



Assessment of Income

ASSESSMENT OF INCOMES

Introduction

Income-tax assessment involves verifying and reviewing the information furnished by the assessee in the Income-tax return. The Income-tax Act prescribes various types of assessments, including Self-Assessment, Summary Assessment, Scrutiny Assessment, Best Judgment Assessment, and Income Escaping Assessment.

Types of Assessment

The term 'assessment' refers to the examination of a return of income to determine the exact income and tax liability of an assessee. The process, which was earlier manual, is now largely electronic. Section 144B of the Act governs faceless assessments.

- **Self-Assessment** – The taxpayer calculates total income and tax liability before furnishing the return.
- **Summary Assessment** – Conducted without calling the assessee, it involves automated processing of returns to correct errors and verify tax payments.
- **Scrutiny Assessment** – A detailed examination of selected returns to verify the correctness of income, deductions, and tax liability.
- **Best Judgment Assessment** – Conducted when an assessee fails to file a return, does not cooperate, or maintains inadequate books of accounts. It may be compulsory or discretionary.
- **Income Escaping Assessment** – If income chargeable to tax has escaped assessment, subject to certain conditions, the Assessing Officer can reassess such income.

Other Assessments and Directions

- **Direction by Joint Commissioner** – The Joint Commissioner may examine records and issue directions to the Assessing Officer.
- **Reference to Dispute Resolution Panel (DRP)** – Available for non-resident/foreign company or person with variation from TPO's order u/s 92CA(3) if any variation in income is prejudicial to the assessee.
- **Faceless Proceedings** – Covers assessment, inquiries, valuation, appeals, and penalty proceedings under a digital framework.

Validity of Approval

o Any approval by an income-tax authority in assessment, reassessment or recomputation proceedings shall be deemed administrative and supervisory in nature and shall not be invalid due to insufficiency of reasons, defects in authentication or communication, or non-appending of digital signature where such approval is granted electronically.

Self-Assessment

Self-Assessment

Introduction

Self-assessment requires an assessee to compute taxable income and tax liability before filing the Income-tax return. Failure to discharge this obligation may result in being treated as an assessee-in-default.

Computation of Income and Tax

Self-assessment involves calculating total income under the five heads of income:

- Salary
- House Property
- Profits and Gains of Business or Profession
- Capital Gains
- Income from Other Sources

Total income is determined after setting off losses, clubbing income, and claiming deductions under Sections 80C to 80U. The computed tax liability includes:

- Tax at normal or special rates
- Rebate under section 87A (if applicable)
- Surcharge and Health & Education Cess
- Deductions for relief under Section 89, MAT/AMT credit, and foreign tax credit

Prepaid taxes such as TDS, TCS, and Advance Tax are deducted from the total tax liability. Interest under Sections 234A, 234B, and 234C and late filing fees under Section 234F are added, if applicable.

Payment of Self-Assessment Tax



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- Self-assessment tax can be paid even after filing the return.
- Companies and assessee liable for tax audit (Section 44AB) must pay tax electronically.

Credit for Tax Paid

If the amount paid falls short of the liability, it is adjusted in the following order:

- Fees and interest
- Balance tax payable

Consequences of Non-Payment

- Non-payment of self-assessment tax results in being treated as an assessee-in-default.
- The tax authorities may initiate recovery proceedings.
- Penalties may be imposed for non-compliance.

Enquiry before Assessment

Enquiry before Assessment

Introduction

The Assessing Officer (AO) is empowered to conduct an enquiry to obtain complete information regarding a taxpayer's income or loss. The AO can issue notices, direct special audits, or refer matters to a Valuation Officer. These powers are exercised in a faceless manner.

Powers of the Assessing Officer

- **Notice to File Return [Section 142(1)(i)]**
 - o If a taxpayer fails to file a return within the due date, the AO may issue a notice requiring submission of the return within a specified time.
- **Notice to Produce Documents or Accounts [Section 142(1)(ii)]**
 - o The AO can ask a taxpayer to produce books of accounts or documents. However, books older than three years from the relevant previous year cannot be demanded, though documents can be required without any time restriction.
- **Notice to Furnish Information [Section 142(1)(iii)]**
 - o The AO may require the taxpayer to furnish a statement of all assets and liabilities, whether included in the accounts or not, with prior approval from the Joint Commissioner.
- **Making Inquiries [Section 142(2)]**
 - o The AO may gather information necessary for assessment. Before using such material against the assessee, an opportunity to be heard is provided, except in best judgment assessments under Section 144.
- **Direction for Special Audit [Section 142(2A)]**
 - o If books of accounts are complex or require further verification, the AO may direct:
 - A Chartered Accountant to audit the accounts.
 - A Cost Accountant to value inventory.
- **Estimation of Asset Value by valuation officer [Section 142A]**
 - o The AO may refer an asset, property, or investment for valuation by a Valuation Officer, irrespective of doubts about the correctness of the accounts.
- **Faceless Proceedings**
 - o Section 142B allows the government to implement a Faceless Inquiry or Valuation Scheme, ensuring automated allocation of cases using artificial intelligence and machine learning.
 - o The Faceless Inquiry or Valuation Scheme, 2022, was notified vide Notification No 19/2022 dated 30-03-2022 to conduct these proceedings digitally.

Special Audit and Inventory Valuation under Income-tax

Special Audit and Inventory Valuation under Income-tax

Introduction

The Assessing Officer (AO) may direct an assessee to get accounts audited or inventory valued if the complexity of accounts, volume of transactions, or nature of business necessitates such action. This power is exercised in a faceless manner.



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Conditions for Special Audit or Inventory Valuation

The AO can issue such a direction if:

- There are doubts about the correctness of accounts.
- The accounts involve complexity or a high volume of transactions.
- The business activity is specialised and requires further verification.
- The audit or valuation is necessary in the interest of revenue.

The Principal Chief Commissioner/Chief Commissioner or Principal Commissioner/Commissioner must approve the direction, and the assessee is given an opportunity to be heard.

Appointment of Auditor or Valuer

- A Chartered Accountant is appointed for auditing accounts.
- A Cost Accountant is appointed for inventory valuation.
- The appointment is made from a panel of Accountants and Cost Accountants maintained by the tax authorities.

Submission of Reports

- The audit report must be submitted in Form 6B, and the inventory valuation report in Form 6D.
- Reports must be filed electronically within the time prescribed by the AO, extendable up to 180 days.

Payment of Audit Expenses

- The Central Government bears the cost of the audit or valuation.
- As per Rule 14B, remuneration is fixed between ₹3,750 to ₹7,500 per hour, based on the time spent.

Consequences of Non-Compliance

Failure to comply may result in:

- Best Judgment Assessment by the AO.
- Penalty under Section 271 and prosecution under Section 276D.

Faceless Proceedings

- As per Section 142B, the Faceless Inquiry or Valuation Scheme, 2022, ensures that notices for special audits and valuations are issued electronically through an automated system. [Notification No 19/2022, dated 30-03-2022]
- Artificial intelligence and machine learning assist in random allocation of cases.

Estimation of value of assets by Valuation Officer

Estimation of Value of Assets by Valuation Officer

Introduction

The Assessing Officer (AO) may refer a case to a Valuation Officer to estimate the value or fair market value of any asset, property, or investment for assessment or reassessment. The Valuation Officer must submit the report within six months from the end of the month in which the reference was made.

When Can a Reference Be Made?

The AO may refer an asset, property, or investment for valuation irrespective of doubts about the correctness of accounts. The reference can be made under any provision, including but not limited to:

- Unexplained investments (Section 69)
- Unexplained money (Section 69A)
- Undisclosed investment in books (Section 69B)
- Unexplained expenditure (Section 69C)
- Fair market value determination under Section 56(2)

Process of Valuation

- The Valuation Officer considers evidence provided by the assessee and any other relevant material.
- The assessee is given an opportunity of being heard before any evidence is used.
- If the assessee does not cooperate, the Valuation Officer may estimate the value to the best of his judgment.



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Ministry of Finance, Government of India

Time Limit for Valuation

- The valuation report must be submitted to the AO and the assessee within six months from the end of the month in which the reference was made.
- The AO may use the report for assessment or reassessment after granting the assessee an opportunity of being heard.

Powers of the Valuation Officer

The Valuation Officer can:

- Enter land, buildings, or premises related to the valuation.
- Inspect assets, books of accounts, and documents relevant to valuation.
- Require individuals in charge of the property to provide necessary facilities for valuation.

Prior notice of at least two days is required before entering any premises, and consent of the occupant must be obtained.

