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WHAT IS PAN?

Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued in the form of a laminated card, by the Income Tax Department, to any "person" who applies for it or to whom the department allots the number without an application.

PAN enables the department to link all transactions of the "person" with the department. These transactions include tax payments, TDS/TCS credits, returns of income, specified transactions, correspondence, and so on. PAN, thus, acts as an identifier for the "person" with the tax department.

PAN was introduced to facilitate linking of various documents, including payment of taxes, assessment, tax demand, tax arrears etc. relating to an assessee, to facilitate easy retrieval of information and to facilitate matching of information relating to investment, raising of loans and other business activities of taxpayers collected through various sources, both internal as well as external, for detecting and combating tax evasion and widening of tax base.

A typical PAN is AAAPA1234A.

First three characters i.e. "AAA" in the above PAN are alphabetic series running from

AAA to ZZZ

Fourth character of PAN i.e. "P" in the above PAN represents the status of the PAN holder. "P" stands for Individual, "F" stands for Firm, "C" stands for Company, "H" stands for HUF, "A" stands for AOP, "T" stands for TRUST etc.

Fifth character i.e. "A" in the above PAN represents first character of the PAN holder's last name/surname.

Next four characters i.e. "1234" in the above PAN are sequential number running from 0001 to 9999.

Last character i.e. "A" in the above PAN is an alphabetic check digit.

WHY IS IT NECESSARY TO HAVE PAN?

It is mandatory to quote PAN on return of income, all correspondence with any income tax authority. From 1 January 2005 it has become mandatory to quote PAN on challans for any payments due to Income Tax Department.

It is also compulsory to quote PAN in all documents pertaining to the following financial transactions :-

- 1) Sale or purchase of a motor vehicle or vehicle other than two wheeled vehicles.
- 2) Opening an account [other than a time-deposit referred at point No. 12 and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank
- 3) Making an application for issue of a credit or debit card.

- 4) Opening of a demat account with a depository, participant, custodian of securities or any other person with SEBI
- 5) Payment in cash of an amount exceeding Rs. 50,000 to a hotel or restaurant against bill at any one time.
- 6) Payment in cash of an amount exceeding Rs. 50,000 in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.
- 7) Payment of an amount exceeding Rs. 50,000 to a Mutual Fund for purchase of its units
- 8) Payment of an amount exceeding Rs. 50,000 to a company or an institution for acquiring debentures or bonds issued by it.
- 9) Payment of an amount exceeding Rs. 50,000 to the Reserve Bank of India for acquiring bonds issued by it.
- 10) Deposits of cash exceeding Rs. 50,000 during any one day with a banking company or a co-operative bank.
- 11) Payment in cash for an amount exceeding Rs. 50,000 during any one day for purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank.
- 12) A time deposit of amount exceeding Rs. 50,000 or aggregating to more than Rs. 5 lakh during a financial year with -
 - (i) a banking company or a co-operative bank
 - (ii) a Post Office;
 - (iii) a Nidhi referred to in section 406 of the Companies Act, 2013 or
 - (iv) a non-banking financial company
- 13) Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than Rs. 50,000 in a financial year for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India under section 18 of the Payment and Settlement Systems Act, 2007 to a banking company or a co-operative bank or to any other company or institution.
- 14) Payment of an amount aggregating to more than Rs. 50,000 in a financial year as life insurance premium to an insurer
- 15) A contract for sale or purchase of securities (other than shares) for amount exceeding Rs. 1 lakh per transaction
- 16) Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange for amount exceeding Rs. 1 lakh per transaction.
- 17) Sale or purchase of any immovable property for an amount exceeding Rs. 10 lakh or valued by stamp valuation authority referred to in section 50C of the Act at an amount exceeding ten lakh rupees.
- 18) Sale or purchase of goods or services of any nature other than those specified above for an amount exceeding Rs. 2 lakh per transaction.

Further, every person (except Central Government, the State Government, or the Consular Office) who enters into the following transactions shall quote his PAN or Aadhaar number in

all the documents pertaining to such transactions:

- 1) Deposit cash in one or more accounts with a banking company, co-operative bank or post office if the aggregate amount of cash deposit in such accounts during a financial year is Rs. 20 lakh or more
- 2) Withdraw cash from one or more accounts with a banking company, co-operative bank or post office if the aggregate amount of cash withdrawal from such accounts during a financial year is Rs. 20 lakh or more
- 3) Open a current account or cash credit account with a banking company or a co-operative bank, or a Post Office. However, non-resident persons and foreign companies do not need to quote and authenticate PAN to open a current account if they satisfy the following conditions:
 - (a) They do not have any income chargeable to tax in India;
 - (b) The transaction is entered into within an IFSC banking unit; and
 - (c) They submit a declaration in Form No. 60.

