

## KEY CONCEPTS

- Assessment ■ Self-Assessment ■ Summary Assessment ■ Scrutiny Assessment ■ Best Judgement Assessment
- Income Escaping Assessment ■ Faceless Assessment ■ Time limit to complete assessment ■ Rectification of Mistakes ■ Demand Notice

## Learning Objectives

### To understand the:

- Understanding the framework
- Familiarize with different types of Assessments
- What is Faceless Assessment?
- Reference to Valuation officer
- Direction for Special Audit
- What is Summary Assessment?
- Power of Commissioner to issue direction
- When can order for Re-Assessment be issued?
- Application of Rectification procedures
- Demand Notice

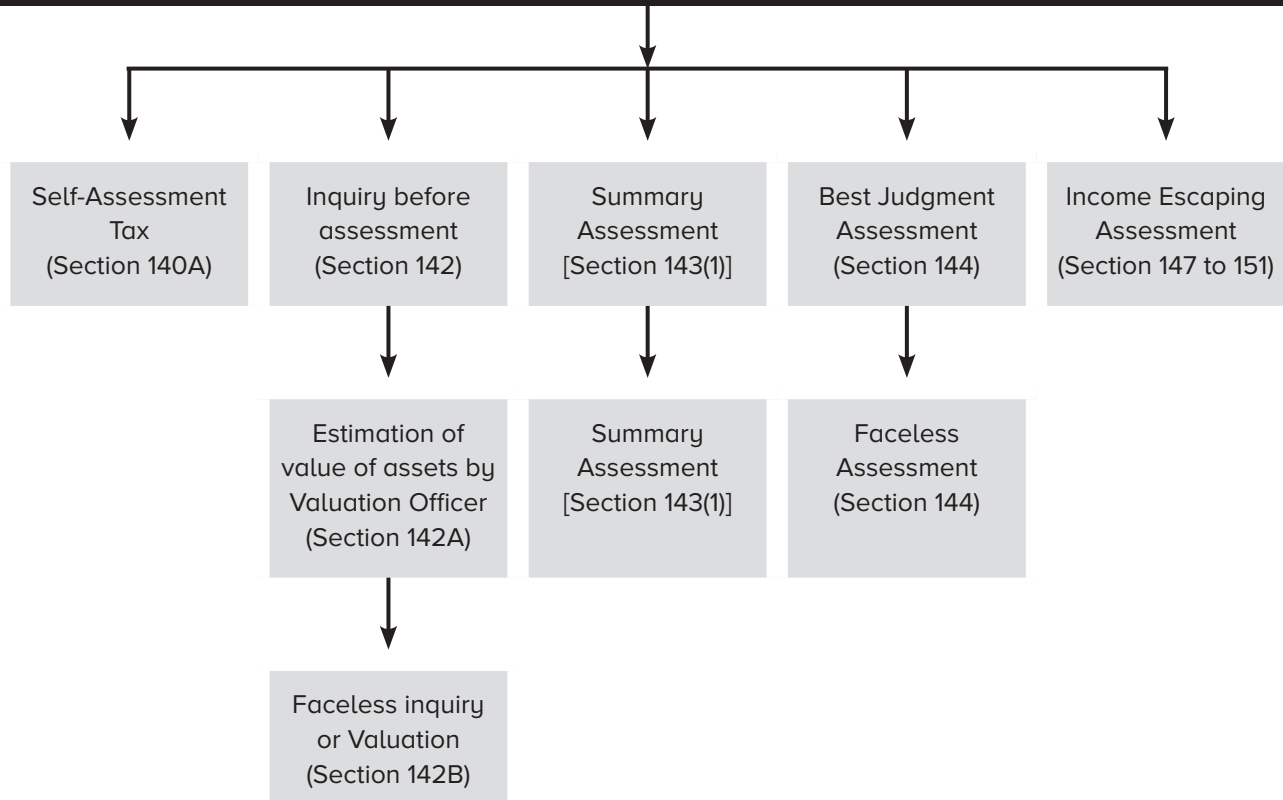
## Lesson Outline

- Assessment
- Types of Assessment
- Self-Assessment
- Inquiry before Assessment
- Summary Assessment/Processing of Return
- Scrutiny Assessment
- Best Judgement Assessment
- Income Escaping Assessment
- Faceless Assessment
- Time Limit to complete the Assessment, Re-assessment & Re-computation
- Faceless Assessment of Income Escaping Assessment
- Rectification of Mistakes
- Demand Notice
- Lesson Round-Up
- Test Yourself
- List of Further Readings
- Other References

**REGULATORY FRAMEWORK**

<b>Sections</b>	<b>Income-tax Act, 1961</b>
Section 140A	Self-Assessment
Section 142	Inquiry before Assessment
Section 142A	Estimation of value of an Assets by Valuation Officer
Section 142B	Faceless Inquiry and Valuation
Section 143(1)	Summary Assessment/Processing of Return
Section 143(2)	Notice of Scrutiny Assessment
Section 143(3)	Order of Scrutiny Assessment
Section 144	Best Judgement Assessment
Section 144A	Power of Joint Commissioner to issue direction
Section 144B	Faceless Assessment
Section 144B(4)	Authorities for various units
Section 147	Income Escaping Assessment or Re-Assessment
Section 148	Issue of notice where income has Escaped Assessment
Section 148A	Conducting inquiry, providing opportunity before issue of notice u/s 148
Section 148B	Prior Approval for Assessment, Reassessment or Re-computation in certain cases
Section 149	Time limit for issue of notice u/s 148
Section 150	Unlimited time limit to issue notice
Section 151	Specific Authority for issue of notice u/s 148 and u/s 148A
Section 151A	Faceless Assessment of Income Escaping Assessment
Section 152(1)	Tax Rate applicable for escaped income
Section 152(2)	Dropping of Assessment Proceeding
Section 153	Time limit for completion of Assessments and Re-assessments
Section 154	Rectification of Mistakes
Section 156	Demand Notice

### CHAPTER OVERVIEW



### INTRODUCTION

Every assessee has to submit his income details to the income tax department by filing his Income tax return. After submission of return of income, the next step is the processing of the income tax return by the income tax department. While processing, department verifies and examines the correctness of the income details provided by assessee. This process of examining the income tax return by the Income Tax Department is called "Assessment".

However, there are certain cases wherein if assessee does not submit his return of income then still assessment can be done by assessing officer.

Different types of assessment under the Income Tax act are summarized below

No.	Assessment U/s	Types of Assessment
1	140A	Self-Assessment
2	143(1)	Summary Assessment / Refund Order or Demand Order
3	143(3)	Scrutiny Assessment / Regular Assessment
4	144	Best Judgement Assessment
5	144B	Faceless Assessment
6	147	Income Escaping Assessment

**SELF-ASSESSMENT [SECTION 140A]**

Section 140A of income tax act deals with “Self-Assessment Tax” wherein a person himself assesses his tax liability on the income earned during the particular previous year and submit income tax return to the Income tax department.

It mandates that taxpayers to calculate and pay the remaining tax due after considering advance tax, TDS, TCS, and other credits before filing their Income Tax Return (ITR).

If there is any tax liability, the same must be paid before submitting the return under section 139. Failure to pay this tax may result in interest under **Section 234A, 234B, and 234C** and penalties.

Total tax payable by the assessee is calculated after considering the following.

- I. the amount of tax already paid under any provision of the Income Tax Act, 1961;
- II. any tax deducted or collected at source;
- III. any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
- IV. any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section;
- V. any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD;
- VI. any relief of tax claimed u/s 89;
- VII. any tax or interest payable as per provision of section 191(2).

**Adjustments required to compute Self-Assessment Tax Payable u/s 140A:**

<b>How to compute Self-Assessment Tax</b>	
Tax on Net income (Including Surcharge and HEC)	**
<i>Add: (Adjustment)</i>	
● Fees under section 234F	**
● Interest Under Section 234A/234B/234C (Based on Income declared in return of income)	**
<b>Total Tax, Interest and Fees</b>	<b>***</b>
<i>Less: (Adjustment)</i>	<b>**</b>
● <b>Taxes</b> (Advance Tax, TDS, TCS)	**
● <b>Credit</b> (MAT credit u/s 115JAA/AMT credit u/s 115D)	**
● <b>Relief</b> (u/s 90/90A/91A)	**
● <b>Others</b> [Any tax/interest payable u/s 191(2)]	**
<b>Self-Assessment Tax (SAT) payable under section 140A</b>	<b>**</b>

<b>Adjustment of Self-Assessment Tax (SAT)</b>	
<b>Amount paid as SAT &lt; Income Tax computed as per Return</b>	Amount so paid shall be <b>adjusted</b>
	1. First with Fees and Interest
	2. Balance with Tax Payable

Note:

- If there is delay in furnishing ROI (Return of Income) assessee required to pay late u/s 234F along with Interest as mention above.
- After regular assessment under section 143 and 144, whatever amount paid under section 140A (Self-Assessment tax) shall be deemed to be paid towards such regular assessment.
- If any amount payable under the income tax act towards tax, interest and fee which assessee fails to pay, he shall be deemed to be an assessee in default.

**Illustration 1:**

**Whether delayed payment of Self-Assessment Tax (SAT) along with Interest could be termed as Evasion of Tax?**

It was held that judgment in Confident Projects (India) (P.) Ltd. 2021 (2) TMI 75 – Karnataka High Court S.P. Velayutham (2022) (2) TMI 50 – Madras High Court and M/s. Health Bio Teach Ltd. others 2023 (9) TMI 1229 – Punjab and Haryana court have categorically held that a delay in the payment of **self-assessment tax does not constitute tax evasion** if the tax, along with applicable interest, is paid before the issuance of a notice.

**Illustration 2:**

**Tax Calculation and Self-Assessment Tax Liability**

Mr. AG, an individual taxpayer in India, has filed his income tax return for the financial year 2024-25. His tax calculations are as follows: Net Income Tax (Including Surcharge and HEC): ₹2,48,000, Interest under Section 234A/234B/234C (Total) = ₹31,320, Fees under Section 234F: ₹5,000. He is entitled for tax credit on account of Advance tax paid during FY 2024-25: ₹19,000 and TDS/TCS ₹7,200. Determine tax payable under section 140A. Does it make any changes if Mr AG pays ₹1,72,000 instead of actual Self-Assessment Tax (SAT) payable under section 140A. He also thought of paying only ₹28000 now. How does it deal with?

**Solution:**

**Computation of Self-Assessment Tax (SAT) payable under section 140A**

Tax on Net income (Including Surcharge and HEC)	2,48,000
Add: (Adjustment)	
● Fees under section 234F	5,000
● Interest Under Section 234A/234B/234C ( <b>Based on Income declared in return of income</b> )	31,320
Total Tax, Interest and Fees	2,84,320
Less: (Adjustment)	
● Taxes (Advance Tax, TDS, TCS) [19000+7200]	26,200
● Credit (MAT credit u/s 115JAA/AMT credit u/s 115D)	-
● Relief (u/s 90/90A/91A)	-
● Others [Any tax/interest payable u/s 191(2)]	-
<b>Self-Assessment Tax (SAT) payable under section 140A</b>	<b>2,58,120</b>

- Mr. AG needs to pay ₹2,58,120 as Self-Assessment Tax under Section 140A before filing his income tax return to avoid further interest and penalties.
- If he pays Rs.1,72,000 then, (Tax Payment – Interest & Fees) shall be adjusted. Hence, (1,72,000 – 31,320 -5,000) = **Rs. 1,35,680 treated as Payment of Tax.**
- If he pays Rs. 28,000, then (Tax Payment – Interest & Fees) shall be adjusted. Hence, (28,000-5,000 Fees-23,000 Interest (Max. Adjusted) [out of 31320+5000] =Nil treated as Payment of Tax

#### Question for Practice:

#### Tax Calculation and Self-Assessment Tax Liability

1. Mr. KK, an individual taxpayer in India, has filed his income tax return for the financial year 2024-25. His tax calculations are as follows: Net Income Tax (Including Surcharge and HEC): ₹2,40,000, Interest under Section 234A/234B/234C (Total) = ₹26,340, Fees under Section 234F: ₹5,000. He is entitled for tax credit on account of Advance tax paid during FY 2024-25: ₹17,000 and TDS/TCS ₹5,000. Determine tax payable under section 140A. Does it make any changes if:
  - (a) Mr KK pays ₹1,68,000 instead of actual Self-Assessment Tax (SAT) payable under section 140A.
  - (b) He also thought of paying only Rs.22,000 now. How does it deal with?
  - (c) If Z fails to pay (*wholly/Partly*) such tax, interest or fee in accordance with the provisions.