Faceless Proceedings

- Section 142B allows valuation to be conducted under the Faceless Inquiry or Valuation Scheme, 2022.
- References to Valuation Officers are made electronically through an automated allocation system using artificial intelligence and machine learning.[Notification No 19/2022, Dated 30-03-2022]

Faceless Inquiry or Valuation

Faceless Inquiry or Valuation

Introduction

The Faceless Inquiry or Valuation Scheme, 2022, was introduced to eliminate direct interaction between taxpayers and Income-tax authorities. It applies to notices under Section 142, special audits, inventory valuation, and valuation by a Valuation Officer under Section 142A.

Scope of the Scheme

Under Section 142B, the scheme covers:

- Issuance of notices under Section 142(1) & 142(2) for return filing and inquiries.
- Directing special audits or inventory valuation under Section 142(2A).
- Valuation of assets, properties, or investments by a Valuation Officer under Section 142A.

Objectives

The scheme aims to enhance:

- Transparency and accountability by eliminating personal interactions.
- Efficient resource utilization using economies of scale.
- Team-based processing and dynamic jurisdiction through automation.

Faceless Inquiry or Valuation Scheme, 2022

- The Central Government notified the scheme via Notification No. 19/2022, dated 30-03-2022.
- As per scheme, the following shall be issued or made in a faceless manner through an automated allocation system as per the procedure prescribed in section 144B:
 - a. Notice under Section 142(1) to file return of Income,
 - b. Notice under Section 142(2) for making inquiry before assessment,
 - c. Notice under Section 142(2A) for directing the assessee to get his account audited or inventory valued, or
 - d. Reference for estimating the value of any asset, property or investment by a Valuation Officer under Section 142A,
- All proceedings are conducted digitally using automated case allocation.
- Artificial intelligence and machine learning assist in case selection and processing.

Government Directions

The Central Government may modify the applicability of provisions through notifications, which must be tabled before Parliament.

Summary Assessment



Summary Assessment

Introduction

A Summary Assessment is the automated processing of an Income-tax return by the Centralised Processing Centre (CPC). It verifies arithmetical accuracy, deductions, and tax payments without requiring the taxpayer's presence or passing a detailed assessment order.

Scope and Process

- All Income-tax returns filed under Section 139 or in response to a notice under Section 142(1) are processed by CPC, Bengaluru.
- CPC checks for:
 - o Arithmetical errors and incorrect claims.
 - o Losses claimed beyond the due date.
 - o any such inconsistency in the return, with respect to the information in the return of any preceding previous year, as may be prescribed.
 - o Disallowance/Income indicated in audit reports but not reflected in returns.
 - o Disallowance of deductions under Section 10AA and Chapter VI-A (Part C) if the return is filed late.

Meaning of 'Incorrect Claim'

A claim is considered incorrect if:

- It contradicts another entry in the return.
- Not furnished the required information to substantiate the claim.
- Deduction claimed exceeds the specified statutory limit.

Re-computation of Tax after Adjustments

- The total income is recalculated after necessary adjustments.
- Prepaid taxes, such as advance tax, TDS, TCS, and self-assessment tax, are deducted from the computed liability.
- Interest under Sections 234A, 234B, and 234C and late filing fees under Section 234F are added if applicable.

Opportunity to Respond

Before making any adjustments, the CPC notifies the assessee and allows 30 days to respond electronically. If no response is received, the adjustment is finalized.

Intimation to the Assessee

- If tax is payable, an intimation (deemed as a Notice of Demand) is issued, requiring payment within 30 days to avoid recovery proceedings.
- If a refund is due, it is processed and credited to the assessee.
- If no tax is payable or refundable, no intimation is issued, and the acknowledgement of the return is deemed as intimation.

Time Limit for Intimation

- CPC must issue an intimation within 9 months from the end of the financial year in which the return is filed.

Appeal Against Intimation

- If dissatisfied with adjustments, the assessee can file an appeal before CIT(A) or make an application for revision.

Scrutiny Assessment

Scrutiny Assessment

Introduction

Scrutiny Assessment is a detailed examination of an Income-tax return to ensure that the assessee has correctly reported income and paid taxes. It may be Limited Scrutiny, focusing on specific issues, or Complete Scrutiny, covering the entire return. A notice must be served within 3 months from the end of the financial year in which the return is furnished.

Types of Scrutiny Assessments

- **Limited Scrutiny** – Examines only specified issues communicated to the assessee.
- **Complete Scrutiny** – Conducted in special cases where a thorough review of the return is necessary.
- **Selection of Cases** – Cases are selected through Computer-Aided Scrutiny Selection (CASS), using data analytics and 360-degree taxpayer profiling.



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Faceless Scrutiny Assessment

- Section 144B mandates that Scrutiny Assessments (Section 143), Best Judgment Assessments (Section 144), and Reassessments (Section 147) be conducted electronically.
- The National Faceless Assessment Centre (NFAC) issues notices and coordinates assessments digitally.

Initiation of Scrutiny Assessment

- A notice under Section 143(2) is issued by NFAC or the jurisdictional AO within 3 months from the end of the financial year in which the return is furnished.
- Non-compliance may lead to Best Judgment Assessment under Section 144.

Deemed Validity of Notices

Under Section 292BB, an assessee cannot challenge the validity of a notice if:

- He has participated in the assessment, and
- He has not objected to the validity of the notice before the completion of the assessment.

No later objection allowed on:

- Non-service,
- Late service, or
- Improper service of notice.

Conclusion of Scrutiny Assessment

- If conducted facelessly, the process follows Section 144B guidelines.
- In the other case, the AO issues a written Assessment Order determining income, deductions, tax, and refunds.
- If additional income is assessed, the AO must issue a show-cause notice, giving the assessee an opportunity to respond before passing the final order.

Time Limit for Completion

Assessment Year	Time Limit
2022-23 onwards	12 months from the end of the assessment year
2021-22	9 months from the end of the assessment year
2020-21	18 months from the end of the assessment year
2019-20	12 months from the end of the assessment year
2018-19	18 months from the end of the assessment year
Up to 2017-18	21 months from the end of the assessment year

- Updated returns can be assessed within 12 months from the end of the financial year in which they are filed.
- If a Transfer Pricing reference is made, the time limit is extended by 12 months.

Faceless Assessment

Faceless Assessment

Introduction

Faceless Assessment ensures electronic processing of Scrutiny Assessments (Section 143(3)), Best Judgment Assessments (Section 144), and Reassessments (Section 147). This eliminates physical interaction between taxpayers and tax authorities, except for cases excluded from faceless assessment.

Scope of Faceless Assessment

All assessments, reassessments, or recomputations under Sections 143(3), 144, and 147 are conducted facelessly, except in cases:

- Assigned to Central Charges or International Taxation Units.
- Where pendency could not be created on ITBA because of technical reasons or cases not having a PAN, as the case may be;



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Authorities Involved

- **National Faceless Assessment Centre (NFAC)** – It facilitates the conduct of faceless assessment proceedings in a centralised manner.
- **Assessment Units (AU)** – It shall conduct a faceless assessment by identifying issues, determining liability/refund, seeking clarifications, and analysing information.
- **Verification Units (VU)** – It shall verify through enquiry, cross-checks, examination of books, witnesses, and statements, or other required functions
- **Technical Units (TU)** – It shall provide technical assistance on legal, accounting, forensic, IT, valuation, transfer pricing, data analytics, management, or treaty matters as required.
- **Review Units (RU)** – It shall review the Income Determination Proposal by verifying evidence, facts, legal points, proposed additions/disallowances, arithmetic accuracy, and other required aspects.

Procedure for Faceless Assessment

- **Case Assignment** – NFAC assigns cases to an Assessment Unit.
- **Notice Issuance** – Notices under Section 143(2) or 142(1) are issued electronically.
- **Taxpayer Response** – Taxpayers file replies online.
- **Verification and Technical Assistance** – Requests for documents, inquiries, or expert opinions are handled digitally.
- **Draft Assessment Order** – If variations are proposed, a show-cause notice is issued.
- **Review Process** – Orders undergo review before finalization.
- **Final Assessment** – NFAC issues the order, along with demand/refund notices.

Communication and Personal Hearings

- All notices, responses, and orders are exchanged electronically.
- Taxpayers may request a virtual hearing if variations are proposed.
- The system uses video conferencing or telephony for hearings.

Special Audit or Inventory Valuation

- If required, NFAC refers cases to jurisdictional authorities for Special Audit (Section 142(2A)) or Inventory Valuation.

Transfer of Cases

NFAC may transfer cases to jurisdictional Assessing Officers if faceless processing is impractical.

