

Tax woes for joint holders: Flawed reporting rules kindle reassessment fears

Gautam Nayak 4 min read 06 Jul 2025, 07:19 PM IST



Dark clouds are hovering over joint-hold accounts, thanks to the systems and procedures of the Income Tax department.

SUMMARY

In India, it is common practice to have all assets and investments, and even bank accounts, in joint names with a spouse or child.

In India, it is common practice to have all assets and investments, and even bank accounts, in joint names with a spouse or child. This makes it convenient to transfer the asset or investment to the spouse or child or encashed in the event of the demise of the original investor, who would normally be the first holder of the asset or investment. However, dark clouds are now hovering over such joint holders, thanks to the systems and procedures of the Income Tax department.

Every mutual fund is required to file an annual statement of financial transactions (SFT) with the Income Tax department, reflecting the names of persons who have acquired units of ₹10 lakh or more during the year.

Similarly, reporting is required by every company issuing bonds or debentures or shares of ₹10 lakh or more to a person, every listed company buying back shares of ₹10 lakh or more from a person, the Registrar or Sub-Registrar of Assurances in respect of transactions of purchase of immovable property of ₹30 lakh or more, are required to report such transactions in the SFT. These transactions are then collated PAN-wise by the department and reflected in the investors', purchasers or sellers' PAN.

Unfortunately, the rules provide that where a transaction is recorded in the name of more than one person, the aggregate amount of the transaction has to be reported for all the persons, i.e., not only the first holder but also the joint holders. Therefore, three years ago, many joint holders received emails from the Income Tax department showing such transactions in their names and asking them to confirm or deny such transactions.

Given the fact that the transactions were those of the first holder and not their own, and were large and often disproportionate to the joint holders' own incomes, almost all joint holders replied online to reject the information. The online dropdown menu provided only 5 options as the response: Information is correct, Source is receipt of gift which is not taxable, Information is not fully correct, Information relates to other PAN/Year, and Information is duplicate/included in other information. The most appropriate one being—Information relates to Other PAN, which was selected, giving the PAN of the first holder as the one to whom the investment belonged.

After 3 years, such joint holders have now received emails from the Income Tax department stating that their feedback has been rejected by the source. The feedback received from the joint holders was sent to the respective mutual fund, Registrar, company, etc, which had filed the SFT, and they were asked whether the feedback was correct. Given the manner in which the rules require reporting of the same transaction as that of each holder, including each joint holder, the mutual fund, etc., had no choice but to report the feedback as incorrect.

The concern that all these joint holders would now have is that their assessments for those years may be threatened with reassessment by the tax authorities, a long and tiresome process. A similar thing has happened in the past in relation to joint holders of non-resident Indian (NRI) bank deposits (**see Mint article, 9 May 2023**). Reassessment proceedings will result in unnecessary wastage of time for both taxpayers and tax officials, all

thanks to a defective process and system. Besides, taxpayers would have to pay tax professionals to represent them in such proceedings. And at the end of it all, what would be achieved? Nothing, besides the dropping of the reassessment proceedings. A sheer waste of valuable resources without any benefit to anyone.

Why can the tax systems not be built with greater care to deal with such common situations? It is well known that joint holding is a very common phenomenon in India. Could there not have been an item in the drop-down menu, "Joint holder for convenience", and asking for the PAN of the actual investor? That would have resolved all these problems, even if the rule required the mutual fund to provide the names of all joint holders against the investment.

The fallout of such e-mails has been that mutual fund compliance officers have been inundated with protests from joint holders about how they could have stated that the feedback is incorrect. The officers have to explain to irate investors that they have not made a mistake—the problem lies with the defective rules and systems of the tax department. Meanwhile, joint holders wait with bated breath for the next round of attacks on them from the tax department.

Gautam Nayak is a partner at CNK & Associates LLP. Views are personal