[Answer: (1) 2,49,340 (a) 1,36,660 (b) Nil, (c) Treated as Assessee in Default]
2. Mr. Dutt, a self-employed professional running a consultancy firm, filed his income tax return for the financial year. Due to unexpected business expenses and cash flow issues, he was unable to pay the full Self-Assessment Tax (SAT) at the time of filing. While he was aware of the pending tax liability, he assumed he could clear the dues after stabilizing his financial position. A few months later, as his financial situation improved, Mr. Dutt voluntarily paid the outstanding tax along with the applicable interest under Sections 234A, 234B, and 234C. His payment was made before the concerned authority issued any notice regarding the pending SAT. But it will be treated as Tax Evasion from Mr.Dutt side by concern authority. It is tenable in law? Discuss with proper justification.

***[Self-assessment tax does not constitute tax evasion if the tax, along with applicable interest, is paid before the issuance of a notice.]***

#### INQUIRY BEFORE ASSESSMENT [SECTION 142]

<p><b>Introduction</b></p>	<ul style="list-style-type: none"> <li>● The Income Tax Department issues notices for various reasons, such as non-filing of returns, discrepancies in filed returns, incomplete information, underreported income, suspected tax evasion, or reassessment proceedings.</li> <li>● These notices are sent when required details are missing from the taxpayer's end.</li> <li>● Specifically, a notice under Section 142(1) serves as a preliminary inquiry, requesting information from the assessee before an assessment is made under the Income Tax Act.</li> </ul>
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Notice u/s 142(1)		
<b>Issued/ Served by</b>	<ul style="list-style-type: none"> <li>● Assessing Officer</li> <li>● Prescribed Income Tax Authority not below the rank of Income Tax officer as authorised by CBDT (Rule 12F)</li> </ul>	
<b>To</b>	Any person who has made a return under section 139 or in whose case the time allowed under section 139(1) for furnishing the return has expired	
<b>Purpose</b>	<ol style="list-style-type: none"> <li><b>1. To furnish return</b> of his income (In case return not filed)</li> <li><b>2. To produce books of accounts/Documents</b> as required by A.O. (But not more than 3 years prior to PY)</li> <li><b>3. To furnish</b> in writing, information on such points/matters (including a <b>statement of all assets and liabilities</b> of the assessee, whether included in the accounts or not) as the A.O. may require subject to prior approval of Joint Commissioner.</li> </ol>	
Audit, Special Audit and Inventory Valuation [Section 142 (2A), (2B), (2C), (2D)]		
<b>Why?</b>	<p>If at any stage of the proceedings before him, at the <b>opinion of Assessing Officer</b>, having regard</p> <ul style="list-style-type: none"> <li>● To the nature and complexity of the accounts,</li> <li>● Volume of the accounts</li> <li>● Doubts about the correctness of the accounts,</li> <li>● Multiplicity of transactions in the accounts or</li> <li>● Specialized nature of business activity of the assessee, and</li> <li>● The interests of the revenue</li> </ul> <p><b>Assessing Officer may direct</b> [with previous approval of Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C)] <b>to Assessee.</b></p>	
<b>AO direct to assessee</b>	<ul style="list-style-type: none"> <li>● To get <b>books of accounts audited</b> by Chartered Accountant (CA)</li> <li>● To get <b>Inventory Valued</b> by Cost and Management Accountant (CMA)</li> </ul> <p><b>Key points:</b></p> <ol style="list-style-type: none"> <li>1. CA and CMA to be nominated by PCC or CC or PC or C</li> <li>2. Opportunity of being heard is to be given to the assessee before directing to get the accounts audited or inventory valued.</li> </ol>	
<b>Special Audit or Inventory Valuation</b>	<b>Who is empowered to direct?</b>	<ul style="list-style-type: none"> <li>● <b>AO is empowered</b> to direct the special audit to be carried out in the case of any particular assessee <b>even if the accounts of the assessee have already been audited</b> under any other law for the time being in force or otherwise.</li> </ul>
	<b>Expenses borne by CG</b>	<ul style="list-style-type: none"> <li>● Expenses incidental to, audit (including the remuneration of the accountant, cost accountants, qualified assistants, semi-qualified and other assistants should be paid by <b>Central Government.</b></li> </ul>

	<b>Expenses determined by</b>	Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C) <i>[i.e. PCC or CC or PC or C] as per Rule 14B</i>
<b>Time Limit of Submission of Audit report/ Inventory Valuation/ Both</b>		<ul style="list-style-type: none"> <li>● It must be furnished to the <b>AO by the assessee</b> within the period specified by the Assessing Officer in his order.</li> <li>● The AO is, however, <b>entitled, suo motu or on receipt of an application made in this behalf by the assessee</b> for any good and sufficient reason to extend the time-limit by such further period or periods as he deems fit.</li> <li>● Further, the <b>aggregate of the period originally fixed and the period or periods so extended should not exceed 180 days in any case.</b></li> <li>● This <b>time of 180 days must be reckoned from the date on which the Assessing Officer's direction is received by the assessee.</b></li> </ul>
<b>Consequence of failure to get special audit done</b>		<ul style="list-style-type: none"> <li>● AO is entitled to make a <b>Best Judgment Assessment</b> under section 144 in addition to imposing penalty or taking such steps as may be necessary under the law.</li> <li>● If CA/CMA declined to undertake the audit of the assessee's accounts, the assessee could not be held responsible.</li> <li>● <b>The Supreme Court held</b> that if, for a frivolous reason, the Chartered Accountant declined to undertake the audit of the assessee's accounts, the assessee could not be held responsible. <b>[Swadeshi Polytex Ltd. v. ITO [1983] 144 ITR 171 (SC)]</b></li> </ul>
<b>Assessee to be given an opportunity of being heard</b>		
<b>Opportunity of being heard for</b>		Any material gathered on the basis of – <ul style="list-style-type: none"> <li>● Any inquiry under section 142(2); or</li> <li>● Any audit or inventory valuation under section 142(2A) which is proposed to be utilized for the purposes of the assessment.</li> </ul>
<b>Not required in case of Best Judgment Assessment</b>		<ul style="list-style-type: none"> <li>● If, however, the assessment is in nature of a <b>best judgment assessment under section 144, it is not obligatory for the Assessing Officer to give the assessee an opportunity to be heard</b>, before passing the assessment order on the basis of the inquiry conducted under section 142(2) or audit report or inventory valuation report under section 142(2A).</li> </ul>

### Analysis of Section 142 - Inquiry Before Assessment

#### 1. Issue of notice to the assessee to submit return (if not submitted earlier):

If the person fails to furnish his return of income as per the timelines given in section 139(1) Assessing officer may serve a notice after the end of the relevant assessment year requiring such person to furnish his return of income.

The Assessing Officer may ask to produce, or cause to be produced, such accounts or documents and to furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets and liabilities of the assessee, whether included in the

accounts or not]. However, the previous approval of the Joint Commissioner shall be obtained before requiring the assessee to furnish a statement of all assets and liabilities not included in the accounts. Further, the Assessing Officer shall not require the production of any accounts relating to a period more than three years prior to the previous year.

2. **Make Inquiry and give opportunity of being heard u/s 142(2):** For the purpose of obtaining full information in respect of the income or loss of any person, the Assessing Officer may make such inquiry as he considers necessary.
3. **Give direction to get Books of Accounts Audited u/s 142(2A) to (2D):**
  - I. **AO Direction for Audit – Section 142(2A) :** Having regard to the nature and complexity of the accounts volume of the accounts, doubts about the correctness of the accounts, multiplicity of transaction in the accounts or specialised nature of business activity of the assessee and the interests of the revenue, assessing officer is of the opinion that it is necessary so to do order for the audit, then with the previous approval of the Principal Chief Commissioner or Chief Commissioner, Principal commissioner or commissioner the Assessing Officer may direct an assessee to get his accounts audited by an accountant and furnish reports on the same and the stock valued by a cost accountant and furnish a reports on the same. Before initiate of such direction an opportunity of being heard is to be given to the assessee.
  - II. **As per Section 142(2B)** If the accounts of assessee is already audited under any of the Act, still the fresh direction can be given for the same.
  - III. **As per section 142 (2C)** Every report under sub-section (2A) shall be furnished by the assessee to the Assessing Officer within the period as specified by the Assessing Officer. However, the Assessing Officer may, Suo motu, or on an application made in this behalf by the assessee and for any good and sufficient reason, extend the said period by such further period or periods as he thinks fit but **shall not exceed 180 days** from the date on which the direction under sub-section (2A) is received by the assessee.
  - IV. **As per section 142 (2D),** the expenses of, and incidental to, such audit (including the remuneration of the accountant] shall be determined by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in accordance with such guidelines as may be prescribed and the **expenses so determined shall be paid by the Central Government.**
4. **Opportunity of being heard:** The Assessing offer must provide an opportunity of being heard in respect of any material gathered as per inquiry u/s 142(2) and as per direction of audit and inventory valuation u/s 142(2A), however no such opportunity is provided if the assessment is made under section 144.
5. **Consequence if not following the direction given by AO u/s 142(1) and 142(2A):** If the assessee fails to give the reply of notice received u/s 142(1) [Notice to submit return] or audit of account u/s 142(2A) it may result of the following:
  - a. Best Judgement assessment u/s 144.
  - b. Penalty u/s 272(1)(b) which is Rs.10,000.
  - c. Prosecution u/s 276D
  - d. Issue warrant for search u/s 132.

### CASE STUDY

#### **Swadeshi Polytex Ltd. V. ITO**

What happens if an audit report of the inventory valuation report is not submitted by the Chartered Accountant and Cost accountant in the given time frame:

In the case of *Swadeshi Polytex Ltd. v. ITO* (1983) 144 ITR 171 (SC) it was held that if the Chartered accountant declines to undertake the said assignment or does not complete the audit in the given time frame the assessee could not be held responsible hence best judgment assessment can not be done by the assessing officer.

#### **Reliance Textiles Ltd.**

The Principal Commissioner of Income Tax, acting under section 142(2A) of the Income Tax Act, nominated M/s. VK & Associates, a firm of Chartered Accountants, to audit the accounts of Reliance Textiles Ltd. for the financial year 2023-24. Reliance Textiles Ltd. was ready and willing to produce all necessary records and cooperate fully with the audit process. However, Mr. Pandey, the partner in charge of the audit at M/s. VK & Associates, informed the Assessing Officer and Reliance Textiles Ltd. that their firm would not be able to undertake the audit. The reason cited by Mr. Pandey was a minor disagreement with Reliance Textiles Ltd.'s management regarding a charitable donation made by the company, which Mr. Pandey believed should have been disclosed differently in the accounts. The Assessing Officer considered this a failure on the part of Reliance Textiles Ltd. to comply with the directions under section 142(2A) and initiated proceedings for a best judgment assessment under section 144(b). Reliance Textiles Ltd. appealed the Assessing Officer's decision, arguing that the refusal to audit was solely on the part of the nominated Chartered Accountant and for a frivolous reason. The matter eventually reached the Supreme Court, drawing on the precedent set in *Swadeshi Polytex Ltd. v. ITO*.

The Supreme Court, referring to its earlier decision, held that Reliance Textiles Ltd. could not be held responsible for the Chartered Accountant's refusal to audit the accounts for a frivolous reason. The Court stated that in such a scenario, there was no default or failure on the assessee's part to comply with the direction issued under section 142(2A). Consequently, the best judgment assessment made by the Assessing Officer was set aside. The Supreme Court directed the Principal Commissioner to appoint another Chartered Accountant within one month to conduct the audit of Reliance Textiles Ltd.'s accounts.

This case study illustrates that **an assessee is not liable for the consequences of failing to get their accounts audited if the nominated Chartered Accountant refuses to do so for a frivolous reason, despite the assessee being willing to cooperate.** In such situations, the responsibility lies with the tax authorities to nominate another auditor to ensure the audit is conducted.