Best Judgment Assessment

Best Judgment Assessment

Introduction

Best Judgment Assessment is conducted when an assessee fails to file a return, does not cooperate in assessment proceedings, or maintains incomplete or inaccurate accounts. The Assessing Officer (AO) estimates taxable income based on available information and must pass a reasoned order.

Types of Best Judgment Assessments

- **Compulsory Best Judgment Assessment** – Mandatory in cases where:
 - o The assessee fails to file a return within the due date.
 - o An updated return (Section 139(8A)) is not filed.
 - o The assessee does not respond to a notice under Section 142.
 - o The assessee fails to comply with a special audit or inventory valuation order (Section 142(2A)).
 - o A defective return is not rectified within the allowed time.
- **Discretionary Best Judgment Assessment** – Conducted when:
 - o The AO is not satisfied with the correctness or completeness of accounts.
 - o If no regular accounting method or Accounting Standards are followed,

Manner of Conducting Assessment

- **Faceless Assessment (Section 144B)**: Conducted through automated allocation and digital communication.



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Ministry of Finance, Government of India

• Other assessment:

- o The AO issues a show-cause notice, allowing the assessee to justify their position.
- o The assessee is given an opportunity to be heard, except when a prior notice under Section 142(1) has already been issued.

Time Limit for Completion

Assessment Year	Time Limit
2022-23 onwards	Smith
2021-22	Jackson
2020-21	Jackson
2019-20	Jackson
2018-19	Jackson
Up to 2017-18	Jackson

- If Transfer Pricing reference is made, the time limit extends by 12 months.
- Updated returns (Section 139(8A)) can be assessed within 12 months from the financial year in which the return was filed.

Reference to Dispute Resolution Panel (DRP)

Reference to Dispute Resolution Panel (DRP)

Introduction

The Dispute Resolution Panel (DRP) provides a fast-track mechanism for resolving disputes arising from draft assessment orders issued to non-residents, foreign companies, or assessee with Transfer Pricing Officer (TPO) adjustments. DRP proceedings are conducted in a faceless manner. It is a panel of three Principal Commissioners or Commissioners of Income-tax, constituted by the Board.

Who Can Approach the DRP?

- Non-residents (excluding companies) and foreign companies.
- Assessee facing transfer pricing adjustments (Section 92CA(3)).
- Not available for assessee subject to search/requisition under Sections 132 or 132A

Process for Filing Objections

- The Assessing Officer (AO) issues a draft assessment order to the assessee.
- Within 30 days, the assessee must:
 - o Accept the order, or
 - o File objections with DRP (Form 35A) and the AO.
- If the assessee accepts the order or does not object, the AO finalizes the assessment within one month.

DRP's Role and Powers

- Reviews the draft order, objections, supporting evidence, and reports from AO, TPO, or other authorities.
- Can confirm, reduce, or enhance variations, but cannot set aside the assessment or order further inquiries.
- Issue directions within 9 months from the end of the month in which the draft order was forwarded to the assessee.
- The AO must complete the assessment within one month from the end of the month in which such directions are received.

Binding Nature of DRP Directions

- The AO must comply with DRP's directions.
- If the directions prejudice the assessee, an opportunity for a hearing is provided.

Appeal Against DRP Orders

- The assessee can appeal before ITAT against the final order.
- No appeal to CIT(A) is allowed.

Faceless DRP Proceedings

- DRP directions are issued digitally, using automated case allocation and a dynamic jurisdiction system.

Alternative to DRP: Dispute Resolution Committee (DRC)

- Assessee with income up to ₹50 lakh and disputed additions up to ₹10 lakh may opt for DRC instead of DRP.
- An assessee may approach either the DRP or the DRC, but not both



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Ministry of Finance, Government of India

- If admitted by the DRC, proof of DRP withdrawal or no pending proceedings must be given.
- No DRP reference is allowed against the AO's modified order passed as per DRC resolution.

Income Escaping Assessment

Income Escaping Assessment

Introduction

If any income chargeable to tax has escaped assessment, the Assessing Officer (AO) can reassess such income, recompute loss, or modify allowances as per Sections 148 to 153. Effective 01-09-2024, search and requisition cases are excluded from reassessment provisions and governed under Chapter XIV-B (Block Assessment).

Conditions for Reassessment (Section 147)

- The AO must have information suggesting that income has escaped assessment.
- The AO must follow the procedures in Sections 148 to 153.

When Is Income Deemed to Have Escaped Assessment?

- Information received through Risk Management Strategy (RMS).
- Audit objections indicating incorrect tax assessments.
- Information under Tax Information Exchange Agreements (TIEA) or DTAA.
- Tribunal or Court orders requiring tax adjustments.
- Survey findings under Section 133A (effective 01-09-2024), provided specific income-related information is obtained.

Issuance of Notice (Section 148A & 148)

- The AO must issue a show-cause notice (SCN) under Section 148A, along with information that suggests income escapement.
- The assessee is given time to respond before a final decision is made.
- If the AO decides to proceed, a notice under Section 148 is issued along with the SCN order.

Note: For sections 102520000000166366 and 148A, the term Assessing Officer means, and shall always be deemed to mean, an Assessing Officer other than the National Faceless Assessment Centre or any assessment unit referred to in 144B(3).

Time Limits for Issuing Notices (Section 149)

Escaped Income	Show-Cause Notice (148A.) Deadline	Reassessment Notice (Section 148) Deadline
Less than ₹50 lakh	3 years from the end of the relevant assessment year	3 years & 3 months from the end of the relevant assessment year
₹50 lakh or more	5 years from the end of the relevant assessment year	5 years & 3 months from the end of the relevant assessment year

- If reassessment arises from appeal/revision orders, no time limit applies (Section 150).
- No reassessment based on TDS/TCS-related surveys.

Faceless Reassessment (Section 151A)

- The e-Assessment of Income Escaping Assessment Scheme, 2022 ensures automated case allocation using artificial intelligence.
- AO actions, including SCNs, inquiries, and notices, are conducted electronically.

Completion of Reassessment (Section 153)

- The AO must finalize reassessment within 12 months from the end of the financial year in which the notice was served.

Penalties & Prosecution

- **Penalty under Section 270A:** 50% of tax for under-reporting, 200% for misreporting.
- **Prosecution under Section 276C:** For willful tax evasion.

Appeal Against Reassessment Order



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- The assessee may file an appeal before CIT(A) or JCIT(A) or seek revision.
- Cases involving Dispute Resolution Panel (DRP) or GAAR can be directly appealed before ITAT.

Time Limits for Assessments

Time Limits for Assessments

Introduction

The Income-tax Act prescribes specific time limits for completing Summary Assessments, Scrutiny Assessments, Best Judgment Assessments, and Reassessments. If an assessment is not completed within the prescribed time, it becomes time-barred.

Summary Assessment (Section 143(1))

- Returns are processed electronically by the Centralized Processing Centre (CPC), Bengaluru.
- The intimation must be issued within 9 months from the end of the financial year in which the return is filed.
- If no tax is payable or refundable and no intimation is issued, the return acknowledgement is deemed as intimation.

Scrutiny Assessment (Section 143(3))

- **Notice issuance:** The AO must issue a notice within 3 months from the end of the financial year in which the return is furnished.
- **Completion deadlines:**

Assessment Year	Time Limit
2022-23 onwards	12 months from the end of the assessment year
2021-22	9 months from the end of the assessment year
2020-21	18 months from the end of the assessment year
2019-20	12 months from the end of the assessment year
2018-19	18 months from the end of the assessment year
Up to 2017-18	21 months from the end of the assessment year

- If the AO seeks cancellation of registration/exemption of an entity, the time from intimation to the final order is excluded from the limitation period.
- Updated returns or returns filed under condonation (Section 119(2)(b)) can be assessed within 12 months from the end of the financial year in which they are furnished.

Best Judgment Assessment (Section 144)

- Conducted when an assessee fails to file a return, does not comply with notices, or maintains incomplete books of accounts.
- Completion deadlines are the same as those for Scrutiny Assessments.

Reassessment (Income Escaping Assessment – Section 147)

- The AO can reassess income if he has information suggesting income has escaped assessment.
- **Notice issuance deadlines (Section 148 & 148A):**

Escaped Income	Show-Cause Notice (148A) Deadline	Reassessment Notice (148.) Deadline
Less than ₹50 lakh	3 years from the end of the relevant assessment year	3 years & 3 months from the end of the relevant assessment year
₹50 lakh or more	5 years from the end of the relevant assessment year	5 years & 3 months from the end of the relevant assessment year

- **Completion deadline:** 12 months from the end of the financial year in which the reassessment notice was served.

