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INCOME-TAX ACT, 2025

Chapter XX: REFUNDS

Section 437 - Interest on refunds.

(1) 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, in the circumstances specified in column B of the Table below, for the period specified in column C of the said Table.

Table

Sl. No.	Circumstances	Period
A	B	C
1.	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.	(a) 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); (b) from the date of furnishing the return of income to the date on which the refund is granted; in any other case.
2.	Where the refund is out of any tax paid under section 266.	From the date of furnishing of return of income or payment of tax, whichever is later, to the date on which the refund is granted.
3.	Any other case.	From the date or, as the case may be, dates on and from which the amount of tax or penalty specified in the notice of demand issued under section 289 is paid in excess of such demand to the date on which the refund is granted.

(2) No interest shall be payable under sub-section (1) (Table: Sl. No. 1 or 2), if the amount of refund is less than 10% of the tax as determined under section 270(1) or on regular assessment.

(3) Where refund, mentioned in sub-section (1) (Table: Sl. No. 1), arises as a result of an order passed by the Assessing Officer in consequence of an application made by the assessee under section 288 (1) (Table: Sl. No. 11), interest shall be calculated at the rate of 0.5% for every month or part of a month comprised in the period from the date of such application to the date on which the refund is granted.

(4) In a case where a refund arises as a result of giving effect to an order under section 359 or 363 or 365(10) or 368 or 377 or 378, wholly or partly, otherwise than by making a fresh assessment or reassessment, the assessee shall be entitled to receive an additional interest which shall be––

(a) In addition to the interest payable under sub-section (1); and

(b) computed on such amount of refund calculated at the rate of 3% per annum, for the period beginning from the date following the date of expiry of the time allowed under section 286(1) (Table: Sl. Nos. 9 and 10) to the date on which the refund is granted.

(5) For the purposes of sub-section (4), in a case where proceedings for assessment or reassessment are pending, in computing the period for determining the additional interest payable, the period beginning from the date on which such refund is withheld by the Assessing Officer as per and subject to provisions

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of section 438(3) and ending with the date upto which such refund is withheld, shall be excluded.

(6) Where refund of any amount becomes due to the deductor in respect of any amount paid to the credit of the Central Government under Chapter XIX-B, such deductor shall be entitled to receive, in addition to the said amount, simple interest thereon calculated at the rate of 0.5% for every month or part of a month comprised in the period, from the date on which—

(a) claim for refund is made in such form as may be prescribed; or

(b) tax is paid, where refund arises on account of giving effect to an order under section 359 or 363 or 365(10) or 368,

to the date on which the refund is granted.

(7) If the proceedings resulting in the refund are delayed for reasons attributable to the assessee or the deductor, as the case may be, whether wholly or in part, the period of the delay so attributable to him shall be excluded from the period for which interest is payable under this section.

(8) Where any question arises as to the period to be excluded under sub-section (7), it shall be decided by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner whose decision thereon shall be final.

(9) Where, as a result of an order under section 270(10) or 271 or 279 or 287 or 288 or 359 or 363 or 365(10) or 368 or 377 or 378, the amount on which interest was payable under sub-section (1) or (3) has been increased or reduced, as the case may be, the interest shall be increased or reduced accordingly.

(10) In a case where the interest is reduced under sub-section (9), the Assessing Officer shall serve on the assessee a notice of demand in such form as may be prescribed specifying the amount of the excess interest paid and requiring him to pay such amount.

(11) The notice of demand under sub-section (10) shall be deemed to be a notice under section 289 and the provisions of this Act shall apply accordingly.

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