#### **Analysis of the Case**

1. Under what circumstances did the Supreme Court consider an assessee *not* liable for failure to get accounts audited when a nominated Chartered Accountant refused?
2. What specific section of the Income Tax Act empowers a Principal Chief Commissioner or Commissioner to nominate a Chartered Accountant for auditing an assessee's accounts?
3. In the scenario described, even though the assessee was willing to provide records, what was the initial consequence considered due to the Chartered Accountant's refusal?
4. What was the Supreme Court's ultimate decision regarding the Best Judgment Assessment made by the Assessing Officer in the described case?

5. What specific action did the Supreme Court direct the Assessing Officer to take after setting aside the Best Judgement Assessment?
6. What was the primary condition highlighted by the Supreme Court for an assessee to be considered *not* in default when a nominated auditor refuses?
7. Which specific sections of the Income Tax Act are directly referenced in the context of the Chartered Accountant's refusal and the assessee's potential liability?
8. What does "best judgement assessment" under section 144(b) typically imply when an assessee fails to comply with directions?
9. In the case discussed, what was the crucial factor that shifted the responsibility away from the assessee despite the non-completion of the audit?
10. What time frame was given to the Assessing Officer to appoint a new Chartered Accountant after the initial refusal?

**Solution:**

1. The Supreme Court held that if a nominated Chartered Accountant declined to undertake the audit **for a frivolous reason**, the assessee could not be held responsible for the failure to get the accounts audited.
2. Section 142(2A) of the Income Tax Act empowers a Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner to nominate a Chartered Accountant for auditing an assessee's accounts.
3. The initial consequence considered due to the Chartered Accountant's refusal was that it could be interpreted as a failure on the assessee's part to comply with the directions under section 142(2A), potentially leading to a Best Judgment Assessment.
4. The Supreme Court set aside the Best Judgment made by the Assessing Officer.
5. The Supreme Court directed the Assessing Officer to appoint another Chartered Accountant within one month to get the accounts audited.
6. The crucial condition was that the Chartered Accountant's refusal was for a frivolous reason; the assessee's willingness to produce records was also a significant factor.
7. The specific sections referenced are section 142(2A) (nomination of auditor) and section 144(b) (best judgment assessment for non-compliance).
8. Best judgement assessment under section 144(b) typically implies that the Assessing Officer will make an assessment of income and tax to the best of their judgment when an assessee fails to comply with relevant directions or requirements.
9. The crucial factor was the frivolous reason for the Chartered Accountant's refusal, coupled with the assessee's demonstrated willingness to cooperate by producing records.
10. The Assessing Officer was given one month to appoint another Chartered Accountant.

**CASE 1**

The Assessing Officer issued a notice under Section 142(1) to an assessee on 15<sup>th</sup> March 2025, asking him to file a return of income for Assessment Year 2024-25. The assessee, in response, filed a return showing a business loss and claimed the carry forward of the loss and unabsorbed depreciation. Would the assessee be eligible to carry forward the business loss and unabsorbed depreciation as per the Income Tax Act?

**Solution:**

In this case, the assessee filed a return of loss in response to a Section 142(1) notice, which was submitted after the due date specified under Section 139(1). As per the Income Tax Act: Business loss cannot be carried forward under Section 72(1), Section 73(2), or Section 73A, since the return was not filed within the due date. However, the unabsorbed depreciation can still be carried forward as per Section 32(2).

**ESTIMATION OF VALUE OF ASSETS BY VALUATION OFFICER (VO) [SECTION 142A]**

<b>Reference to Valuation Officer (VO)</b>	<b>Who will refer to V.O.?</b>	The <b>Assessing Officer</b> can refer a case to a <b>Valuation Officer</b>
	<b>For Reason</b>	To estimate the value (including FMV) of any <ul style="list-style-type: none"> <li>● Asset,</li> <li>● Property, or</li> <li>● Investment</li> </ul> for assessment or reassessment.
	<b>Key Point</b>	This reference can be made whether or not the Assessing Officer is satisfied with the assessee's accounts.
<b>Estimation based on</b>	<ul style="list-style-type: none"> <li>● Considering <b>evidence from the assessee and any other evidence.</b></li> <li>● The assessee must be given an <b>opportunity to be heard.</b></li> <li>● If the assessee is not cooperative, the Valuation Officer can estimate the value based on their <b>best judgment.</b></li> </ul>	
<b>Valuation Report Submission</b>	<b>By</b>	The <b>Valuation Officer</b>
	<b>To</b>	<b>Assessing Officer</b> and the <b>Assessee</b>
	<b>Period</b>	<b>Within 6 months</b> from the end of the month in which the reference is made.
<b>Use of Valuation Report in Assessment</b>	<ul style="list-style-type: none"> <li>● Upon receiving the report, the <b>Assessing Officer may take it into account</b> during assessment or reassessment.</li> <li>● The <b>assessee</b> must be given an <b>opportunity to be heard</b> before the report is considered.</li> </ul>	

**Analysis of Section 142A - Estimation of Value of Assets by Valuation Officer (VO)**

1. The Assessing Officer may, for the purposes of assessment or reassessment, make a reference to a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit a copy of report to him.

2. The Assessing Officer may make a reference to the Valuation Officer whether or not he is satisfied about the correctness or completeness of the accounts of the assessee.
3. The Valuation Officer, on a reference made, shall, for the purpose of estimating the value of the asset, property or investment, have all the powers that he has under section 38A of the Wealth Tax Act, 1957.
4. The Valuation Officer shall, estimate the value of the asset, property or investment after taking into account such evidence as the assessee may produce and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.
5. The Valuation Officer may estimate the value of the asset, property or investment to the best of his judgment, if the assessee does not co-operate or comply with his directions.
6. The Valuation Officer shall send a copy of the report of the estimate made to the Assessing Officer and the assessee, within a period of six months from the end of the month in which a reference is made.
7. The Assessing Officer may, on receipt of the report from the Valuation Officer, and after giving the assessee an opportunity of being heard, take into account such report in making the assessment or reassessment.

**CASE 1**

During an Income Tax Assessment of Mr. Gupta, the Assessing Officer (AO) needed to determine the Fair Market Value (FMV) of an investment declared by Mr. Gupta. A.O referred to Valuation Officer to properly estimate the FMV of this investment, the AO has the authority to refer the case to a Valuation Officer (VO). This power to make a reference to the VO is available to the AO whether or not the AO is satisfied with Mr. Gupta 's financial accounts. The purpose of the reference is specifically for the estimation of value. The VO, upon receiving the reference from the AO, will proceed to estimate the value of Mr. Gupta 's investment. In making this estimation, the VO will consider evidence presented by Mr. Gupta, as well as any other relevant evidence they may find. It is important to note that Mr. Gupta must be given an opportunity to be heard by the VO during this valuation process. This ensures fairness and allows Mr. Gupta to present his perspective on the value of the investment. In the event that Mr. Gupta is uncooperative during the valuation, the VO retains the authority to estimate the value based on their best judgment. Once the VO has completed the valuation, they are required to submit a valuation report to both the AO and Mr. Gupta. This report must be submitted within 6 months from the end of the month in which the AO initially made the reference to the VO. After receiving the valuation report from the VO, the AO may take the findings of this report into account when finalizing Mr. Gupta 's assessment or considering a reassessment. However, it is crucial that before the AO considers the VO's report in the assessment, Mr. Gupta must once again be given an opportunity to be heard by the AO. This allows Mr. Gupta to respond to the VO's valuation and its potential impact on his tax liability.

**Questions for Practice:**

1. Under what circumstances can an Assessing Officer (AO) refer a case to a Valuation Officer (VO) according to Section 142A?
2. What is the primary purpose for which an Assessing Officer would make a reference to a Valuation Officer?
3. Does the Assessing Officer need to be dissatisfied with the assessee's accounts to make a reference to the Valuation Officer? Explain your answer.
4. What are the key considerations a Valuation Officer takes into account when estimating the value of an asset, property, or investment?

5. What opportunity must be provided to the assessee during the Valuation Officer's estimation process?
6. What recourse does a Valuation Officer have if the assessee is uncooperative during the valuation process?
7. To whom does the Valuation Officer submit the valuation report upon completion?
8. What is the timeframe within which the Valuation Officer is expected to submit the valuation report?
9. How can the Assessing Officer utilize the valuation report received from the Valuation Officer?
10. What procedural safeguard is in place for the assessee after the Assessing Officer receives the valuation report but before it is considered in the assessment?

**Solution:**

1. An Assessing Officer (AO) can refer a case to a Valuation Officer (VO) under Section 142A **to estimate the value, including Fair Market Value (FMV)**, of any asset, property, or investment for the purpose of assessment or reassessment.
2. The primary purpose of referring a case to a Valuation Officer is to obtain an expert estimate of the value of an asset, property, or investment when the Assessing Officer deems it necessary for accurate assessment or reassessment.
3. No, the Assessing Officer does not need to be dissatisfied with the assessee's accounts to make a reference to the Valuation Officer. The reference can be made regardless of the Assessing Officer's satisfaction with the accounts.
4. While estimating value, a Valuation Officer considers evidence provided by the assessee, any other relevant evidence, and ensures the assessee is given an opportunity to be heard.
5. During the Valuation Officer's estimation process, the assessee must be given an opportunity to be heard regarding the valuation of their asset, property, or investment.
6. If the assessee is uncooperative, the Valuation Officer is authorized to estimate the value of the asset, property, or investment based on their best judgment.
7. The Valuation Officer is required to submit the valuation report to both the Assessing Officer and the assessee upon its completion.
8. The Valuation Officer must submit the valuation report **within six months** from the end of the month in which the reference was made by the Assessing Officer.
9. Upon receiving the valuation report, the Assessing Officer may take the findings and conclusions of the report into account while conducting the assessment or reassessment of the assessee's income.
10. Before the Assessing Officer considers the valuation report in the assessment, the assessee must be provided with an opportunity to be heard regarding the content and implications of the valuation report.

**CASE 2**

While examining the accounts of KK Ltd., the Assessing Officer (AO) exercised his powers under Section 142(2A) and directed the company to get its accounts audited. KK Ltd. challenged this order, claiming that the AO did not provide an opportunity to be heard before passing the order. Is the action of the Assessing Officer valid, or was it required to give the company a prior opportunity before issuing the order?

**Solution:**

As per the proviso to Section 142(2A), the Assessing Officer (AO) must give the assessee a reasonable opportunity to be heard before directing an audit of the accounts. In this case, since KK Ltd. was not given such an opportunity, the AO's order is not valid.

**FACELESS INQUIRY AND VALUATION [SECTION 142B]**

Key Features of Scheme	Scheme	Faceless Inquiry & Valuation Scheme
	<b>Who will notify?</b>	<ul style="list-style-type: none"> <li>● The <b>Central Government</b> is empowered to notify in Official Gazette a scheme for <b>faceless processes</b> for eliminating physical interface.</li> <li>● <b>Notification No. 19/2022 dated 30.3.2022</b> has been issued for <b>faceless inquiry and valuation</b>.</li> </ul>
	<b>Objectives</b>	<ul style="list-style-type: none"> <li>● To impart greater <b>efficiency, transparency, and accountability</b></li> <li>● <b>To eliminate physical interface</b> where technologically feasible, optimizing resource utilization, and</li> <li>● <b>To introduce</b> team-based processes with dynamic jurisdiction.</li> </ul>
<b>Purpose (Coverage)</b>	Faceless Inquiry & Valuation ( <b>Based on Automated Allocation</b> ) for the purpose of <ul style="list-style-type: none"> <li>● Issuing notice under <b>section 142(1)</b> or</li> <li>● Making inquiry to obtain full information in respect of the income or loss of any person under <b>section 142(2)</b> or</li> <li>● Directing the assessee to get the accounts audited by an accountant or inventory valuation by a cost accountant under <b>section 142(2A)</b> or</li> <li>● Making a <b>reference to the valuation officer</b> to estimate the value of any asset, property or investment under <b>section 142A</b>.</li> </ul>	
<b>Automated allocation means</b>	<b>Automated allocation</b> uses algorithms, including <b>AI and machine learning</b> , for randomized case allocation to optimize resource use. The process is similar to the faceless assessment under <b>Section 144B</b> .	

Section 142B empower the Central Government to notify the scheme for faceless processes for eliminating physical interface.