Time Extensions for Special Cases

- **Search Cases:**



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o If a search is conducted under Section 132 or 132A, the time limit extends by 12 months if assessments were pending at the time of the search.

• Transfer Pricing Cases:

o If a reference is made to the Transfer Pricing Officer (TPO), the time limit extends by 12 months.

Time Limits for Special Assessments & Orders

Scenario	Time Limit
Fresh assessment after appeal or revision	Within 12 months from the end of the financial year in which the order was received/passed
Appeal effect orders (ITAT, HC, SC)	Within 3 months from the end of the month from receipt of order
Modify assessment as per TPO order	Within 2 months from the end of the month in which order of the TPO is received.
To give effect to finding/direction	Within 12 months from the end of the month in which the order is received/passed
Assessment of partners after firm's assessment	Within 12 months from the end of the month in which assessment order is passed in case of the firm.
Cases revived after abatement in search cases	One year from the end month of revival or period under Section 158BE, whichever is later

Exclusions from Time Limits

Certain periods are excluded when computing assessment deadlines which includes:

- Time taken in reopening proceedings or rehearing, due to change in AO's jurisdiction.
- Period of stay granted by court, till receipt of order vacating such stay by PCIT/CIT.
- Time taken in special audit or inventory valuation.
- Where the assessee approaches the Authority or Board for Advance Rulings, the limitation period shall exclude the time from the date of application to the date on which the rejection order or advance ruling is received by the Principal CIT or CIT.
- "Where a reference is made by the competent authority for exchange of information, the period excluded from limitation shall be from the date of such reference (or first reference) till the earlier of
 - o The date of last receipt of information by the Principal CIT/CIT, or
 - o One year.

Rectification of Mistake

Rectification of Mistake

Introduction

Income-tax authorities have the power to rectify mistakes in their orders if the error is apparent from the record. Rectification may be initiated by the authority itself or upon a request from the assessee, deductor, or collector.

Orders Eligible for Rectification

The Income-tax authority can rectify apparent mistakes in:

- Any order it passes
- Intimations after processing IT returns
- Intimations after processing TDS/TCS statements

Exceptions:

- **Appeal/Revision cases:** Cannot rectify parts already considered in appeal or revision proceedings (but can rectify other mistakes in the same order)
- **Post-notice intimations:** Cannot rectify intimation mistakes after issuing Section 143(2) scrutiny notice



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Authorities Empowered to Rectify Mistakes

- **Assessing Officer (AO)** – For assessment orders.
- **CIT(A) / JCIT(A)** – For appeal orders.
- **ITAT** – For appellate orders.
- **TPO** – For arm's length price determinations.

Time Limits for Rectification

Order Type	Time Limit for Rectification
AO / CIT(A) / JCIT(A) orders	4 years from the end of the financial year in which the order was passed
ITAT orders	6 months from the end of the month in which the order was passed
TPO orders	4 years from the end of the financial year in which the order was passed

If an assessee applies for rectification, the authority must pass an order within 6 months from the end of the month in which the application is received.

Procedure for Rectification

- If rectification increases tax liability or reduces a refund, the assessee must be given an opportunity of being heard.
- A written rectification order must be issued.
- If additional tax is payable, a demand notice is served.
- If tax liability reduces, a refund is issued.

Faceless Rectification, Amendments, and Notice of Demand

Faceless Rectification, Amendments, and Notice of Demand

Introduction

Section 157A empowers the Central Government to implement a Faceless Scheme for conducting rectifications, amendments, demand notices, and intimation of loss in an automated and electronic manner.

Scope of the Scheme

The Faceless Scheme covers:

- Rectification of Mistakes (Section 154)
- Amendments (Section 155)
- Issuance of Demand Notices (Section 156)
- Intimation of Loss (Section 157)

Objectives

The scheme aims to enhance:

- Efficiency and transparency by eliminating direct interactions between taxpayers and tax authorities.
- Automation and resource optimization through economies of scale.
- Team-based rectifications and amendments under a dynamic jurisdiction system.

Government Directions

- The Central Government is authorized to issue modifications or exemptions to existing provisions for effective implementation.
- Any changes must be notified before 31-03-2022 and presented before both Houses of Parliament.

Amendments in Assessment Order

Amendments in Assessment Order

Introduction

Assessment orders may require modifications due to subsequent events, such as appellate orders, rectifications, or reassessment proceedings. These amendments ensure the correct computation of taxable income for the assessee or other connected taxpayers.

Key provisions of Section 155 are as follows:



Income Tax Department

Ministry of Finance, Government of India

• Rectification in assessment of partner (Section 155(1A))

- o If the partner's remuneration is later disallowed in the firm's assessment, the partner's income is adjusted.
- o Time limit: Within 4 years from the end of the financial year in which the firm's final order was passed.

• Rectification in assessment of members of AOP/BOI (Section 155(2))

- o If a member's share of AOP/BOI income is incorrectly assessed, the AO must correct it.
- o Time limit: Within 4 years from the AOP/BOI's final order.

• Rectification on re-computation of loss or depreciation (Section 155(4))

- o If loss or depreciation is recomputed in reassessment, its impact on future years is corrected.
- o Time limit: Within 4 years from the reassessment order.

• Rectification on conversion of capital asset into stock (Section 155(7B))

- o If a parent-subsidiary transfer is eligible for a capital gains exemption but later fails to meet the conditions, the exemption is revoked.
- o Time limit: Within 4 years from the financial year in which the conditions were breached.

• Rectification if investment made in extended period (Section 155(11))

- o If a taxpayer invests capital gains in new assets within the extended period, the earlier tax liability is reversed.
- o Time limit: Within 4 years from the financial year of receiving compensation.

• Rectification if exports proceeds received in foreign exchange (Section 155(11A))

- o If export proceeds are later received in convertible foreign exchange, exemptions (10A, 10AA, 10B, 10BA) are granted retrospectively.
- o Time limit: Within 4 years from the year of receipt.

• Rectification based on settlement of overseas tax dispute (Section 155(14A))

- o If disputed foreign tax is later settled, the AO allows the credit upon submission of proof.
- o Time limit: Within 6 months from document submission.

• Rectification where full value of consideration is changed (Section 155(15))

- o If stamp valuation is reduced in appeal, the capital gains are recomputed accordingly.
- o Time limit: Within 4 years from the revision order.

• Rectification where amount of compensation is changed (Section 155(16))

- o In case of compulsory acquisition, enhanced compensation is taxed as capital gains on receipt basis. If compensation is later reduced by judicial authorities, the Assessing Officer shall amend the assessment by taking the reduced amount as full value of consideration.
- o Time limit: Within 4 years from the reduction order.

• Rectification where amount of deduction is withdrawn (Section 155(17))

- o If patent rights are revoked, deductions for royalty under Section 80RRB are reversed.
- o Time limit: Within 4 years from the revocation order.

• Rectification due to disallowance of surcharge/cess (Section 155(18))

- o Deduction for surcharge/cess is disallowed retrospectively from 01-04-2005.
- o Time limit: Within 4 years from the financial year starting 01-04-2021.

• Rectification to allow a deduction for differential sugarcane price paid in subsequent years by the co-operative sugar factories (Section 155(19))

- o Co-operative sugar factories can claim deductions for excess sugarcane purchase price disallowed in earlier years.
- o Time limit: Within 4 years from 01-04-2022 (i.e., till 31-03-2027).

• Rectification of TDS credit in respect of the income disclosed in the return of income filed in earlier years (Section 155(20))

- o If TDS is deposited late, credit is allowed in the correct year upon application in Form 71.
- o Time limit: Within 4 years from the financial year of deduction.

• Recomputation of total income of 2 subsequent years in conformity with the ALP determined by TPO [Section 155(21)]



Income Tax Department

Ministry of Finance, Government of India

- o The Assessing Officer shall proceed to recompute the total income of the assessee for the said two consecutive previous years, by amending the order of assessment or any intimation or deemed intimation under sub-section (1) of section 143.

Time limit:

- o *If assessment, intimation or deemed intimation of Year 2 and Year 3 is done:* The Assessing Officer is required to make an amendment within 3 months from the end of the month in which Year 1's assessment is completed.
- o *If assessment, intimation or deemed intimation of Year 2 and Year 3 is not done within the 3-month period:* The Assessing Officer is required to make an amendment within 3 months from the end of the month in which assessment, intimation or deemed intimation for Year 2/3 is done.

