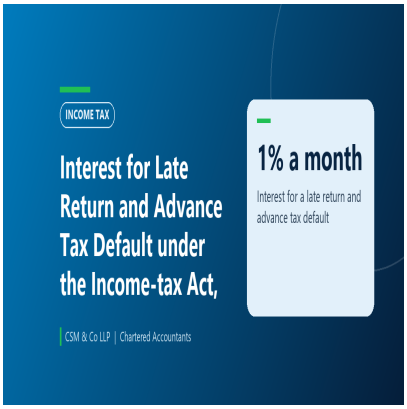

Interest for Late Return and Advance Tax Default under the Income-tax Act, 2025: Sections 423, 424, 425 and 411 (Tax Year 2026-27)

Description

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Quick summary

- The old sections 234A, 234B, 234C and 220(2) are sections 423, 424, 425 and 411(3) of the Income-tax Act, 2025: 1% a month on tax unpaid for a late or missing return, 1% a month or part of a month when advance tax paid is below 90% of the assessed tax, and a deferment interest of 3% (1% for the March instalment) on instalment shortfalls.
- No deferment interest is charged if at least 12% of the tax due on the returned income is paid by 15 June and 36% by 15 September; capital gains, winnings, first-time business income and ordinary dividend that were not estimated are excused if the tax is paid in the remaining instalments or by 31 March.
- A person paying under section 58(2) presumptive taxation pays 1% on a shortfall against the whole tax due by 15 March.
- Tax demanded by notice and not paid in thirty days carries 1% a month or part of a month under section 411(3), and a Commissioner can reduce or waive it in genuine hardship.

Interest on tax is charged when a return is late, when advance tax is short or late, and when a demand is not paid on time. In the Income-tax Act, 2025, which applies from 01/04/2026, these sections replace the old 234A, 234B, 234C and 220(2).

Old section	New section	When it applies	Rate
234A	423	Return furnished late or not furnished	1% a month
234B	424	No advance tax, or advance tax below 90% of assessed tax	1% a month or part of a month

Old section	New section	When it applies	Rate
234C	425	Instalment shortfall on 15 June, 15 September, 15 December or 15 March	3% (1% for March) on the shortfall
220(2)	411(3)	Demand not paid within thirty days of notice	1% a month or part of a month

Section 423: late or missing return (old 234A)

Simple interest is **1% x A x T**, where A is the tax on which interest is payable and T is the number of months from the starting date to the ending date in the table below (section 423(1)).

Case	Interest runs from	Interest runs to	Tax on which interest is charged
Return furnished late (under section 263(1), (4) or (6), or on a notice under section 268(1))	The due date under section 263(1)	The date the return is furnished	Tax on the income determined (or on regular assessment) less tax paid
No return furnished	The due date	Completion of the assessment under section 271	Tax on the income in regular assessment less tax paid
Return required on a reassessment notice (section 280) furnished late	End of the time allowed in the notice	Date of furnishing	Extra tax on the reassessed income
Return required on a reassessment notice, none furnished	End of the time allowed in the notice	Completion of the reassessment	Extra tax on the reassessed income

“Tax paid” means advance tax, TDS and TCS, tax relief and foreign tax credit (section 423(4)(d)). Additional tax under section 267 is left out of the base.

Example. The tax left after TDS and advance tax is ?40,000 and the return is filed three months after the due date. Interest is 1% x ?40,000 x 3 = ?1,200. The section multiplies by “the number of months” and does not say in terms how a part of a month is counted, so for a filing date that is not a whole number of months after the due date, check how the portal counts it before paying.

Section 424: advance tax default (old 234B)

An assessee liable to pay advance tax who **paid none**, or paid **less than 90% of the assessed tax**, pays simple interest at **1% for every month or part of a month**, from **1 April after the tax year** up to the date the total income is determined under section 270(1) (processing of the return) or the regular assessment is completed (section 424(1)).

- If **no advance tax** was paid, interest is on the whole assessed tax.
- If **some** was paid but less than 90%, interest is on the **shortfall** between the assessed tax and the advance tax paid.
- “Assessed tax” is the tax on the total income determined, less TDS and TCS on income included, tax relief and foreign tax credit (section 424(2)).
- If tax is paid (as self-assessment tax or otherwise) before the date of processing or assessment, interest is worked to that date on the full amount, and after that on the remaining shortfall (section 424(4)).

Example. Assessed tax is ?1,50,000 and advance tax paid is ?1,00,000. This is below 90% (?1,35,000), so interest runs on the shortfall of ?50,000 at 1% for each month or part from 1 April. If the return is processed after four months, the interest is ?50,000 x 1% x 4 = ?2,000, less any part paid earlier with the return.