**Faceless Scheme [Section 142B(1)]:** The Central Government is empowered to make a scheme [faceless enquiry and valuation scheme] by notification in the official gazette for the purpose of:

- [a] Issue notice u/s 142[1] or
- [b] Making enquiry to obtain full information in respect of income or loss of any person u/s 142[2] or
- [c] directing the assessee to get his accounts audited by an accountant u/s 142[2A] or
- [d] making a reference to the valuation officer to estimate the value of any asset, property or investment u/s 142A.

The objective of the scheme is to impart greater efficiency, transparency and accountability by

- [a] eliminating the interface between the income-tax authority or Valuation Officer and the assessee or any person to the extent technologically feasible;
- [b] optimising utilisation of the resources through economies of scale and functional specialisation;
- [c] introducing a team-based issuance of notice or making of enquiries or issuance of directions or valuation with dynamic jurisdiction.

#### CASE 1

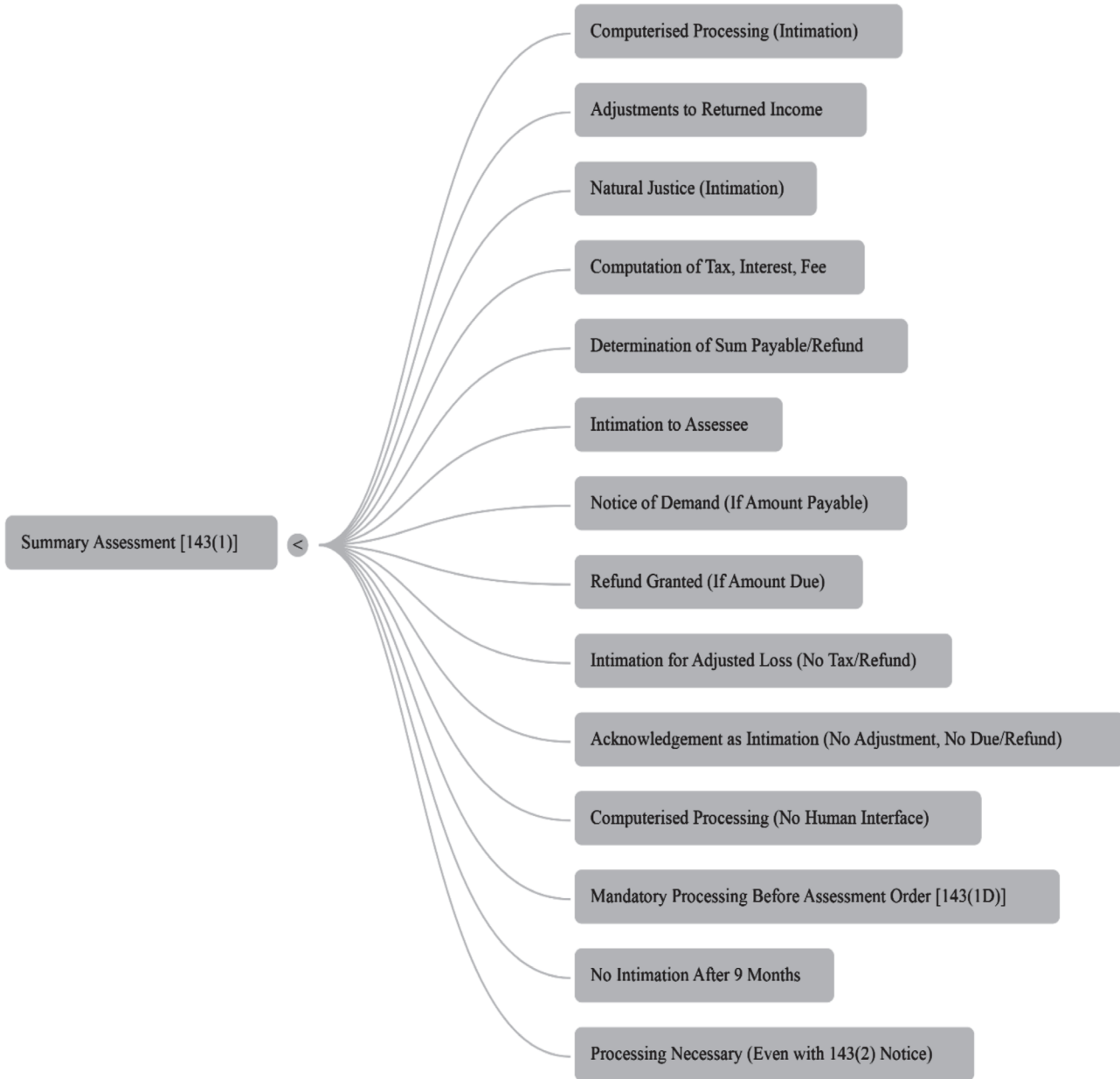
Miss. Chaya, receives a notice from the Income Tax Department. This notice is issued under Section 142(1) of the Income Tax Act, requiring her to furnish certain information regarding her income. Under the new Faceless Inquiry & Valuation Scheme, notified by the Central Government on 30.3.2022, this process will be largely faceless. Instead of interacting physically with a specific assessing officer, Miss. Chaya's case will be subject to automated allocation. This means an algorithm, potentially using AI and machine learning, will randomly assign his case to a team of tax officials. This randomized allocation aims to optimize resource use and promote transparency and accountability. The objective of this scheme is to eliminate physical interface between Miss. Chaya and the tax authorities where technologically feasible. This is intended to bring greater efficiency, transparency, and accountability to the process of inquiry. The Faceless Inquiry & Valuation Scheme covers various actions the Income Tax Department might take. Besides issuing notices under Section 142(1), it also applies to:

- Making inquiries to obtain full information about income or loss under Section 142(2).
- Directing Miss. Chaya to get his accounts audited or inventory valued under Section 142(2A).
- Making a reference to a valuation officer to estimate the value of his assets under Section 142A.

The process is similar to the faceless assessment under Section 144B. This suggests that Miss. Chaya will likely be required to respond to the notice and provide the necessary information electronically, without needing to appear in person. The entire inquiry process, even if it involves further requests for information or clarifications, will ideally be conducted without direct physical interaction, leveraging technology for communication and document exchange.

In essence, the Faceless Inquiry & Valuation Scheme, under which Miss. Chaya's notice falls, aims to modernize and streamline tax inquiries and valuations by introducing a system based on automated allocation, team-based processes, and minimal physical interface, ultimately striving for a more efficient, transparent, and accountable tax administration.

**SUMMARY ASSESSMENT/ PROCESSING OF RETURN [SECTION 143(1)]**



<p><b>Summary Assessment [Section 143 (1)]</b></p>	<ul style="list-style-type: none"> <li>● When a taxpayer files a return under <b>Section 139</b> or in response to a notice under <b>Section 142(1)</b>, it undergoes an automated <b>summary assessment (also called "Intimation")</b> checks for errors, incorrect claims and inconsistencies with reference to preceding previous filed returns without human intervention.</li> <li>● The assessment is completed on the basis of return submitted by the assessee.</li> <li>● Assessing Officer can <b>complete an assessment without passing a regular assessment order.</b></li> </ul>
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<b>AO makes adjustments in</b>	<ul style="list-style-type: none"> <li>● Arithmetical error in the return</li> <li>● Incorrect Claim apparent from the records</li> <li>● Inconsistency in the return, with respect to the information in the return of any preceding previous year</li> <li>● Disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished beyond the due date specified</li> <li>● Disallowance of loss claimed/expenses/Deductions/ Increase in income indicated in audit report but excluded in income in return</li> <li>● Disallowance of deduction claimed under section 10AA or under any of the provisions of Chapter VI-A under the heading "C.—Deductions in respect of certain incomes", if the return is furnished beyond the due date specified</li> <li>● Addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return</li> </ul>
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>● Before making any adjustment, an opportunity shall be provided to the assessee to explain and <b>rectify the same within 30 days of issuance</b> of such intimation and the response so received shall be considered before making such adjustments.</li> </ul>
<b>Tax liability</b>	<ul style="list-style-type: none"> <li>● The total tax liability is determined after considering TDS, advance tax, deductions, and reliefs.</li> <li>● If additional tax is due, a <b>Notice of Demand</b> is issued, requiring payment within <b>30 days</b>.</li> <li>● If a refund is due, it is processed accordingly.</li> </ul>
<b>Processing Time</b>	<ul style="list-style-type: none"> <li>● The intimation must be sent to the taxpayer within <b>9 months</b> from the end of the financial year in which the return was filed.</li> <li>● If <b>no changes are needed</b>, the return acknowledgment itself is considered as the intimation under Section 143(1).</li> </ul>
<b>Mandatory Processing</b>	<ul style="list-style-type: none"> <li>● Even if a scrutiny notice is issued under Section 143(2), the return must first be processed under Section 143(1) to ensure compliance.</li> </ul>

### Analysis of Section 143(1) - Summary Assessment/ Processing of Return

Summary assessment is the assessment without human intervention. Assessment under section 143(1) is like preliminary checking of the income tax return. Where a return has been made under section 139(1) or in response to notice issued u/s 142(1) such return shall be processed in the following manner.

The total income or loss is computed after making the following adjustments (if any),

- i. any arithmetical error in the return; or
- ii. an incorrect claim, if such incorrect claim is apparent from any information in the return; or
- iii. inconsistency in the return, with respect to the information in the return of any preceding previous year
- iv. disallowance of loss claimed, if return of the previous year for which set-off of loss is claimed was furnished beyond the due date specified under section 139(1); or
- v. disallowance of expenditure or increase in income indicating in the audit report but not taken into account in computing the total income in the return; or
- vi. disallowance of deduction claimed u/s 10AA, or under any of the provision of chapter VI-A under the

heading “C, -- Deduction in respect of certain income” if the return is furnished beyond the due date specified under section 139(1); or

After making the aforesaid adjustments, income tax department sends an intimation under section 143(1) in which comparative income tax computation [i.e., as provided by an assessee in income tax return and as computed u/s 143(1), which serves as demand notice if there is a tax liability otherwise simply an intimation about processing of return of income.

If there is no change in income and expense as per filed return of income and correspondingly no tax, interest and fees is payable and no refund is due to him, **but there is a loss declared in return by the assessee which is adjusted**, in that case also the **Intimation** shall be sent to assessee. [**First proviso**]

No such intimation is shall be sent to assessee **after the expiry of 9 months from the end of the financial year** in which the return is made. [**Second Proviso**]

If Intimation received by the assessee wherein demand determined then such intimation is treated as “**Notice of Demand**” and the said amount must be **paid within 30 days of receiving such intimation** otherwise he will be treated as an assessee in default.

### SCRUTINY ASSESSMENT [SECTION 143(2) / 143(3)]

#### Notice of Scrutiny Assessment [Section 143(2)]

If Assessee files his return of income u/s 139 or in response to a notice received u/s 142(1), The assessing officer not below the rank of ITO shall serve a notice on the assessee if AO considers it necessary to ensure that,

- i. The assessee has not understated the income or
- ii. Has not computed excessive loss or
- iii. Has not short paid the tax

However, no such notice can be issued after the expiry of 3 months from the end of the financial year in which the return is furnished.

**For example:** If assessee files his return of income for FY 2024-25 in July 2025, since return of income for FY 2024-25 is filed in FY 2025-26 which ends on 31st March 2026, hence notice must be issued within 3 months from the date 31st March 2026 i.e., upto 30th June 2026.

If assessee does not complying with the notice issued u/s 143(2), may entail an ex-parte, best judgement assessment u/s 144.