Faceless Proceedings for Amendments (Section 157A)

- All rectifications are conducted electronically under a faceless system.
- Ensures automation, efficiency, and minimal taxpayer interaction.

Directions by Joint Commissioner

Directions by Joint Commissioner

Introduction

If the assessment is pending, the Joint Commissioner of Income Tax (JCIT) may examine the records and issue directions to the Assessing Officer for the proper completion of the assessment.

Issuance of Directions

- The JCIT may examine assessment records:
 - o On his own motion.
 - o On a reference made by the AO.
 - o On an application filed by the assessee.
- If necessary or expedient, the Joint Commissioner may issue binding directions to the Assessing Officer for completing the assessment.

Binding Nature of Directions

- The AO must comply with the directions issued by the JCIT.
- If an assessment order based on such directions is later found to be erroneous and prejudicial to revenue, the Commissioner or Principal Commissioner may revise it under Section 263.

Opportunity of Being Heard

- If the directions are prejudicial to the assessee, an opportunity of being heard must be provided.
- No hearing is required if the directions relate to matters already investigated.

Reference to Authorities to Invoke GAAR

Reference to Authorities to Invoke GAAR

Introduction

The General Anti-Avoidance Rule (GAAR) allows tax authorities to declare an arrangement as an Impermissible Avoidance Arrangement (IAA). If the Assessing Officer (AO) identifies such an arrangement during assessment or reassessment, he may refer it to the Principal Commissioner (PCIT) or Commissioner (CIT). If the CIT is not satisfied with the assessee's objections, he refers the case to the Approving Panel for final determination.

Reference to PCIT/CIT

- If the AO suspects tax avoidance through an IAA, he may refer the case to the PCIT/CIT
- Upon receiving the reference, the PCIT/CIT must issue a notice to the assessee within 60 days, stating reasons for invoking GAAR and allowing the assessee to submit objections.
- If the PCIT/CIT is satisfied with the objections, GAAR is not applied, and an order is issued to the AO.
- If the PCIT/CIT is not satisfied, he refers the matter to the Approving Panel for final determination.

Role of Approving Panel

- The Approving Panel is constituted by the Central Government and consists of:



Income Tax Department

Ministry of Finance, Government of India

- o A High Court Judge (Chairperson).
- o An IRS officer (Principal CCIT or CCIT).
- o An academic/scholar specialising in taxation, accounts, or trade practices.
- The Panel's tenure is one year, extendable up to three years.

Decision by Approving Panel

- The Approving Panel reviews the case and issues directions on whether the arrangement is an Impermissible Avoidance Arrangement.
- It specifies the applicable assessment years for its decision.
- Binding Nature of Directions:
 - o The assessee, CIT, and AO must comply with the Panel's directions.
 - o No appeal can be filed against these directions.
 - o If applicable to other assessment years, the AO must apply GAAR without requiring a fresh reference.

Time Limit for Panel's Directions

- The Approving Panel must issue its decision within 6 months from the end of the month in which the reference was received.
- **Exclusions from the time limit:**
 - o From the date the Approving Panel first directs the Principal CIT/CIT to conduct inquiries under Section 90/90A, until the information is last received or one year, whichever is earlier.
 - o From the date a court grants a stay on Approving Panel proceedings until the Panel receives the certified copy vacating the stay.

If the period remaining with the Approving Panel immediately after excluding the above period is less than 60 days then the same shall be extended to 60 days and the period of 6 months shall be deemed to be extended accordingly.

Powers of the Approving Panel

- The Panel has powers similar to the Authority for Advance Rulings (AAR).
- It can:
 - o Order further inquiries through the CIT.
 - o Examine records and summon documents.
 - o Seek evidence from the assessee.
- If members disagree, the decision is based on the majority opinion.

Notice of Demand

Notice of Demand

Introduction

A Notice of Demand is issued by the Assessing Officer (AO) when an assessee is liable to pay tax, interest, penalty, fine, or any other sum under the Income-tax Act.

When is a Notice of Demand Issued?

- A tax, interest, penalty, or other sum becomes due only when the Assessing Officer serves a notice of demand.
- Intimation of tax payable in return or TDS/TCS processing is deemed a notice of demand.
- If NCLT/NCLAT/Supreme Court reduces a tax demand raised under Section 156 in insolvency cases, Section 156A requires the AO to revise the demand accordingly.

Time Limits

- Issuance: No specific time limit, but the notice must be served within a reasonable time.
- Payment:
 - o General cases – Within 30 days unless a shorter period is specified.
 - o ESOP taxation (for eligible start-ups) – Within 14 days from the earliest of:
 - Expiry of 48 months from the end of the assessment year in which ESOPs were allotted.



Income Tax Department

Ministry of Finance, Government of India

- At the date of sale of shares.
- At the date the assessee ceases employment.

Format of Demand Notice

The notice of demand for the tax liability payable on assessment shall be issued in Form No. 7 and demand notice for payment of advance tax liability shall be issued in Form No. 28.

Is a Demand Notice Mandatory for Recovery?

- Yes, recovery proceedings can only begin after serving a demand notice.
- If no notice is issued, the assessee cannot be treated as a defaulter.

Consequences of Non-Payment

- The assessee is deemed an assessee-in-default.
- Interest under Section 220 and penalty under Section 221 may be imposed.

Faceless Issuance of Demand Notice

- Section 157A provides for a Faceless Scheme for issuing Notices of Demand electronically.

Payment of Taxes

Payment of Taxes

Introduction

Under the Income-tax Act, 1961, taxpayers are required to pay taxes in various forms, including advance tax, self-assessment tax, TDS, TCS, and other levies. These payments can be made online or offline using prescribed challans.

Types of Tax Payments

Income Tax Payments

- Advance Tax: Paid using Challan No. ITNS 280 (Code 100) before the end of the financial year.
- Self-Assessment Tax: Paid under Section 140A using Challan No. ITNS 280 (Code 300).
- Tax on Updated Returns: Paid under Section 140B when filing an updated return.
- Tax on Regular Assessment: Paid upon receipt of a Notice of Demand using Challan No. ITNS 280 (Code 400).

Tax Deducted/Collected at Source (TDS/TCS)

- TDS Deposits: Paid using Challan No. ITNS 281 (Code 200 for voluntary payments, Code 400 for demand notices).
- TDS on Special Transactions:

Nature of Payment	Challan/Form
Sale of property (Section 194-IA)	Form 26QB
Rent payments (Section 194-IB)	Form 26QC
Payments to contractors/professionals (Section 194M)	Form 26QD
Virtual Digital Assets (Section 194S - Specified Person)	Form 26QE

- TCS Deposits: Paid using Challan No. ITNS 281 , selecting Code 200 or 400.

Modes of Payment

- Taxes can be paid online (electronic payment) or offline (through authorized banks).
- Mandatory e-payment applies to:
 - o Companies.
 - o Tax audit cases (Section 44AB) [Circular No. 5/2008, Dated 14-7-2008].
- Payment Channels:
 - o Net banking, debit cards, credit cards or UPI
 - o Payment from another person's account is allowed, provided the assessee's PAN is mentioned on the challan. [Circular No. 5/2008, Dated 14-7-2008.]



Income Tax Department

Ministry of Finance, Government of India

Document Identification Number (DIN)

Document Identification Number (DIN)

Introduction

The Central Board of Direct Taxes (CBDT) has made it mandatory to quote a Document Identification Number (DIN) in all communications issued by Income-tax authorities from 01-10-2019. Taxpayers can verify the authenticity of such documents on the Income-tax e-filing portal. This initiative aims to enhance transparency and maintain an audit trail of communications.

Scope of DIN

- DIN must be quoted in all assessment orders, appeals, notices, exemptions, enquiries, penalties, prosecution orders, rectifications, and approvals. [Circular No. 19/ 2019, Dated 14-8-2019]
- As per CBDT Circular No. 19/2019, dated 14-08-2019, any communication without a DIN is deemed invalid.

Note: An assessment shall not be invalid merely due to any mistake, defect or omission in quoting the computer-generated DIN, if the assessment order contains a reference to such DIN in any manner.

Exceptions for Manual Communications

Manual communications may be issued only in exceptional cases with prior approval from the Chief Commissioner/Director General of Income-tax, such as:

- Technical difficulties in generating or allotting DIN.
- Field officers conducting on-site verification or enquiries.
- Delay in PAN migration, leading to incorrect jurisdiction.
- Absence of PAN, where proceedings are initiated (except under Sections 131 & 133).
- Unavailability of system functionality for issuing communication.

