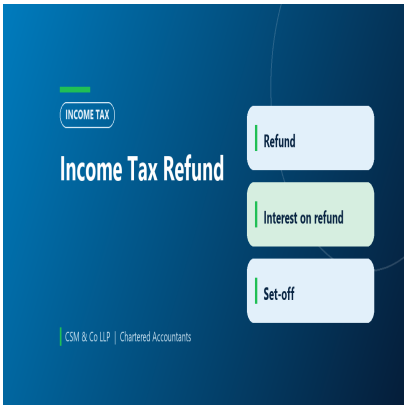

Income Tax Refund: How It Is Claimed, Interest on Refund, Set-Off and Tax on the Interest (Tax Year 2026-27)

Description

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Quick summary

- A refund is due when tax paid, including TDS, TCS and advance tax, is more than the tax properly chargeable (section 431), and it is claimed only by filing a return under section 263 (section 433).
- The department pays simple interest at 0.5% for every month or part of a month (section 437): from 1 April of the next year if the return is filed by the due date, and from the date of filing if it is filed late.
- No interest is paid if the refund is less than 10% of the tax determined on the return.
- The refund is not income, but the interest on it is taxed as income from other sources.
- The department can set the refund off against any tax still payable and may hold it for up to 60 days after a pending assessment is made.

A refund arises when you have paid, or had deducted, more tax than you owe. Chapter XX of the Income-tax Act, 2025 (sections 431 to 438) says who gets it, how it is claimed and what interest is paid. This post covers those rules for tax year 2026-27.

When a refund is due

Section 431: where the tax paid by you or on your behalf, or treated as paid by you, for a tax year **exceeds the amount with which you are properly chargeable**, you are entitled to a refund of the excess. The tax paid includes TDS, TCS, advance tax and self-assessment tax.

If the income of one person is included in another's total income, only the latter can claim the refund for that income (section 432(1)). If a person cannot claim a refund because of death, incapacity, insolvency or liquidation, his **legal representative, trustee, guardian or receiver** can claim it for the benefit of the person or the estate (section 432(2)).

How to claim

Every claim for refund is made by **furnishing a return under section 263** (section 433). A salaried person

whose employer deducted more tax than needed, a person whose TDS is higher than tax, or a person who paid excess advance tax shows the excess as refund in the return. A return filed late can still claim a refund, subject to the time limits for returns (see our post on belated, revised and updated returns).

The refund is paid after the return is verified and processed. The department credits it to your bank account, so the bank details in your return must be correct. Track the status on the e-filing portal.

Interest on refund (section 437)

The department pays **simple interest at 0.5% for every month or part of a month**.

Refund out of	Interest runs
TDS, TCS or advance tax paid in the financial year	From **1 April of the year following the tax year** to the date of refund, if the return was filed on or before the due date; from the **date of filing the return** to the date of refund, in any other case
Tax paid under section 266 (self-assessment tax)	From the date of the return or of payment of tax, whichever is later, to the date of refund
Any other case (tax or penalty paid in excess of a notice of demand)	From the date of excess payment to the date of refund

No interest is payable on a refund of TDS, TCS, advance tax or self-assessment tax if the refund is **less than 10% of the tax** determined on processing the return or on regular assessment (section 437(2)).

Example. Tax year 2026-27. Tax on your return is ?60,000; TDS is ?80,000, so the refund is ?20,000, which is 33% of the tax. You file on time, and the refund is credited on 15/09/2027.

- Interest runs from 1 April 2027 to 15 September 2027: April, May, June, July, August and part of September, which is 6 months.
- Interest = 0.5% × 6 × ?20,000 = **?600**.

If you file after the due date, interest runs only from the date of filing.

Is the refund taxable?

- The **refund of tax** is not income. It is only a return of tax you had already paid.
- The **interest** on the refund is income and is taxed under the head **Income from other sources** (section 92(1)), at your slab rate. Report it in the return for the year in which you receive it, as part of your interest income, and take credit for any TDS shown against it.

Example. The ?600 interest above is added to your income. At a 30% slab with 4% cess, the tax is 600 × 30% × 1.04 = ?187.

Set-off and withholding (section 438)

- The department may, **instead of paying** the refund, **set it off** against any sum remaining payable by you

under the 1961 Act or the 2025 Act. It must first give you **written intimation** of the proposed action. Reply to that intimation if you dispute the demand or have already paid it.
- If a refund is due and an assessment or reassessment is **pending**, the Assessing Officer may withhold the refund, for reasons recorded in writing and with the previous approval of the Principal Commissioner or the Commissioner, **up to 60 days from the date on which the assessment or reassessment is made**.

Refund on appeal

If an appeal or other proceeding results in a refund, the Assessing Officer must refund it without your making a claim (section 435(1)), except in the cases in the section such as a fresh assessment being directed, where the refund becomes due only when the fresh assessment is made.

Why a refund may be late

Interest at 0.5% a month compensates for delay in paying a refund. Common reasons for delay:

- the return is **not e-verified**, so it is not processed;
- **TDS shown in the return does not match** the TDS statements, and the department adjusts it;
- an **outstanding demand** for another year, which may be adjusted against the refund;
- **bank account details** that do not match;
- a **pending assessment** or scrutiny, which can hold the refund for up to 60 days after the assessment is made.

Check the intimation you receive after processing, and respond on the portal if you disagree. If a refund has been issued but not received because of a bank issue, you can ask for it to be re-issued through the portal.

Points to remember

1. Claim a refund only by filing the return; there is no other route (section 433).
2. File on time. A timely return earns interest from 1 April of the next year; a late one only from the date of filing.
3. Interest on refund is taxable; the refund is not.
4. A refund of less than 10% of the tax earns no interest.

Frequently asked questions

How do I claim an income tax refund?

File a return of income under section 263. A claim for refund can be made only by furnishing a return (section 433). If TDS, TCS or advance tax exceeds your liability, the excess is shown as refund in the return.

How much interest do I get on a refund?

Simple interest at 0.5% for every month or part of a month (section 437). For refund of TDS, TCS or advance tax, it runs from 1 April of the year after the tax year to the date of refund if you filed on time, or

from the date of filing if you filed late.

When is no interest paid?

When the refund is less than 10% of the tax determined on processing the return or on regular assessment (section 437(2)), in the cases of TDS, TCS, advance tax and self-assessment tax refunds.

Is a refund taxable?

The refund of tax is not income. The interest you receive on it is taxable as income from other sources, at your slab rate (section 92).

Can the department keep my refund?

It can set off the refund against any tax still payable under the 1961 Act or the 2025 Act, after giving you written intimation (section 438(1) and (2)). If an assessment is pending it may withhold the refund for up to 60 days from the date the assessment is made, for recorded reasons and with approval (section 438(3)).

Who claims the refund of a person who has died?

The legal representative, trustee, guardian or receiver, for the benefit of the person or his estate (section 432(2)).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 92, 431 to 438)

Related reading

- Tax on FD Interest: How to Pay Income Tax on Fixed Deposit Interest Income?
- Late, Revised and Updated Income Tax Returns: Time Limits, Fee, Interest and Additional Tax (Tax Year 2026-27)
- Who Must File an Income Tax Return and Due Dates (Tax Year 2026-27)

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