#### Order of Scrutiny Assessment [Section 143(3)]

<p><b>Scrutiny Assessment [Section 143(3)] Purpose</b></p>	<p>Unlike <b>summary assessment</b>, which is automated, <b>regular (scrutiny) assessment</b> involves a detailed examination of a taxpayer's return by the <b>Assessing Officer (AO)</b> to verify its accuracy. This is done to ensure that the taxpayer has:</p> <ul style="list-style-type: none"> <li>● Not <b>understated income</b>,</li> <li>● Not <b>overstated losses</b>, or</li> <li>● Not <b>underpaid taxes</b> in any way.</li> </ul>
<p><b>Notice for Scrutiny</b></p>	<ul style="list-style-type: none"> <li>● If the AO finds it necessary, he issues a <b>scrutiny notice</b> to the taxpayer.</li> <li>● This notice <b>cannot be served later than 3 months</b> from the end of the financial year in which the return was filed. (<b>Section 143(2)</b>).</li> </ul>

<b>Assessment Process Section 143(3)</b>	<ul style="list-style-type: none"> <li>● The taxpayer must <b>provide evidence</b> to support the return.</li> <li>● The AO may also collect <b>other relevant material</b> for verification.</li> <li>● Based on this, the AO <b>finalizes the assessment</b> by passing an order: <ul style="list-style-type: none"> <li>○ Determining the <b>total income/loss</b> of the taxpayer.</li> <li>○ Specifying <b>the amount of tax payable or refund due</b>.</li> </ul> </li> </ul>
<b>Special Cases – Tax-Exempt Institutions</b>	<ul style="list-style-type: none"> <li>● <b>Research associations, news agencies, and certain institutions</b> claiming exemptions under Section 10 must file their returns.</li> <li>● The AO <b>cannot deny exemption</b> without informing the <b>Central Government</b> or the relevant authority.</li> <li>● If an institution violates the exemption conditions, a recommendation for <b>withdrawal of approval</b> can be sent to the <b>Central Government</b> after giving the entity a chance to respond.</li> </ul>

Assessee may appear on the date as specified in notice and provides the necessary document, material and evidence to Assessing Officer or provide the same in electronic form as well, based on material & evidences furnished by the assessee, assessing officer shall determine the income or loss of assessee by way of passing an order u/s 143(3) along with determination of tax payable or refundable to assessee.

**What will happen if the organizations register u/s 10(21)/10(22B)/10(23A)/10(23B) violate any conditions prescribed in the given sections:**

- i. There are many such organizations wherein the government has given exemption under section 10(21)/10(22B)/10(23A)/10(23B), to enjoy such exemption organizations need to fulfil some conditions prescribed in 10(21)/10(22B)/10(23A)/10(23B).
- ii. If these organizations violate any such condition, then Assessing officer cannot disallow such exemption
- iii. AO must inform to Government, Prescribed authority about the same and wait for government instruction/ notification
- iv. Assessing officer can disallow the exemption u/s 143(3) if government or prescribed authority has rescinded the notification withdrawing the exemption.

**What will happen if the trust or any institutions referred 10(23C) or institutions referred in section 11 violate any conditions prescribed in the given sections:**

- i. If Assessing officer has a reason to believe that any institution or trust referred u/s 10(23C) or section 11 has committed any specified violation as defined in section 12AB (4) of income tax act
- ii. Then Assessing officer shall send a reference to Principal commissioner of income tax/ Commissioner of income tax to withdraw the approval granted and wait for the instruction
- iii. If Principal commissioner of income tax / Commissioner of income tax pass an order in writing, cancelling the registration then assessing officer makes an assessment and passed the order u/s 143(3)

**Points to remember:**

- i. Assessment under section 143(3) should be completed (order passed) within 12 months from the end of relevant assessment year.

- ii. Time period to complete the assessment **does not include** the period between the date on which assessing officer makes a reference to Principal commissioner of income tax/ Commissioner of income tax and the date of which copy of order received by such assessing officer.
- iii. The assessment under section 143(3) on or after 01-04-2021 shall be made as per the provision of section 144B (Faceless Assessment)

**What are those specified violations on the basis of which Principal commissioner of income tax/ Commissioner of income tax cancelling the registration:**

- a. where any income derived from property held under trust, wholly or in part for charitable or religious purposes, has been applied, other than for the objects of the trust or institution; or
- b. the trust or institution has income from profits and gains of business which is not incidental to the attainment of its objectives or separate books of account are not maintained by such trust or institution in respect of the business which is incidental to the attainment of its objectives; or
- c. the trust or institution has applied any part of its income from the property held under a trust for private religious purposes, which does not enure for the benefit of the public; or
- d. the trust or institution established for charitable purpose created or established after the commencement of this Act, has applied any part of its income for the benefit of any particular religious community or caste; or
- e. any activity being carried out by the trust or institution is not genuine; or is not being carried out in accordance with all or any of the conditions subject to which it was registered; or

**CASE 1**

Mr. Rohan filed his income tax return for the financial year 2023-2024 in September 2024 under Section 139. Upon filing, his return underwent an automated summary assessment, also known as “Intimation,” without any direct intervention from an Assessing Officer. This process involved checks for arithmetical errors and incorrect claims apparent from the records. During this automated check, the system identified a potential arithmetical error in the calculation of his total income as well as an incorrect claim regarding a deduction that was not supported by the information provided in his return. Before making any adjustments to Mr. Rohan’s declared income, the Assessing Officer (through the automated system) issued intimation to him, providing an opportunity to explain and rectify the discrepancies within 30 days of the issuance of the intimation. Mr. Rohan received this intimation and reviewed the identified issues. He realized that he had indeed made a calculation error and the claimed deduction was not applicable to him. He submitted a response to the tax department rectifying the arithmetical error and withdrawing the incorrect claim within the stipulated 30-day period. The Assessing Officer considered Mr. Rohan’s response and then determined his final tax liability after considering the applicable TDS, advance tax, deductions, and reliefs. Based on the corrected calculations, it was determined that Mr. Rohan owed some additional tax. Consequently, a Notice of Demand was issued, requiring him to pay the balance amount within 30 days. Alternatively, if Mr. Rohan’s corrected return had resulted in an excess payment, a refund would have been processed accordingly.

The intimation regarding the summary assessment was sent to Mr. Rohan within 9 months from the end of the financial year in which he filed his return. Had no errors or inconsistencies been found, the return acknowledgment itself would have been considered as the intimation under Section 143(1). It’s important to note that even if the tax department had decided to conduct a more detailed scrutiny of Mr. Rohan’s return by issuing a notice under Section 143(2), the initial step would still have been the processing of his return under Section 143(1) to ensure basic compliance. This highlights the mandatory nature of the summary assessment process. In this case, since the issues were addressed during the initial intimation and response phase, a further scrutiny might not have been necessary. The Assessing Officer completed the assessment without passing a regular assessment order.

**CASE 2**

“Science Forward,” (non-profit research association) which claims tax exemption under Section 10 of the relevant tax regulations. Science Forward diligently filed its annual tax return for the financial year 2023-2024 on 30<sup>th</sup> September 2024. However, after reviewing the return, the Assessing Officer (AO) found some inconsistencies in the reported income and expenditure, raising concerns about potential understatement of income or overstatement of losses. Consequently, within three months from the end of the financial year 2024-2025, the AO issued a scrutiny notice to Science Forward under Section 143(2). This notice informed Science Forward that their return had been selected for a detailed examination under Section 143(3), also known as a scrutiny assessment. Upon receiving the notice, Science Forward was required to provide evidence and documentation to support the claims made in their tax return. The AO, in addition to examining the submitted documents, also collected other relevant material to verify the accuracy of the return. This might include looking into their financial records or project-related expenses.

After a thorough examination of the evidence and other collected material, the AO concluded that Science Forward had indeed violated some of the conditions attached to their tax-exempt status. Before proceeding to deny the exemption, the AO was obligated to inform the Central Government or the relevant authority about the potential violation. Furthermore, if the AO considered recommending a withdrawal of Science Forward’s approval for tax exemption, the AO would first have to provide Science Forward with an opportunity to respond to the findings. Finally, based on the evidence and after following the due process, the AO would pass an order under Section 143(3), determining the total income or loss of Science Forward and specifying the amount of tax payable, if any, due to the violation of exemption conditions. This entire process exemplifies a regular scrutiny assessment initiated to ensure tax compliance beyond a simple automated summary.

**CASE 3**

**Consider the following scenario under the Income-tax Act, 1961:**

Bloomfield Trust, registered under section 10(23C) (iv) as a charitable trust, is undergoing assessment under section 143(3). The Assessing Officer discovers that the trust has diverted a significant portion of its income for purposes other than charitable activities, violating the conditions for exemption under section 10(23C) (iv). Bloomfield Trust argues that it has rectified the diversion and should still be eligible for the exemption. Does the Assessing Officer have the authority to deny the exemption claimed by Bloomfield Trust under section 10(23C) (iv)?

**Solution:**

As per the second proviso to Section 143(3) of the Income Tax Act, if an educational institution that is exempt under Section 10(23C) (iv) has committed a “specified violation,” the Assessing Officer (AO) must refer the case to the Principal Commissioner or Commissioner for withdrawal of its approval or registration. One key “**specified violation**” under Section 10(23C) occurs when the **income of the institution is used for purposes other than its stated objectives**. The AO cannot finalize the assessment (i.e., determine the institution’s taxable income or loss) without considering the order of the Principal Commissioner or Commissioner regarding the cancellation of approval. If the Principal Commissioner or Commissioner cancels the institution’s approval, the AO can assess its income without granting the tax exemption under Section 10(23C). Suppose Bloomfield Trust is institution approved under Section 10(23C) (vi) but has been found to misuse its income. The AO refers the matter to the Principal Commissioner or Commissioner. If they decide to cancel its approval, the AO can assess its income without allowing the Section 10 exemption and treat it as a regular taxable entity.

**CASE 4**

Kaku Ltd. filed its return of income for Assessment Year 2024-25 on 26th September 2024. The return was selected for regular assessment under Section 143(3), and a notice under Section 143(2) was served on the company on 3rd July 2025. The company duly responded to the notice. Determine whether the service of the notice was within the prescribed time limit. If the notice was not served on time, can the assessment order be challenged by the assessee?

**Solution:**

The notice under Section 143(2) must be served within three months from the end of the financial year in which the return was filed. Tai Ltd. filed its return on 26th September 2024, so the notice should have been served by 30th June 2025. However, the notice was served on 3rd July 2025, making it time-barred.

**BEST JUDGEMENT ASSESSMENT [SECTION 144]**

<p><b>A.O. shall make a best judgments assessment</b></p>	<ol style="list-style-type: none"> <li>1. <b>Fails to file a return</b> as required under Section 139 and has not submitted a revised or updated return.</li> <li>2. <b>Fails to comply</b> with a notice under Section 142(1) or a direction under Section 142(2A).</li> <li>3. <b>Fails to respond</b> to a notice under Section 143(2) after filing a return.</li> </ol> <p>In such cases, the AO will assess the total income or loss based on available information and determines the tax liability.</p>
<p><b>Opportunity to Respond</b></p>	<ul style="list-style-type: none"> <li>● Before completing the assessment, the <b>AO must give the assessee an opportunity to explain why such an assessment should not be made</b>, except when a prior notice under <b>Section 142(1) has already been issued</b>.</li> <li>● In nut shell, where a <b>notice under section 142(1) has been issued prior</b> to the making of an assessment under this section, it <b>is not necessary to give such an opportunity</b>.</li> </ul>
<p><b>Key Points</b></p>	
<p><b>Where assessment u/s 143(3) or u/s 144 is made</b></p>	<ol style="list-style-type: none"> <li>1. Tax or interest paid u/s 143(1) shall deemed to have been paid towards regular assessment.</li> <li>2. If no refund is due or amount refunded <b>in excess of</b> amount refundable on regular assessment, <b>Whole or excess amount so refunded shall be deemed to be tax payable by the assessee</b>.</li> </ol>

**Analysis of Section 144 – Best Judgement Assessment**

Best judgement assessment is a procedure where the assessing officer determines the Income and tax liability based on their own judgement and knowledge, generally best judgement assessment can be done in case of the following scenario:

- i. If assessee fails to furnish return of income u/s 139(1) or u/s 139(4) i.e., belated return, or u/s 139(5) i.e., Revised return, or u/s 139(8A) i.e., updated return to correct the errors and omissions.
- ii. If assessee fails to comply with notice issued u/s 142(1) i.e., notice requiring the taxpayer to submit certain information, books of accounts, or documents.

- iii. If assessee fails to comply with direction issued u/s 142(2A) i.e., Direction for Special Audit and Inventory valuation.
- iv. If assessee fails to comply with notice u/s 143(2) i.e., Scrutiny Notice.

Before initiating proceeding u/s 144 assessing officer must issue show cause notice by giving an opportunity of being heard to the assessee (please note no such opportunity of being heard given if assessee fails to comply with notice given u/s 142(1) i.e., notice requiring the taxpayer to submit certain information, books of accounts, or documents). Further, no refund can be granted under section 144.