Each manual communication must:

- Clearly state that it is issued without a DIN.
- Mention the date of approval for manual issuance.

Regularisation of Manual Communications

Manually issued communications must be regularised within 15 working days by:

- Uploading the document on the Income Tax Business Application (ITBA) system.
- Generating a DIN electronically.
- Sending the DIN to the assessee using the system-generated format.

Consequences of Non-Compliance

- Any communication without a DIN and not meeting the prescribed exceptions is treated as never issued.
- Taxpayers can verify the authenticity of their notices/orders using the Income-tax e-filing portal at:
<https://www1.incometaxindiaefiling.gov.in/e-FilingGS/Services/AUTHNoticeLink.html?lang=eng>.

Guidelines for compulsory selection of returns for Complete scrutiny during FY 2021-22

Guidelines for Compulsory Selection of Returns for Complete Scrutiny – FY 2024-25

Introduction

The Central Board of Direct Taxes (CBDT) issues annual guidelines for compulsory scrutiny selection. For FY 2024-25, the guidelines were issued via Circular F. No. 225/72/2024/ITA-II, dated 03-05-2024.

Parameters for Compulsory Scrutiny Selection

• Cases Pertaining to Survey (Section 133A)

- o If the survey detects specific information or material indicating tax evasion, the case is selected for compulsory scrutiny.
- o Surveys under Section 133A(2A) are not selected for scrutiny.

Procedure:

- o AO issues a notice under Section 143(2) with prior approval from Principal CIT/DIT.
- o Case transferred to Central Charges under Section 127 within 15 days.



Income Tax Department

Ministry of Finance, Government of India

· Cases Pertaining to Search & Seizure

Search conducted before 01-04-2021

- o Such cases are automatically selected for compulsory scrutiny.
- o AO issues notice under Section 143(2)/142(1) with prior approval and transfers the case to Central Charges within 15 days.

Search conducted on or after 01-04-2021

- o AO issues notice under Section 143(2)/142(1) with prior approval and transfers the case to Central Charges within 15 days.
- o CBDT clarified that if third-party information is found during a search, such cases are not transferred to Central Charges unless they meet the criteria outlined in CBDT Guidelines F. No. 299/107/2013-IT (Inv. III)/1568, dated 25-04-2014.

· Cases Where Notice is Issued for Filing Return

- o If no return is furnished → Case handled by NaFAC for compulsory scrutiny.
- o AO uploads supporting documents, and further action is conducted through NaFAC.

· Cases Where Notice is Issued Under Section 148

- o All cases where a notice under Section 148 has been issued are selected for compulsory scrutiny, irrespective of whether a return is filed.
- o AO uploads documents and NaFAC handles further proceedings.
- o If search/survey was conducted on or after 01-04-2021, the case is transferred to Central Charges within 15 days.
- o CBDT clarified that third-party cases found in a search are not transferred unless they meet specific guidelines.

· Cases Related to Registration/Approval (Sections 12A, 12AB, 35, 10(23C))

- o If exemption/deduction is claimed despite denial or withdrawal of registration/approval, the case is selected for compulsory scrutiny.
- o If the withdrawal order is reversed in appeal, the case will not be selected.

· Cases with Additions in Earlier Assessments

- o If a recurring issue of law or fact (including transfer pricing) resulted in an addition of:
 - o ₹25 lakh or more in metro cities (Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai, Pune).
 - o ₹10 lakh or more in other locations.
- o The addition must have been upheld by appellate authorities in favor of the revenue.

· Cases Involving Tax-Evasion Reports

- o Cases flagged by Law Enforcement Agencies, Investigation Wing, Intelligence Authorities, or Audit Reports.

· Other Cases

- o Return filed in response to Section 142(1) notice due to information from NMS/AIS/SFT/CPC-TDS/IC&I → Not compulsory scrutiny; selected through CASS.
- o Cases already selected by International Taxation & Central Circle continue under their jurisdiction.

Time Limits for Selection & Notices

Action	Time Limit
Selection & transfer of cases to NaFAC	31-05-2024
Service of Notice under Section 143(2)	30-06-2024

Power to Call for Information by Income-tax Authorities

Power to Call for Information by Income-tax Authorities

Introduction

Section 133 of the Income-tax Act empowers income-tax authorities to call for information for any inquiry or proceeding under the Act. This provision enables authorities to collect relevant data from various persons, including firms, HUFs, trustees, and financial institutions.

Types of Information That Can Be Called Under Section 133



Income Tax Department

Ministry of Finance, Government of India

Section	Person From Whom Information Can Be Asked	Person in Respect of Whom Information Can Be Asked	Nature of Information
133(1)	Firm	Partners	Names, addresses, and shareholding of partners
133(2)	HUF	Manager & Members	Names and addresses of family members
133(3)	Trustee, Guardian, Agent	Settlor, Beneficiary, Ward, Principal	Names and addresses of these persons
133(4)	Assessee making payments above ₹1,000	Payment recipients	Names, addresses, and payment details
133(5)	Dealers, brokers, stock/commodity exchange agents	Buyers and sellers of stock/commodities	Names, addresses, and payment details
133(6)	Any person (including banks)	Any relevant inquiry	Any useful or relevant information

Authorities Empowered to Call for Information

- All Clauses of Section 133:
 - o Assessing Officer (AO)
 - o Joint Commissioner (JCIT)
 - o Deputy Commissioner (Appeals)
 - o Joint Commissioner (Appeals)
 - o Commissioner (Appeals)
- Under Section 133(6) Only (Higher Authorities):
 - o Principal Director General (PDGIT) / Director General (DGIT)
 - o Principal Chief Commissioner (PCCIT) / Chief Commissioner (CCIT)
 - o Principal Commissioner (PCIT) / Commissioner (CIT)
 - o Joint Director, Deputy Director, Assistant Director, Director

Block Assessment

Block Assessment

Introduction

Block assessment is a special procedure applicable in cases where a search under Section 132 or a requisition under Section 132A is initiated on or after 01-09-2024. It provides for a single consolidated assessment of the total undisclosed income for the block period. Any pending assessments or reassessments abate and merge with the block assessment. The undisclosed income assessed under this scheme is taxable at 60%. A notice requiring the assessee to furnish a return must be issued within 60 days after obtaining approval from the competent authority.

Statutory framework of block assessment

Chapter XIV-B comprises the following provisions:

- **Section 158B**– Definitions of “block period”, “undisclosed income”, and “last authorisation”.
- **Section 158BA**– Assessment of total undisclosed income as a result of search.
- **Section 158BB**– Computation of total undisclosed income of the block period.
- **Section 158BC**– Procedure for block assessment.
- **Section 158BD**– Assessment of undisclosed income of any other person.
- **Section 158BE**– Time limits for completion of block assessment.



Income Tax Department

Ministry of Finance, Government of India

- **Section 158BF**– Immunity from interest under Sections 234A, 234B, 234C and penalty under Section 270A.
- **Section 158BFA**– Levy of interest and penalties in specified cases.
- **Section 158BG**– Competent authority to make the assessment.
- **Section 158BH**– Applicability of other provisions of the Act to block assessment.

Meaning of block period

The block period comprises:

- The 6 previous years preceding the year in which the search or requisition is initiated; and
- The period from 1st April of the previous year in which the search or requisition is initiated up to the date of execution of the last authorisation.

The date of initiation of the search determines the block period.

Meaning of undisclosed income

Section 158B(b) provides an inclusive definition. Undisclosed income covers:

- **Undisclosed assets**

Assets representing income or property not disclosed or that would not have been disclosed, including money, bullion, jewellery, virtual digital assets, other valuable articles or things, and income reflected in books, documents, or transactions.

- **Incorrect claims**

Incorrect claims of expenses, exemptions, deductions, or allowances are treated as undisclosed income.

Execution of “last authorisation”

The last authorisation is deemed executed:

- Upon conclusion of search as recorded in the last panchnama for the person searched; or
- In case of requisition under Section 132A, on actual receipt of books, documents, or assets by the authorised officer.

A panchnama documents the events of the search, items found, seized, and inventoried.

Authority competent to make block assessment

As per Section 158BG:

- Only an Assessing Officer not below the rank of Deputy/Assistant CIT or Deputy/Assistant Director may conduct the assessment.
- The assessment order requires prior approval of the Additional Commissioner/Additional Director/Joint Commissioner/Joint Director.

Applicability of other provisions

Under Section 158BH, all other provisions of the Income-tax Act apply to block assessments except where specifically overridden by Chapter XIV-B. This includes provisions relating to the issue of notice of demand, recovery, etc.