Section 425: deferment of advance tax (old 234C)

The Table in section 425(1) compares advance tax paid by each due date with the tax due on the **returned income** (the tax on the income declared in the return less TDS, TCS and reliefs, section 425(5)):

Due date	Required (of tax due on returned income)	Interest on the shortfall
15 June	15%	3%
15 September	45%	3%
15 December	75%	3%
15 March	100%	1%

No interest is charged for the first two instalments if the advance tax paid is **12% or more by 15 June** and **36% or more by 15 September** (section 425(2)).

Presumptive taxpayers declaring profit under section 58(2) (Table Sl. No. 1 or 3) are checked only against the tax due by **15 March**, and pay simple interest at **1%** on that shortfall (section 425(3)).

Excused shortfall (section 425(4)). No interest is charged on a shortfall that arises because of under-estimating, or not estimating, capital gains, winnings from lotteries and games (section 2(49)(n)), business income arising or accruing for the first time, or dividend (other than deemed dividend under section 2(40)(e)), provided the tax on that income is paid in full in the remaining instalments or by 31 March.

Example. Tax due on the returned income is ?1,50,000. By 15 June the person has paid ?10,000, which is less than 12% (?18,000). The required amount by 15 June is 15% = ?22,500 and the shortfall is ?12,500, so interest is 3% x ?12,500 = ?375. If ?18,000 had been paid, no interest would arise for that instalment.

Section 411(3): unpaid demand (old 220(2))

A demand notice under section 289 must be paid within **thirty days** of service, or a shorter period set with the approval of the Joint Commissioner. If not, simple interest at **1% for every month or part of a month** runs from the day after that period until payment (section 411(3)). Finance Act 2026 reworded the sub-section and said no interest accrues on a demand arising from penalty under section 439 up to the date of the appellate order. A reduction or waiver on an application for genuine hardship is possible (section 411(7)), and the order is to be passed within twelve months from the end of the month of the application (section 411(8)). The Assessing Officer can extend the time or allow instalments on an application made before the due date (section 411(5)).

Paying interest with the return (section 266)

Interest and any fee must be paid **before** the return is furnished, with proof of payment. A short payment is adjusted against fee first, then interest, then tax (section 266(3)). Interest under section 423 for this purpose is computed on the tax on the total income declared in the return less advance tax, TDS, TCS and reliefs (section 266(4)).

How CSM & Co LLP can help

We compute interest, check portal calculations and file waiver applications for hardship cases. Please reach out to our team and we will be happy to assist.

Frequently asked questions

Which sections of the 2025 Act replace 234A, 234B and 234C?

Section 423 (default in furnishing the return, old 234A), section 424 (default in payment of advance tax, old 234B), section 425 (deferment of advance tax, old 234C). Interest on tax demanded by notice and not paid in time (old 220(2)) is in section 411(3).

How is interest for a late return calculated?

Simple interest of 1% of the unpaid tax for each month, from the day after the due date of the return under section 263(1) to the date the return is furnished (to the completion of assessment if no return is furnished). The amount is the tax on the income as determined (or in regular assessment) less tax already paid, which includes advance tax, TDS and TCS and tax relief (section 423). The text multiplies by the number of months; it does not say in terms how a part of a month is treated.

When is interest for advance tax default charged?

If you were liable to pay advance tax and paid none, or paid less than 90% of the assessed tax, simple interest of 1% for each month or part of a month runs from 1 April after the tax year until the income is determined or regular assessment is completed. It is charged on the whole assessed tax if nothing was paid, or on the shortfall otherwise (section 424).

When is no interest charged for instalment deferment?

If the advance tax paid is at least 12% of the tax due on the returned income by 15 June and at least 36% by 15 September (section 425(2)). Interest is also not charged for a shortfall caused by under-estimating or not estimating capital gains, winnings, business income arising for the first time or dividend (other than deemed dividend) if the tax on that income is paid in the remaining instalments or by 31 March (section 425(4)).

Do I pay the interest with the return?

Yes. Interest and fee for delay in filing or advance tax default must be paid before furnishing the return, with proof of payment, and any short payment is adjusted first to fee, then interest, then tax (section 266).

Can interest on a demand be waived?

The Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner can reduce or waive interest under section 411(3) on an application if payment would cause genuine hardship, the default was due to circumstances beyond the assessee's control, and the assessee has co-operated in the inquiry and recovery proceedings (section 411(7)).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 266, 411, 423 to 425)

Related reading

- Late, Revised and Updated Income Tax Returns: Time Limits, Fee, Interest and Additional Tax (Tax Year 2026-27)
- ITR Filing Deadline for AY 2026-27 Extended to 21 November 2026 for Audit Cases
- Gratuity: Rules, Formula and Income Tax Exemption (Tax Year 2026-27)

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