

Guidance Note on Form 5

Form 5 is an Income-tax Form used by an assessee claiming deduction for preliminary expenses under Section 44(3) of the Income-tax Act, 2025, and is required to be furnished as a statement of particulars in accordance with Rule 27.

Purpose of Form 5

The primary purpose of filing **Form 5** is to:

- Furnish a statement of preliminary expenses incurred in connection with setting up or extension of business
- Support claims of deduction under **Section 44(2)(a)** of the Income-tax Act, 2025
- Provide transaction-level disclosure of qualifying project and feasibility expenditure
- Enable audit trail, verification, and compliance monitoring
- Strengthen transparency, accountability, and revenue safeguards

Filing Requirements

(i) Who can file: Any assessee claiming deduction under Section 44 of the Income-tax Act, 2025, including:

- Individuals
- Firms
- Companies
- Trusts
- Other eligible persons

(ii) Who must furnish the Form: Form 5 is furnished by the assessee or authorized signatory and does not require accountant certification, unlike Form FN 006 [3AE].

(iii) When to file: Form 5 must be furnished one month prior to the due date for filing the return of income for the relevant Tax Year, as prescribed under Section 263(1).

(iv) How to file: The Form must be filed electronically through the Income-tax e-Filing Portal and verified using:

- Digital Signature Certificate (DSC), or
- Electronic Verification Code (EVC)

Information Required in Form 5

Part A — Particulars of the Assessee

- Name
- PAN
- Address
- Status

- Email ID
- Contact Number
- Tax Year

Part B — Details of Preliminary Expenses

The Form requires reporting of qualifying preliminary expenses, including:

- Preparation of feasibility report
- Preparation of project report
- Conduct of market or business survey
- Engineering services relating to business

For each category, the following details must be disclosed:

- Nature of activity
- Whether carried out by the assessee or an external party
- Name and PAN of the service provider
- Amount paid or credited
- TDS applicability and amount deducted (if applicable)

If the assessee undertakes the activity itself, “SELF” must be reported.

Frequency and Due Date

Frequency: Form 5 must be filed for each Tax Year in which deduction under Section 44 is claimed.

Due Date: One month prior to the due date of filing the return of income under Section 263(1).

Documents Required

Although no attachment is required, the assessee should maintain:

- Bills and invoices
- Consultant or service provider agreements
- Proof of payments
- TDS challans and certificates (if applicable)
- Accounting records supporting expenditure
- Project feasibility and technical reports

These may be required for assessment, audit, or verification.

Process Flow of Filing

- Assessee compiles preliminary expenditure records
- Assessee verifies qualifying nature of expenses
- Statement is prepared in Form 5
- Form is uploaded on the Income-tax e-Filing Portal
- Assessee verifies the Form using DSC/EVC
- Electronic acknowledgement is generated

Integration Note: Form 5 serves as a pre-requisite statement for audit certification in Form 6.

Key Points to Note

- Filing of Form 5 is mandatory for claiming deduction under Section 44
- Incorrect or incomplete reporting may result in disallowance of deduction
- PAN and TDS details of service providers must be accurate
- Expenses must strictly fall within the scope of Section 44(2)(a)
- Multi-vendor activities must be reported separately
- Records must be retained for verification and audit

Outcome Details

Allowability of Deduction: Form 5 forms the statutory basis for determining eligibility of preliminary expense deductions.

System-Based Verification: Filed data is subject to backend validations, risk filters, and automated compliance checks.

Revenue Assurance: Structured reporting strengthens audit trails and reduces dispute risk.

Challenges and Compliance Enhancements

The revised Form 5 is structured as a smart e-Form designed to improve compliance through:

- Auto-population of taxpayer master details
- Real-time data validation and field controls
- Standardization of expenditure classification
- Improved integration with audit and deduction workflows

Common Changes Across Revised Forms

- Use of “Tax Year” instead of Assessment/Previous Year
- Updated statutory references under the Income-tax Act, 2025
- Strengthened digital verification mechanisms
- Improved data consistency across audit-linked Forms

Summary

Form 5 is a mandatory electronic compliance statement for taxpayers claiming deduction of preliminary business expenses under Section 44 of the Income-tax Act, 2025. Accurate and timely filing ensures deduction eligibility, strengthens audit credibility, and minimizes litigation and compliance risk.