Framework of Block Assessment

Framework of Block Assessment

Introduction

Section 158BA provides the statutory framework governing the assessment of total undisclosed income in cases of search under Section 132 or requisition under Section 132A. The provision aims to ensure a comprehensive, consolidated, and legally robust mechanism for addressing undisclosed income, reducing litigation and streamlining tax administration.

Date of application

The block assessment procedure applies only when the search is initiated on or after 01-09-2024. If a search began before but concluded on or after this date, assessments shall be made under the reassessment provisions (Sections 147 to 151A).

Supremacy of block assessment provisions

Section 158BA begins with a non-obstante clause and, read with Section 158BH, establishes that:

- The provisions of Chapter XIV-B override all other provisions of the Act.
- Other provisions of the Income-tax Act apply only to the extent they are not inconsistent with this Chapter.

Thus, normal assessment procedures are restricted, while provisions relating to essential matters such as accounting methods and tax recovery continue to apply.

Abatement of pending proceedings

Section 158BA(2) mandates automatic abatement of any pending assessment, reassessment, or recomputation relating to any assessment year within the block period once a search or requisition is initiated.

Key features:

- All regular assessment proceedings for the block period stand discontinued.
- Notices issued between the initiation of search and the date of the block assessment order under Section 158BC(1)(c) also lead to abatement upon issue of such notice.
- **Exception:** the assessment year in which the last authorisation is executed is not subject to abatement.
- Under Section 158BA(3), proceedings involving transfer pricing references under Section 92CA also abate, ensuring unified assessment of issues arising from the search.

Sequential handling of multiple searches

Under Section 158BA(4):

- Where a fresh search or requisition occurs before completion of an ongoing block assessment, the first assessment must be completed before commencing the next.
- If the available time after completing the initial assessment is short, a minimum of three months is provided for completion of the subsequent assessment.

Revival of abated proceedings

Section 158BA(5) provides that if an assessment order under Section 158BC(1)(c) is annulled in appeal or any other legal proceeding:

- All previously abated proceedings (assessment, reassessment, recomputation, transfer pricing reference or order) stand revived.
- Revival takes effect from the date the annulment order is received by the Principal Commissioner or Commissioner.
- If the annulment is later reversed, the revival ceases.

Assessment of current year

Section 158BA(6) specifies that the total income of the year in which the last search authorisation or requisition was executed, excluding undisclosed income, is to be assessed separately under normal provisions of the Act. Only the undisclosed income is assessed under the block assessment procedure.

Tax on total undisclosed income of the block period

Under Section 158BA(7), the total undisclosed income determined for the block period is chargeable to tax at the rate prescribed under Section 113, ensuring uniform taxation of such income.

Computation of Total Undisclosed Income of the Block Period

Computation of Total Undisclosed Income of the Block Period

Introduction

Section 158BB specifies the method for computing total undisclosed income during a block assessment. The Finance Act 2025 introduces a simplified computation mechanism, under which undisclosed income is the aggregate of (a) undisclosed income declared by the assessee and (b) undisclosed income determined by the Assessing Officer. Tax is chargeable at 60% under Section 113.

Computation of total undisclosed income

The total undisclosed income for the block period shall be:



Income Tax Department

Ministry of Finance, Government of India

- **[A]**Undisclosed income declared in the return furnished under Section 158BC;
Plus
- **[B]**Undisclosed income determined by the Assessing Officer based on evidence or information found during search, requisition or proceedings.

The aggregate **[C = A + B]** is the total undisclosed income of the block period.

As per Section 158BB(7), brought-forward losses or unabsorbed depreciation from periods before the block period cannot be set off against undisclosed income but may be carried forward for future years.

Computation of disclosed income

Section 158BB(1A) prescribes the incomes to be excluded from undisclosed income. Disclosed income for all previous years falling within the block period is computed on the basis of:

- Income determined under Section 143(1).
- Income assessed before the date of search or requisition, including assessments under Sections 143, 144, 147, 153A, 153C, 158BC, and orders under Section 245D(4).
- Income declared in returns filed before search under Section 139 or in response to Section 142(1).
- Income computed on the basis of entries recorded in books or other documents maintained in the normal course, covering:
 - Previous year ended, but return not yet due;
 - Period from 1st April of the year of search to the day before initiation;
 - Period from initiation of search to execution of the last authorisation.
 - Income taxable by TDS without mandatory return filing, i.e., under Sections 115A(5), 115G and 194P(1).

Basis for computing total income for each previous year

Section 158BB(1A) provides different bases depending on the status of return filing or assessment:

- Assessed income where an assessment under Sections 143, 144, 147, 153A, 153C, 158BC or 245D existed before search.
- Returned income where returns were filed but not assessed.
- Income based on books/documents where the previous year ended, but the return due date had not expired before the search.
- Income determined for part periods in the year of search, based on regular books/documents.
- Nil disclosed income where the due date had expired, but the return was not filed; income declared in the Section 158BC return becomes undisclosed.

The Assessing Officer may recompute income determined under Section 158BB(1A)(c) if he forms the opinion that any part of such income is undisclosed.

Cases involving completed or pending assessments

For completed assessments, the assessed total income is treated as disclosed income. If rectification occurs, the rectified income is considered. Where appeals are pending, the returned income forms the basis. If an assessment was set aside but not completed before the search, the returned income is adopted.

Where the return filing is not mandatory

Under Section 158BB(1A)(d), income is treated as disclosed where tax has been deducted, and return filing is not required for:

- Non-residents or foreign companies earning income under Section 115A.
- NRIs with income taxable under Chapter XII-A.
- Resident senior citizens covered by Section 194P.



Special provisions for determining undisclosed income

Section 158BB(4) provides:

- In the case of a firm, income is computed before deducting salary, interest, commission, bonus, or remuneration to partners (other than working partners).
- Sections 68, 69, 69A, 69B and 69C apply to unexplained credits, investments, money and expenditure.
- References to "previous year" in transfer pricing provisions apply to the relevant period within the block period.

International and specified domestic transactions

Under Section 158BB(3):

- Income relating to international or specified domestic transactions for the period up to the date of search is excluded from the computation of undisclosed income.
- Such income is assessable separately under other provisions of the Act.

Tax on undisclosed income

Section 158BA(7) mandates that undisclosed income for the block period is taxable at the rate prescribed in Section 113, i.e., 60%, with surcharge, if any, specified under a Central Act.

Procedure for Block Assessment

Procedure for Block Assessment

Introduction

Section 158BC lays down the procedure for conducting the block assessment of undisclosed income detected as a result of a search under Section 132 or a requisition under Section 132A. It authorises the Assessing Officer (AO) to issue a notice for filing the return for the block period, determine the total undisclosed income and pass an assessment or reassessment order.

Issue of notice to file a return

Under Section 158BC(1)(a), the AO shall:

- Issue a notice requiring the assessee to furnish the return of undisclosed income for the block period.
- Specify a time limit not exceeding 60 days, extendable as permitted.
- Require filing of the return in Form ITR-B, in the manner prescribed by CBDT.
- Treat a return filed within the permitted period as a return under Section 139, enabling issuance of notice under Section 143(2).
- Disregard returns filed after the permitted period for the purpose of Section 139.
- Proceed under this Chapter without requiring a separate notice under Section 148.
- Not allow filing of a revised return.

Extension of time to file a return

The fifth proviso to Section 158BC(1)(a) permits the AO to extend the time limit by 30 days if:

- The due date for filing the return for the previous year immediately preceding the year of search has not expired on the date of search or requisition;
- The assessee is liable to audit under Section 44AB for that previous year;
- The accounts of that previous year are not audited on the date of notice, and the assessee seeks an extension in writing to enable audit.

Filing of return in Form ITR-B

- Rule 12AE prescribes **Form ITR-B** for filing returns under Section 158BC.
- Returns must be filed electronically.
- Companies, political parties and assesseees liable to audit under Section 44AB must use DSC; others may use DSC or EVC.



Determination of undisclosed income

Under Section 158BC(1)(b), the AO shall determine undisclosed income in accordance with Section 158BB. For this purpose, the AO may:

- Conduct enquiries under Section 142;
- Issue notice under Section 143(2) to require evidence in support of the return;
- Determine the total income under Section 143(3);
- Make a best-judgment assessment under Section 144 if the return is not filed;
- Apply accounting provisions under Sections 145, 145A and 145B.

Assessment or reassessment order

After determining the undisclosed income, the AO shall:

- Pass an assessment or reassessment order for the block period;
- Compute the tax payable accordingly.

The provisions of Section 144C (Dispute Resolution Panel) do not apply to orders under this section.

