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**Discrepancy in Interest Calculations – A Case for Reforming Section 437**

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Section 390 provides for methods for collection and recovery of tax either by way of deduction of tax at source, collection at source, or by way of advance payment. Such taxes are definitely payable or recoverable irrespective of the fact that the assessment in respect of such income is to be made in a later tax year.

Section 437(1) further provides that where a refund is due to the assessee under this Act, he shall, subject to the provisions of this section, be entitled to receive, in addition to the refund, simple interest thereon calculated at the rate of 0.5% for every month or part of a month where the refund is out of tax collected at source under Section 394 or paid by way of advance tax or treated as paid under Section 390(5), during the financial year. Further, this sub-section provides that such interest shall be payable only from the first day of April of the year following the tax year to the date on which the refund is granted, where the return of income has been furnished on or before the due date as specified in Section 263(1), or from the date of furnishing the return of income to the date on which the refund is granted, in any other case. There are thus deferments and conditions in the grant of interest on refund to the taxpayer.

One fails to understand the rationale for computing interest under Section 437 from April 1 following the tax year even when the actual payment of taxes precedes such date, and especially so when, for any failure in the matter of payment of taxes in the tax year, the revenue would recover interest from the earliest date under various provisions of the Act, such as interest for deferment of advance tax under Section 425 for the defined months in the tax year, and consequential interest upon failure to deduct or pay, or collect or pay, under Section 398, imposing such interest from the date on which such tax was deductible or collectible to the date on which such tax is deducted or collected. Also, interest on excess refund under Section 426 is chargeable from the date of grant of refund. Fairness dictates that the same principle should apply to the taxpayer, and interest should be payable to the taxpayer for excess payment from the date of payment of tax instead of April 1 following the tax year.

Thus, there is a striking lack of symmetry between how the Government charges interest and how it pays it. One fails to understand the rationale for delaying interest payments until April 1 when the actual payment of taxes often precedes that date, sometimes by nearly a year.

To ensure equitable treatment, a legislative change is desirable. In Section 437(1), the phrase "From the first day of April of the year following the tax year" should be replaced with "From the date of deduction, collection at source, or advance payment under Section 390 during the financial year."

Aligning the interest commencement date with the actual date of payment would resolve the current imbalance. By adopting this amendment, the 2025 Act would reflect a more transparent and just relationship between the taxpayer and the Government, rewarding compliance with the same urgency that it penalizes the taxpayer for default.

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