The assessment under section 144 should be completed (order passed) within 12 months from the end of relevant assessment year.

Assessing officer determined the income to the best of his judgement, judgement of the assessing officer cannot be arbitrary and has to be based on some evidence. Ad hoc addition in income is not allowed.

### CASE STUDY

Mr. Vivek was required to file his income tax return for the financial year 2023-24 by the due date as per Section 139. However, he failed to file his return and did not submit any revised or updated return. As a result of this failure, the Assessing Officer (AO) decided to initiate a Best Judgment Assessment under Section 144. Before finalizing the assessment, the AO was required to give Mr. Vivek an opportunity to explain why such an assessment should not be made. Let's assume the AO issued a notice to Mr. Vivek asking for an explanation. However, if the AO had already issued a notice to Mr. Vivek under Section 142(1) earlier, for example, asking for certain documents or information related to his income, and then the AO would not be required to give a separate opportunity to respond before making the best judgment assessment under Section 144.

Let's assume, for the sake of this case study, that the AO did not issue a notice under Section 142(1) prior to deciding on the Best Judgment Assessment and thus gave Mr. Vivek an opportunity to respond. If Mr. Vivek failed to provide a satisfactory explanation or did not respond at all, the AO would then proceed to assess Mr. Vivek's total income or loss based on the available information they possessed and determine his tax liability. Now, let's consider a situation where Mr. Vivek had paid some advance tax of ₹10,000 under Section 143(1) before the Best Judgment Assessment was made. According to the rules, this ₹10,000 would be considered to have been paid towards his final tax liability determined under the Best Judgment Assessment (which is a type of regular assessment).

Conversely, if, based on the AO's best judgment assessment, Mr. Vivek's actual tax liability turned out to be lower than the ₹10,000 he had already received as a refund under Section 143(1) (perhaps based on some preliminary calculations he had submitted before failing to file the full return), then the excess amount refunded would be considered as tax payable by Mr. Vivek.

### Practice Questions?

1. Under what circumstances can an Assessing Officer (AO) make a best judgment assessment according to Section 144?
2. What is the primary responsibility of the AO when making a best judgment assessment?
3. What information does the AO utilize when determining income or loss under Section 144?
4. What procedural step is generally required by the AO before finalizing a best judgment assessment?

5. Under what specific circumstance is the AO *not* required to provide the assessee an opportunity to respond before a Section 144 assessment?
6. If an assessee has already paid tax or interest under Section 143(1) and a best judgment assessment is later made, how is the prior payment treated?
7. What happens if an assessee receives a tax refund that exceeds the amount refundable after a regular assessment following a best judgment assessment?
8. Explain the relationship between failing to file a tax return under Section 139 and a best judgment assessment.
9. Describe what it means to fail to comply with a notice under Section 142(1), and how it relates to Section 144.
10. How does failing to respond to a notice under Section 143(2) after filing a return potentially lead to a best judgment assessment?

**Solution:**

1. An Assessing Officer (AO) can make a best judgment assessment when an assessee fails to file a required tax return under Section 139 (and has not submitted a revised one), fails to comply with a notice under Section 142(1) or a direction under Section 142(2A), or fails to respond to a notice under Section 143(2) after filing a return.
2. The primary responsibility of the AO when making a best judgment assessment is to assess the total income or loss of the assessee based on the available information and then determines the corresponding tax liability.
3. When determining income or loss under Section 144, the AO will utilize the available information they possess related to the assessee's financial affairs and tax obligations.
4. Generally, before completing a best judgment assessment, the AO is required to provide the assessee with an opportunity to explain why such an assessment should not be made.
5. The AO is not required to give the assessee an opportunity to respond before a Section 144 assessment if a prior notice under Section 142(1) has already been issued to the assessee.
6. If tax or interest has already been paid by the assessee under Section 143(1) and a best judgment assessment is later made, the amount already paid is considered to have been paid towards the regular assessment.
7. If an assessee receives a tax refund that is in excess of the amount refundable based on the regular assessment following a best judgment assessment, the whole or the excess amount refunded is considered to be tax payable by the assessee.
8. Failing to file a tax return as required under Section 139 (and not submitting a revised or updated return) is one of the specific conditions under which an AO is authorized to initiate a best judgment assessment under Section 144.
9. Failing to comply with a notice under Section 142(1) refers to not providing the information or documents requested by the AO during the assessment process; this non-compliance can lead to a best judgment assessment under Section 144.
10. If an assessee files a tax return but then fails to respond to a notice issued under Section 143(2) (which is for scrutiny assessment), the AO can proceed to make a best judgment assessment under Section 144 due to the lack of cooperation.

**POWER OF JOINT COMMISSIONER TO ISSUE DIRECTION [SECTION 144A]**

1. Joint commissioner may **on his own motion** or **reference made by AO** or **on the application of assessee** call to examine the records of any proceeding in which assessment is pending.
2. If it is necessary then joint commissioner may issue such direction as he thinks fit for the **guidance of assessing officer** (Assistant commissioner / Deputy Commissioner / Income tax Officer i.e. AC/DC/ITO)
3. Direction given by Joint commissioner **binding** on the assessing officer.
4. If any direction issued which is **pre-judicial** to the assessee then an **opportunity of being heard** to be given to the assessee
5. **No appeal** can be filed against the direction issued by the joint commissioner.
6. Appeal can be filed against the **order** passed by the assessing officer based on the direction of the joint commissioner.

**FACELESS ASSESSMENT [SECTION 144B]**

The Faceless Assessment Scheme, introduced by the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020, came into effect from April 1, 2021. It aims to make tax assessment transparent, efficient, and technology-driven by eliminating physical interaction between taxpayers and tax officers.

1. Fully digital process for tax assessment through the Income Tax portal *www.incometax.gov.in*.
2. It is conducted under Section 144B for regular assessments, best judgment assessments, and reassessments.
3. No physical meetings between taxpayers and tax officers.
4. All notices, documents, and communications happen electronically.

The Central Government introduced a faceless assessment scheme for income escaping assessment. This applies to:

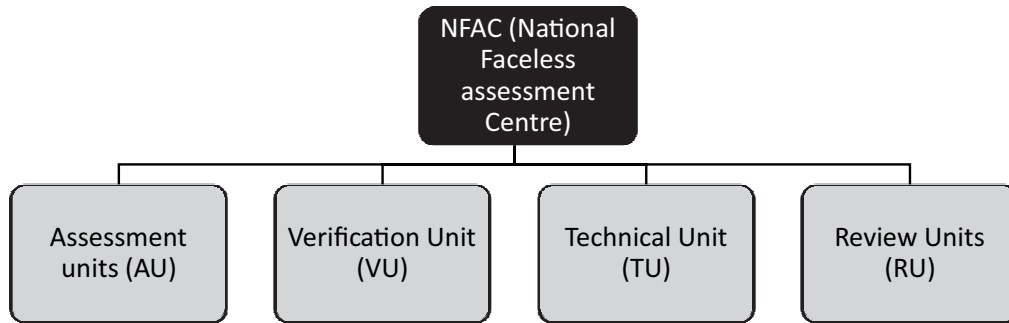
- Assessment, reassessment, or re-computation under Section 147
- Issuance of notice under Section 148
- Show-cause notices and orders under Section 148A
- Sanction for issuing notices under Section 151.

Before we move on to faceless assessment, it is important to understand that how faceless assessment is managed by income tax department, NFAC (National faceless assessment centre) is created having its headquarters in Delhi.

The **National Faceless Assessment Centre (NFAC)** is a digital platform established by the **Income Tax Department, Government of India** to facilitate a **faceless, paperless, and contactless assessment process** for taxpayers. It eliminates the need for physical interaction between taxpayers and assessing officers, promoting transparency and efficiency in the assessment process.

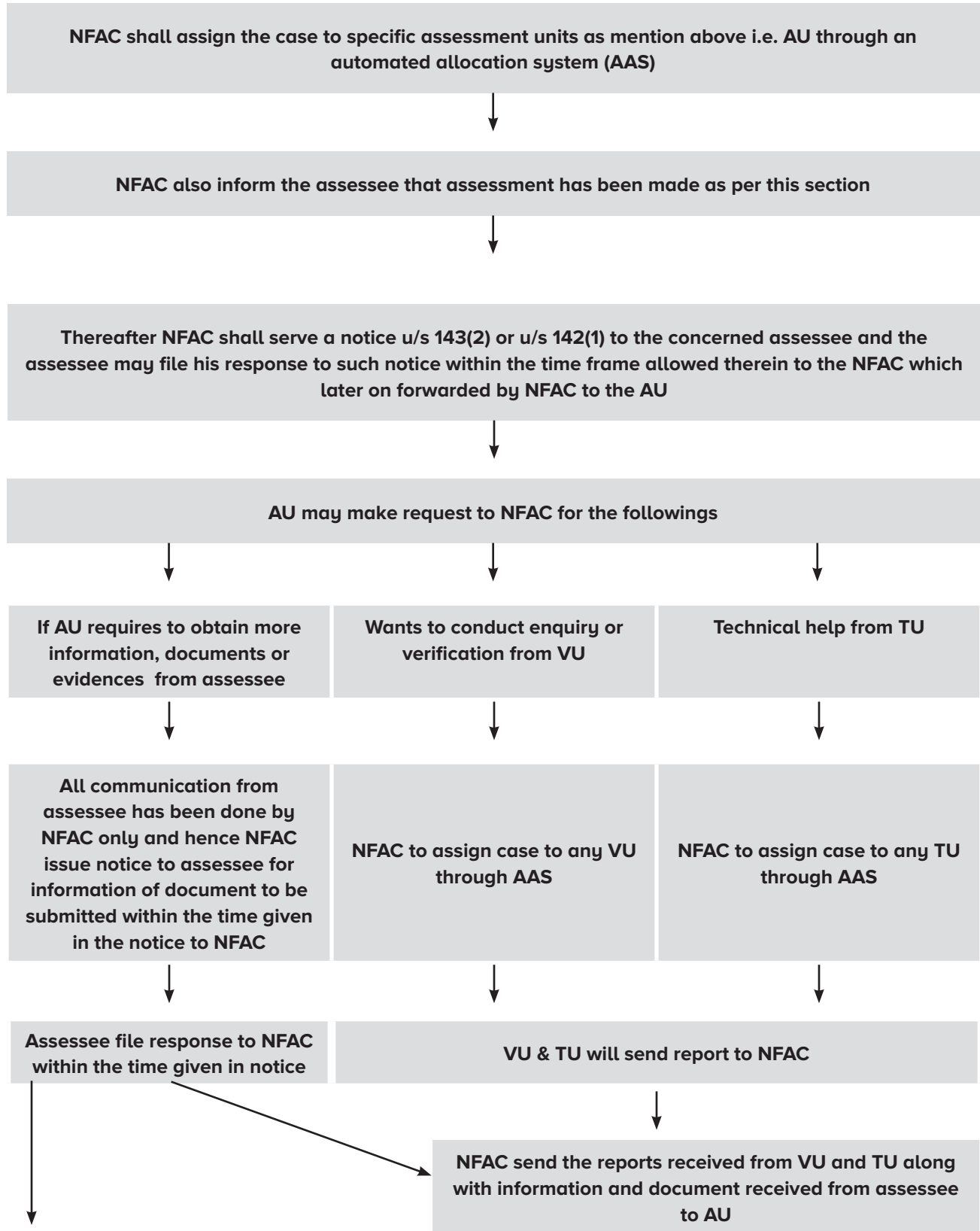
The National Faceless Assessment Centre (NFAC) is headquartered in Delhi, India. However, multiple **Regional Faceless Assessment Centres (RFACs)** and other supporting units such as **Assessment Units (AU)**, **Verification Units (VU)**, **Technical Units (TU)**, and **Review Units (RU)** operate from different locations across India.