NOTE:

- 1) Minor person can quote PAN of his father or mother or guardian provided he does not have any income chargeable to income-tax.
- 2) Any person, who does not have PAN and enters into any of above transaction, can make a declaration in Form No.60.
- 3) Quoting of PAN is not required by a non-resident in a transaction referred at point No. 3 or 5 or 6 or 9 or 11 or 13 or 18.

PAN – LEGAL FRAMEWORK

The legal authority for allotment and use of the new series of PAN is derived from [Section 139A](#) of the Income-tax Act, 1961. This section lays down the framework for PAN, e.g, who is required to apply for PAN, who else can apply for PAN, who will allot PAN, transactions where PAN is required to be quoted, use of PAN in TDS certificates and TDS returns, that one person can have only one PAN and the manner of applying for PAN.

The manner of applying for PAN is laid down in Rule 114 of the Income-tax Rules, 1962. This rule, amended in 2011, also specifies the copies of documents required to be submitted along with the PAN application (in form 49A or 49AA, as the case may be) as proof of identity and address of the PAN applicant.

Rule 114B lists down the documents in which PAN is required to be quoted while entering into specified transactions/activities. Persons who do not have PAN are exempted from quoting PAN on furnishing a declaration in Form 60. Rule 114C lists the persons to whom section 139A does not apply. These are persons who have agricultural income by furnishing declaration in Form 61, non-residents, and Central Govt./State Govt. and Consular offices, where they are payers.

Penalty of Rs.10,000/- is imposable [u/s 272B](#) for failure to comply with the provisions of [section 139A](#).

Linking of PAN with Aadhar Number

As per [section 139AA](#) in the Income-tax Act, 1961, it is mandatory for every person, who is eligible to obtain Aadhaar, to quote his Aadhaar number while applying for PAN or furnishing return of income with effect from July 1, 2017.

If any person does not possess the Aadhaar Number but he had applied for the Aadhaar card then he can quote Enrolment ID of Aadhaar application Form in the ITR.

Note: W.e.f. 01-10-2024, the benefit of quoting enrolment ID of Aadhaar form has been withdrawn. The taxpayer is required to quote his Aadhaar number in PAN application Form.

Further, every person who has been allotted PAN as on the 1st day of July, 2017, and who is eligible to obtain Aadhaar number shall intimate his Aadhaar number on or before a date to be notified to the Income-tax Department. In case of failure to intimate the Aadhaar number, PAN allotted to the person shall be made inoperative after the date so notified.

The due date for such linking had been extended on multiple occasions, and the latest date was 31-03-2022. However, a person is allowed to link his PAN with Aadhaar after 31-03-2022 on payment of fee under [Section 234H](#). When a person whose PAN has become inoperative, intimates his Aadhaar after 31-03-2022, his PAN shall become operative within 30 days from the date of such intimation.

As per Rule 114AAA, a person shall face the following consequences if his PAN has become inoperative due to non-linking with Aadhaar. These consequences shall take effect from 01-07-2023 and continue till the PAN becomes operative:

- (a) The tax shall be deducted at a higher rate in accordance with [Section 206AA](#);
- (b) The tax shall be collected at a higher rate in accordance with [Section 206CC](#);
- (c) Refund of any amount of tax or part thereof, due under any provision of the Income-tax Act shall not be made;
- (d) Interest on such refund shall not be payable for the period starting from 01-07-2023 and ending with the date on which PAN becomes operative.

It is to be noted that there shall be no liability on the deductor/collector to deduct/collect the tax at higher rates for the transactions entered into up to 31.03.2024 and where the PAN of deductee/collectee becomes operative (by linking with Aadhaar) on or before 31.05.2024.

PAN and AADHAR are interchangeable for Income-tax purpose

[Section 139A](#) of the Income-tax Act, 1961, prescribes various conditions under which an assessee is required to obtain PAN. He needs to mention his PAN in all communications with the Income-tax Dept. and while entering into specified financial transactions.

However, there can be situations where a person entering into high-value transactions, such as purchase of foreign currency or huge withdrawal from the banks, does not possess a PAN. Thus, the Finance (No. 2) Act, 2019, has provide for interchangeability of PAN with Aadhar. It

has been provided that every person who is required to furnish or intimate or quote his PAN under the Income-tax Act, and who,-

- a) has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar in lieu of PAN. Further, Income-tax department shall allot PAN to such person in prescribed manner.
- b) has been allotted a PAN, and who has linked his Aadhaar number with PAN as per [section 139AA](#), may furnish his Aadhaar number in lieu of a PAN for all the transactions where quoting of PAN is mandatory as per Income-tax Act.