Handling of seized or requisitioned assets

Section 158BC(1)(d) mandates that assets seized or requisitioned shall be dealt with in accordance with **Section 132B**, which governs the adjustment and application of seized assets.

Returns not processed under section 143(1)

Returns filed under Section 158BC are excluded from processing under Section 143(1). This reflects the special and independent nature of block assessments.

Approval for the issue of notice

Before issuing the notice under Section 158BC(1)(a), the AO must obtain prior approval from an Additional Commissioner, Additional Director, Joint Commissioner or Joint Director.

Assessment of Undisclosed Income of Any Other Person

Assessment of Undisclosed Income of Any Other Person

Introduction

Section 158BD governs cases where undisclosed income detected during a search under Section 132 or requisition under Section 132A pertains to a person other than the person searched (specified person). In such situations, the Assessing Officer (AO) who conducted the search must transfer the seized or requisitioned material and related information to the AO having jurisdiction over the "other person," who will then undertake block assessment proceedings.

Block period of the other person

The first proviso to Section 158BD prescribes how to determine the block period for the other person:

- **Where the search involves one specified person**

The block period for the other person is identical to that of the specified person.

- **Where the search involves multiple specified persons**

The block period for the other person shall be the same as that of the specified person whose block period ends on the latest date. This ensures uniformity where multiple search cases are linked to the undisclosed income of a common other person.

Abatement of proceedings for the other person

Sections 158BA(2) and 158BA(3) stipulate the abatement of pending proceedings for assessment, reassessment, or recomputation, including transfer pricing references, for years falling in the block period.

For an "other person," the second proviso to Section 158BD clarifies that the date of receipt by the jurisdictional AO of the seized material, requisitioned items, or relevant information shall be treated as the date of initiation of search or requisition for the purpose of determining abatement.

This ensures that assessments for the other person are aligned with the timing of material transfer rather than the date of the original search.

Limitation Period for the Completion of Block Assessment

Limitation Period for the Completion of Block Assessment

Introduction

Section 158BE prescribes the time limits for completing a block assessment. The assessment must be completed within a specified period from the end of the quarter in which the last authorisation for a search under Section 132 or a requisition under Section 132A was executed or made.

Primary limitation period

- The order under Section 158BC must be passed within 12 months from the end of the quarter in which the last authorisation for search or requisition was executed or made.
- For "other persons" covered under Section 158BD, the period is 12 months from the end of the quarter in which the notice under Section 158BC is issued.

Extended limitation period

Where the AO grants an extension of 30 days to file the block return under the fifth proviso to Section 158BC(1)(a), the limitation period is correspondingly extended to 13 months under:

- Section 158BE(1) for the searched person;
- Section 158BE(3) for the other person.

Additional time for transfer pricing references

If a reference is made to the Transfer Pricing Officer under Section 92CA(1) during the block assessment, the time limit for passing the order is extended by an additional 12 months.

Exclusions from the limitation period

The following time periods are excluded from the computation of the limitation period:

- Time taken for reopening proceedings, wholly or partly, or allowing rehearing when jurisdiction is changed.
- Period during which assessment proceedings remain stayed by an order or injunction of any court, ending on the date the Principal CIT/CIT receives the order vacating the stay.
- Period between:
 - Intimation to the Central Government/ prescribed authority regarding contravention of conditions by specified institutions; and
 - Receipt of the order withdrawing approval/ rescinding notification.
- Period from the date of the AO's direction for special audit or valuation till:
 - The date the assessee is required to furnish the report; or
 - Where challenged, the date the Principal CIT/CIT receives the order setting aside the direction.
- Period between the reference made to the Valuation Officer and receipt of the valuation report.
- Period from the date of application before the Authority for Advance Ruling or Board for Advance Rulings until the date the Principal CIT/CIT receives the order rejecting the application or the ruling.
- Period from the date of the competent authority's reference for exchange of information until the earlier of:
 - The date the information was last received; or
 - One year.
- Period from receipt of reference relating to an arrangement under General Anti-Avoidance Rules until the AO receives direction or order.
- Period (maximum 180 days) from:
 - The date of initiation of search/ requisition;



Income Tax Department

Ministry of Finance, Government of India

- Until seized books, documents, money, bullion, jewellery, valuables or information are handed over to the AO having jurisdiction over:
 - the searched person;
 - the person to whom valuables belong; or
 - the person to whom seized books or documents pertain.
- Period from the date of AO's reference to withdraw registration/ approval of trusts or institutions (under Section 10(23C)(iv),(v), (vi),(via) or Section 11) until receipt of the order by the AO.

Minimum available time of 60 days

Where, after excluding the above periods, the time remaining to complete the assessment is less than 60 days, it shall be extended to 60 days.

If such an extended period expires before the end of a month, it shall stand extended to the end of that month.

Levy of Interest and Penalty in Block Assessment

Levy of Interest and Penalty in Block Assessment

Introduction

Sections 158BF and 158BFA govern the levy of interest and penalty in block assessments under Chapter XIV-B. Section 158BF provides immunity from the levy of specified interest and penalty for undisclosed income assessed for the block period, while Section 158BFA empowers authorities to levy interest and penalty in defined circumstances and prescribes procedural and time-limit requirements.

Immunity from penalty and interest (Section 158BF)

No interest shall be levied on the undisclosed income of the block period under:

- **Section 234A**– default in furnishing return of income;
- **Section 234B**– default in payment of advance tax;
- **Section 234C**– deferment of advance tax.

Further, no penalty for under-reporting or misreporting of income under Section 270A shall be imposed in respect of undisclosed income assessed or reassessed for the block period.

Levy of interest and penalty (Section 158BFA)

If the assessee fails to furnish the return of undisclosed income within the period specified in Section 158BC or does not file it at all:

- Interest at 5% per month or part thereof applies on the tax on undisclosed income;
- Computed from the day immediately following the due date specified in the notice until completion of the assessment.

Further, under Section 158BFA(2):

- AO or CIT(A) may impose a penalty equal to 50% of the tax on the undisclosed income determined under Section 158BC.
- Penalty applies only to the portion of undisclosed income exceeding the amount declared in the return.

Immunity from penalty

Immunity applies to penalties under:

- Section 158BFA(2);
- Section 271AAD (false entry/omission);
- Section 271D (contravention of Section 269SS);
- Section 271DA (contravention of Section 269ST);
- Section 271E (contravention of Section 269T).

Conditions for immunity

The following conditions must be fulfilled:

- Filing of return under Section 158BC;
- Payment of tax due or offering seized money for adjustment;
- Furnishing proof of tax payment along with the return;



Income Tax Department

Ministry of Finance, Government of India

- No appeal against the assessment of disclosed income.

Immunity is not available where undisclosed income determined by the AO exceeds the income declared in the return; a penalty applies on such excess.

Procedure for imposing a penalty

- **Opportunity of being heard**

The assessee must be granted a reasonable opportunity before the levy of a penalty.

- **Authority and approval requirement**

Penalty may be imposed only with prior approval of the Additional Commissioner, Additional Director, Joint Commissioner, or Joint Director if:

- Penalty exceeds 2 lakh, or
- Penalty is to be imposed by a Dy. CIT, Asst. CIT, Dy. Director or Asst. Director.

- **Communication of penalty order**

A copy of the penalty order must be sent to the Assessing Officer, except where the AO himself passes the order.

Limitation period for imposition of penalty

Time limits vary depending on the appellate or revisional proceedings:

- **Where the assessment is in appeal before CIT(A)**

Penalty to be imposed before the later of:

- End of the financial year in which proceedings are completed;
- Six months from the end of the financial year in which the CIT(A)'s order is received by the Principal CIT/CIT.
 - **Where the assessment is in appeal before the ITAT**

Penalty to be imposed before the later of:

- End of the financial year in which proceedings are completed;
- Six months from the end of the financial year in which the ITAT's order is received.
 - **Where assessment is in revision**

Penalty to be imposed within six months from the end of the financial year in which the revisional order is passed.

- **In any other case**

Penalty to be imposed before the later of:

- End of the financial year in which proceedings are completed;
- Six months from the end of the financial year in which the notice for penalty is issued.

Exclusions for Computing Limitation Period

The following periods are excluded when computing the limitation:

- Time given to the assessee for being reheard;
- Period during which penalty proceedings are stayed by a court, from the date of stay until the Principal CIT/CIT receives a certified copy vacating the stay.

Where, after such exclusions, the remaining limitation period is less than 60 days, it is extended to:

- 60 days, or
- End of the month if the extended period ends within a month.