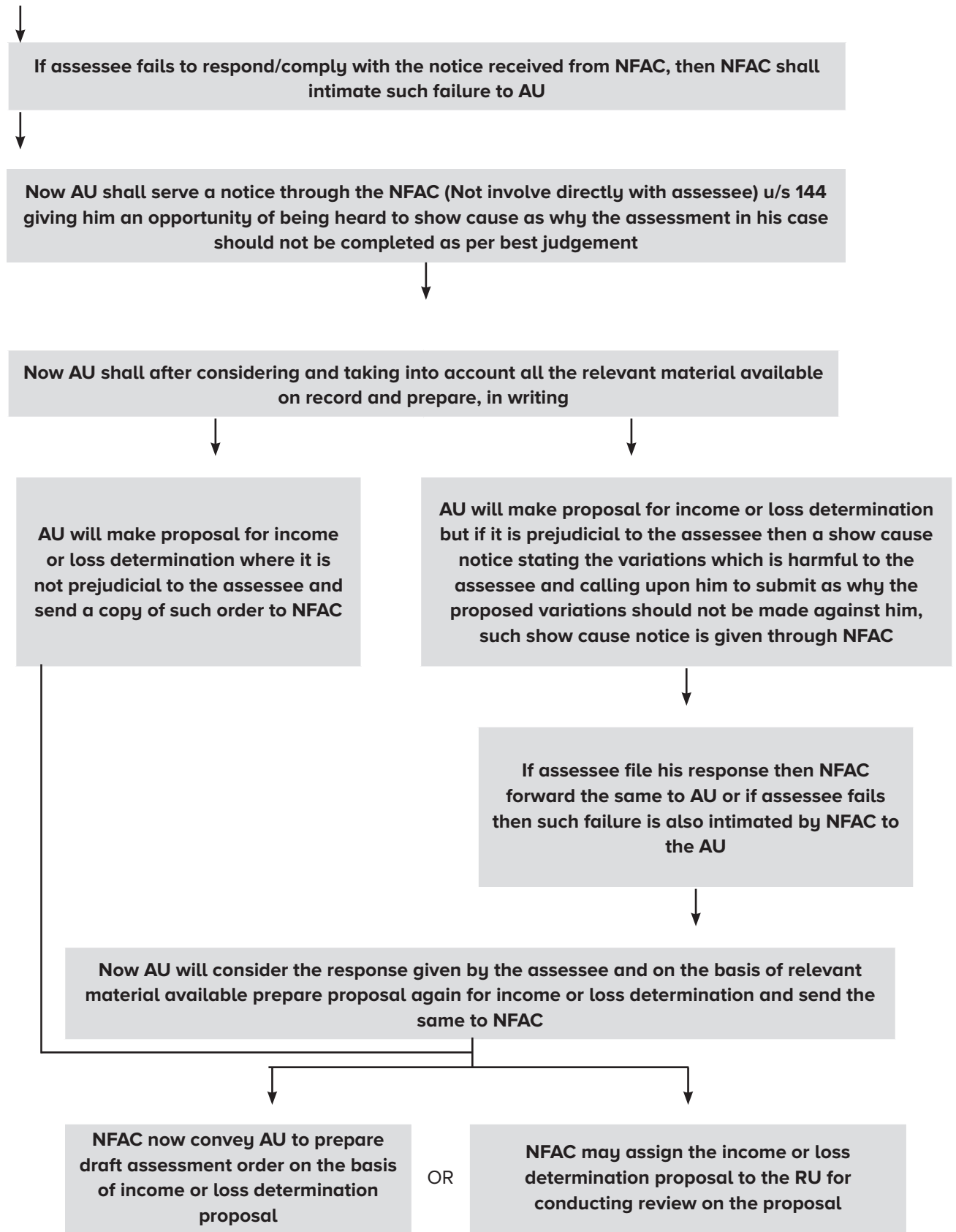
For the purpose of faceless assessment CBDT may set up the following centres and units specifying their functions and jurisdiction **[Section 144B(3)]**

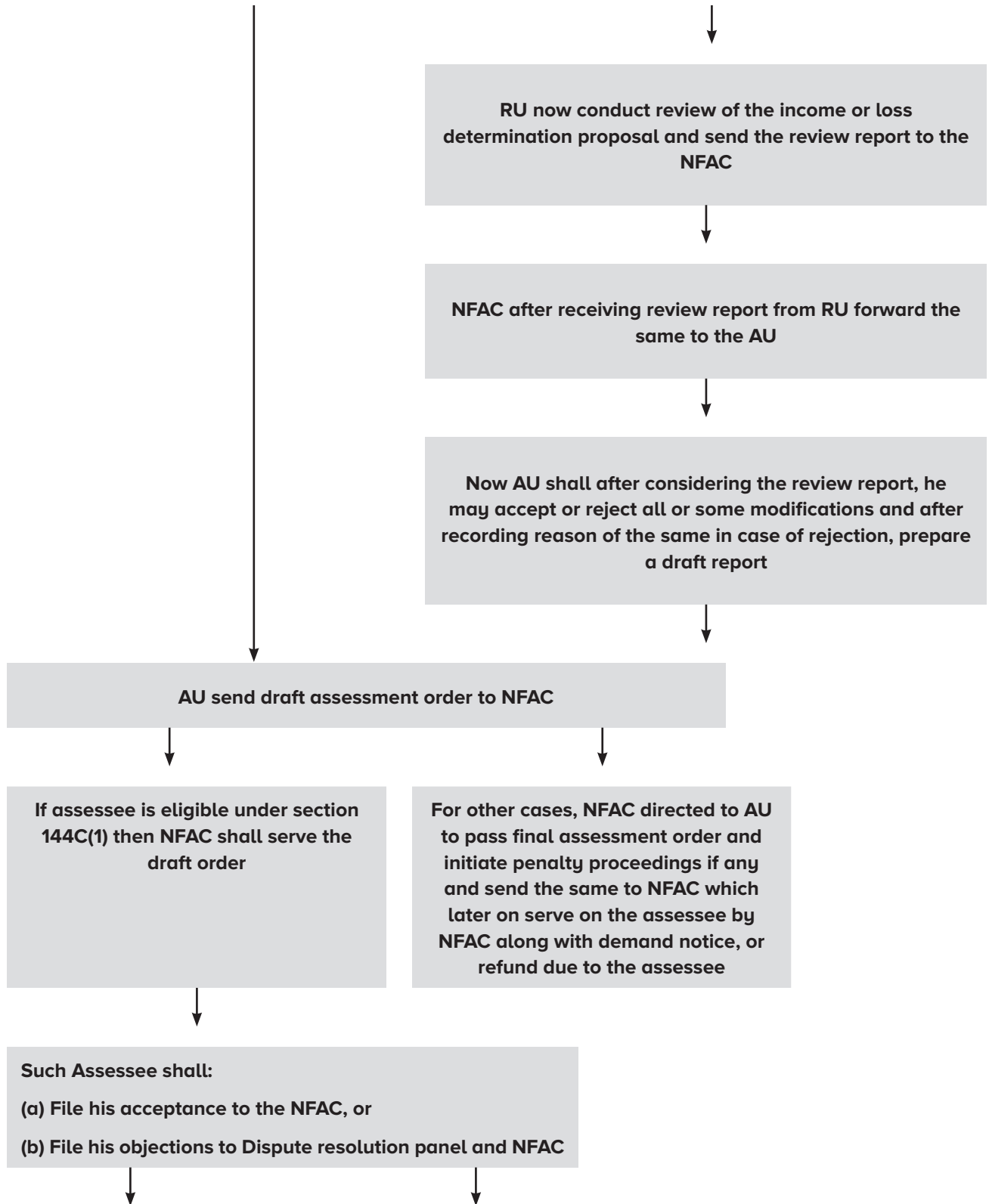


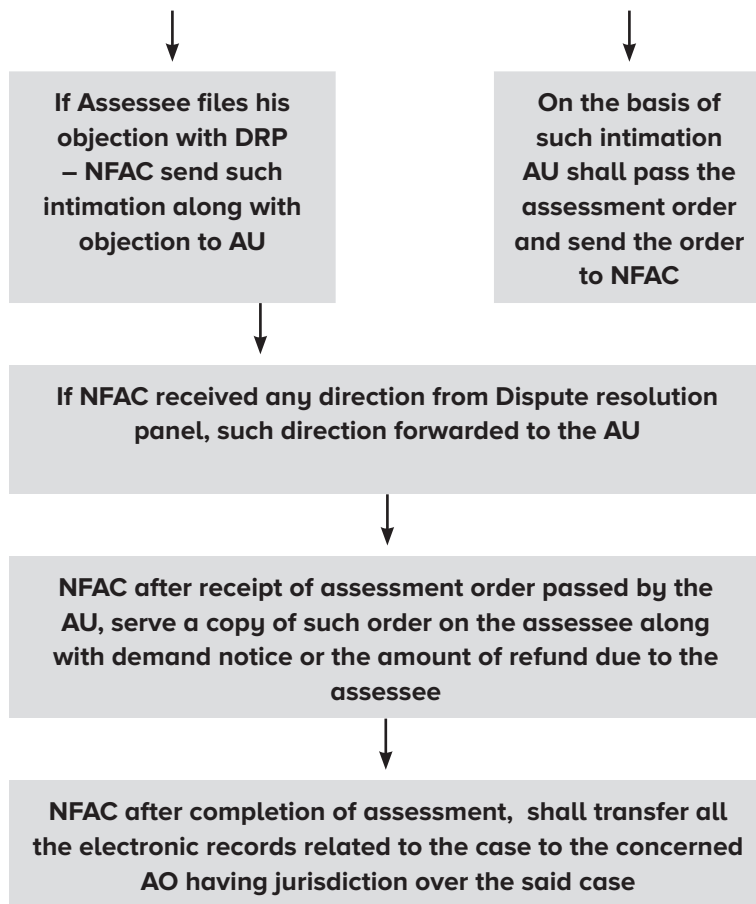
<p>AUs are set up to perform the function of assessment, which includes</p>	<p>VUs are set up to perform the function of verification of the following namely</p>	<p>TUs are set up to perform the function of providing technical assistance.</p>	<p>RUs are set up to perform the function of review of the draft assessment order, which includes checking</p>
<ul style="list-style-type: none"> <li>● Identification of points or issues material for determination of Liabilities</li> </ul>	<ul style="list-style-type: none"> <li>● enquiry, cross verification, examination of books of account</li> </ul>	<ul style="list-style-type: none"> <li>● Technical assistance includes advice on legal, Accounting, forensic, IT, Valuation, transfer pricing, data analytics</li> </ul>	<ul style="list-style-type: none"> <li>● Whether material and relevant evidence has been brought on record</li> </ul>
<ul style="list-style-type: none"> <li>● Seeking Information and clarification on points or issues so identified</li> </ul>	<ul style="list-style-type: none"> <li>● examination of witnesses and recording of statements</li> </ul>	<ul style="list-style-type: none"> <li>● Any other technical matter under this act</li> </ul>	<ul style="list-style-type: none"> <li>● Relevant points of facts &amp; law must be incorporated in the draft order</li> </ul>
<ul style="list-style-type: none"> <li>● Analysis of material furnished by the assessee</li> </ul>	<ul style="list-style-type: none"> <li>● Perform such other functions as may be required for the purposes of verification</li> </ul>	<ul style="list-style-type: none"> <li>● An agreement entered into under section 90 or 90A</li> </ul>	<ul style="list-style-type: none"> <li>● Issued on which addition and disallowance should be made have been discussed in the draft order</li> </ul>
<ul style="list-style-type: none"> <li>● Such other function as required for faceless assessment</li> </ul>	<ul style="list-style-type: none"> <li>● The request for verification may also be assigned through the NFAC to such a verification unit</li> </ul>		<ul style="list-style-type: none"> <li>● Applicable judicial decision if any have been consider &amp; dealt in draft order</li> </ul>

To understand the entire concept in Flow Chart Form









#### Procedure for Faceless Assessment [Section 144B(1)]

Section 144B(1) provides that assessment under section 143(3), i.e., **regular assessment / scrutiny assessment** or **best judgment assessment under section 144** or **income escaping assessment under section 147** in respect of such territorial area or persons or classes of persons or incomes or class of incomes or cases or class of cases, as specified by the CBDT under section 144B(2), has to be made in faceless manner in accordance with the following procedure.

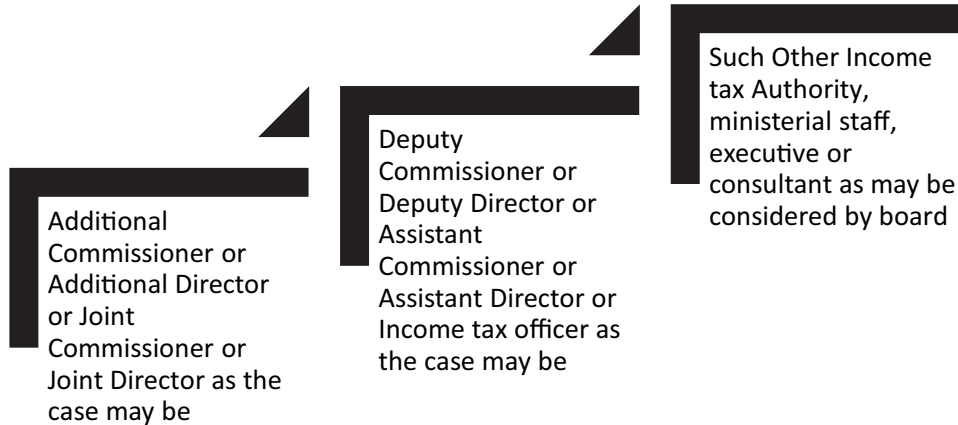
Clause	Provision
(i)	<b>Serving of Notice:</b> The National Faceless Assessment Centre (NFAC) has to serve a notice on the assessee under section 143(2) i.e., notice for scrutiny assessment or under section 142(1) i.e., notice to file ITR or provide additional information and documents.
(ii)	<b>Filing of response to the notice by the Assessee:</b> The assessee is required to file his response to the notice within the date specified therein to the NFAC, which later on forwarded to assessment unit (AU)
(iii)	<b>Assigning the selected case to a specific assessment unit:</b> The NFAC has to assign the case selected for the purposes of faceless assessment under this section to a specific assessment unit through an automated allocation system (AAS).

Clause	Provision
(iv)	<p><b>Request by Assessment Unit to NFAC for obtaining information/conducting enquiry:</b> Where a case is assigned to the assessment unit, it may make a request to the NFAC for:</p> <ul style="list-style-type: none"> <li>● obtaining such further information, documents or evidence from the assessee or any other person, as it may specify;</li> <li>● conducting of certain enquiry or verification by verification unit; and</li> <li>● seeking technical assistance from the technical unit.</li> </ul>
(v)	<p><b>Notice or requisition to the assessee or any other person for obtaining the information:</b> The NFAC has to issue appropriate notice or requisition to the assessee or any other person for obtaining the information, documents or evidence requisitioned by the assessment unit.</p>
(vi)	<p><b>Assessee to file response to the notice within specified time:</b> The assessee would be required to file response to the notice within the time specified therein or such time as may be extended on the basis of an application in this regard, to the NFAC.</p>
(vii)	<p><b>Request for conducting inquiry or verification to be assigned to Verification Unit by NFAC:</b> Where a request for conducting of certain enquiry or verification by the verification unit has been made by the assessment unit, the request would be assigned by the NFAC to a verification unit through an automated allocation system.</p>
(viii)	<p><b>Request for seeking technical assistance to be assigned to Technical Unit by NFAC:</b> Where a request for seeking technical assistance from the technical unit has been made by the assessment unit, the request would be assigned by the NFAC to a technical unit through an automated allocation system.</p>
(ix)	<p><b>Report received from the Verification Unit/Technical Unit to be sent to Assessment Unit:</b> The NFAC has to send the report received from the verification unit or the technical unit to the concerned assessment unit.</p>
(X)	<p><b>Serving notice u/s 144 for failure on the part of the assessee to comply with notice seeking information / direction:</b> Where the assessee fails to comply with the notice seeking information or evidence or notice issued under section 142(1) or with a direction issued under section 142(2A) for special audit, the NFAC has to serve upon such assessee a notice under section 144 giving him an opportunity to show-cause, on a date and time to be specified in the notice, why the assessment in his case should not be completed to the best of its judgment.</p>
(xi)	<p><b>Assessee to file response to a notice under section 144:</b> The assessee has to, within the time specified in the notice or such time as may be extended on the basis of an application in this regard, file his response to the NFAC which shall forward the same to the assessment unit.</p>
(xii)	<p><b>Intimation to Assessment Unit, of failure on the part of the assessee to file response to notice issued u/s 144:</b> Where the assessee fails to file response to the notice within the time specified therein or within the extended time, if any, the NFAC has to intimate such failure to the assessment unit.</p>

Clause	Provision
(xiii)	<p><b>Making of Income or loss determination proposal by the Assessment Unit:</b> The assessment unit has to, after taking into account all the relevant material available on the record and prepare in writing an Income or loss determination proposal</p> <p>(a) <b>If the variation is not prejudicial to the assessee:</b> Assessment unit send a copy of such income or loss determination proposal to NFAC.</p> <p>(b) <b>In other cases, if variation is prejudicial to the assessee:</b> a show cause notice stating the variation which is harmful for the assessee issued through NFAC and call upon him to submit as to why the proposed variation should not be made.</p>
(xiv)	<p><b>Assessee response against show case notice as per (xiii) above:</b></p> <p>(a) If assessee file his response: then NFAC forward the same to assessment unit</p> <p>(b) If Assessee fails to file response: NFAC intimate such failure to assessment unit</p>
(xv)	<p><b>Making of draft assessment order by the Assessment Unit:</b></p> <p>The assessment unit has to, after taking into account all the relevant material available on the record prepare draft order in accordance with the income or loss determination proposal</p> <p>NFAC has to examine the draft assessment order in accordance with the risk management strategy specified by the CBDT, including by way of an automated examination tool</p>
(xvi)	<p><b>Review of the draft assessment order by Review Unit:</b> The review unit would conduct review of the draft assessment order referred to it by the NFAC whereupon it may decide to:</p> <ul style="list-style-type: none"> <li>● concur with the draft assessment order and intimate the NFAC about such concurrence; or</li> <li>● suggest such variation, as it may deem fit, in the draft assessment order and send its suggestions to the NFAC.</li> </ul>
(xvii)	<p><b>Procedure to be followed by NFAC on receiving concurrence from Review Unit:</b> The NFAC, upon receiving the concurrence of the review unit, has to follow the procedure laid down in subclause [a] or [b] of clause [xvi].</p>
(xviii)	<p><b>Procedure to be followed by NFAC on receiving suggestion for variations from Review Unit:</b> Upon receiving suggestions for variation from the review unit, the NFAC has to assign the case to an assessment unit,</p>
(xix)	<p><b>Assessment Unit to send draft assessment order to NFAC:</b> After considering the variations suggested by the review unit, the assessment unit has to send the draft assessment order to the NFAC.</p>
(xx)	<p><b>Procedure to be followed by NFAC on receiving draft assessment order:</b> Upon receiving the draft assessment order NFAC shall convey to the assessment unit to pass final order and initiate penalty proceedings, if any and send it to the NFAC.</p> <p>Upon receiving the final assessment order NFAC shall serve a copy of such order and notice for initiating penalty proceeding if any on the assessee, along with the demand notice specifying the sum payable by, or refund of any amount due to, the assessee on the basis of such assessment.</p>

Clause	Provision
(xxi)	<b>Procedure to be followed by NFAC in case of assessee defined u/s 144C:</b> In case if proposed variation is prejudicial to the interest of eligible assessee as defined in 144C(1) the NFAC shall serve such draft order to the eligible assessee.
[xxii]	<b>Action by eligible assessee:</b> If any draft order received by assessee he shall, (a) File his acceptance of the variation proposed in such draft order to NFAC (b) In case if assessee is not satisfied with the proposed variation he may file his objection with (i) Dispute resolution panel, and (ii) NFAC.
[xxiii]	Intimation by NFAC to assessment unit: (a) If NFAC received acceptance from eligible assessee, NFAC shall intimate the same to assessment unit to complete the assessment. (b) If NFAC do not received acceptance from eligible assessee, NFAC shall intimate the same to assessment unit to complete the assessment on the basis of draft order.
[xxiv]	<b>Assessment order passed by assessment unit:</b> After receipt of intimation from NFAC, assessment unit pass the assessment order in accordance with the relevant draft order with in the time frame under section 144C(4) and initiate penalty proceedings and send the order to NFAC.
[xxv]	<b>NFAC to forward directions of DRP to Assessment Unit:</b> Where the eligible assessee files his objections with the Dispute Resolution Panel, the NFAC has to, upon receipt of the directions issued by the Dispute Resolution Panel under section 144C(5), forward such directions to the concerned Assessment Unit
[xxvi]	<b>Assessment Unit to prepare a draft assessment order:</b> In conformity of the directions issued by the DRP under section 144C(5), the Assessment Unit has to prepare a draft assessment order in accordance with section 144C(13) and send a copy of such order to the NFAC.
(xxvii)	<b>Finalisation of assessment by the NFAC:</b> Upon receipt of the draft assessment order, the NFAC would finalise the assessment within the time allowed under section 144C(13), and serve a copy of such order and notice for initiating penalty proceedings, if any, to the assessee, along with the demand notice, specifying the sum payable by, or refund of any amount due to, the assessee on the basis of such assessment
(xxviii)	<b>Transfer of electronic records of the case to the jurisdictional AO after completion of assessment:</b> After completion of assessment, the NFAC should transfer all the electronic records of the case to the Assessing Officer having jurisdiction over the said case for such action as may be required under the Income-tax Act, 1961.

**AUTHORITIES FOR VARIOUS UNITS [SECTION 144B(4)]**



**Key Points**

- All communications between NFAC, AU, VU, TU, RU and assessee should be in electronic mode only, but verification conducted by VU may be in other mode as specified by the board.
- In case if any variation is proposed by AU, then opportunity of being heard should be provided to assessee, in that case assessee may request for personal hearing, Income tax authority of such unit shall allow such hearing which shall be conducted through Video conferencing or video telephony.
- Examination of records or statement of assessee shall be conducted by income tax authority only through video conferencing and in case if assessee does not have such facility then CBDT shall establish such facility at various locations.
- In case if AU is of the opinion that the assessee is having specialised nature of business, having doubt about correctness and complexity of the accounts, volume of accounts, multiplicity of the transaction in the accounts then AU may refer the case to NFAC stating the provision u/s 142(2A) i.e., Special Audit may be invoked.
- If any request received from AU for special audit u/s 142(2A), then principle Chief Commissioner of income tax or the Principal Director General of income tax who is In-charge of the NFAC if considered appropriate may forward the case to principal chief commissioner of income tax or chief commissioner of income tax, Principal commissioner of income tax or commissioner of income tax having jurisdiction over such case and inform the AU accordingly.
- The Principle Chief Commissioner of income (PCCIT) tax or the Principal Director General of Income Tax (PDGIT) who is In-charge of the NFAC if they considered appropriate may transfer the case to the Assessing officer having jurisdiction over such case. (It is general happen when PCCIT or PDGIT thinks about personal hearing rather than faceless)

**INCOME ESCAPING ASSESSMENT OR RE-ASSESSMENT I.E., RE-OPENING OF CASES [SECTION 147]**

<b>Background</b>	<p>The Finance Act, 2021, revised the procedure for assessing or reassessing escaped income, effective from April 1, 2021. Key changes included:</p> <ul style="list-style-type: none"> <li>● <b>Modification of Sections 148 &amp; 149</b> and introduction of <b>Section 148A</b>, which mandated pre-notice inquiry and opportunity for the taxpayer to respond.</li> <li>● <b>Abolition of separate search assessments</b> under Sections 153A &amp; 153C, merging them into the general reassessment scheme.</li> </ul>
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<p><b>Introduction of Block Assessment (Effective September 1, 2024):</b></p>	<ul style="list-style-type: none"> <li>● <b>Search &amp; requisition cases will no longer fall under Sections 147-153.</b></li> <li>● <b>New Chapter XIV-B (Sections 158B to 158BI)</b> will govern all search cases initiated on or after September 1, 2024.</li> <li>● For searches conducted between <b>April 1, 2021, and August 31, 2024</b>, the old provisions of <b>Sections 147-151</b> (before the 2024 amendment) will continue to apply.</li> </ul>
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There are certain cases wherein if any income chargeable to tax have escaped assessment or if income has been assessed at low rate, or if assessee has excessive loss or allowance like depreciation then assessing officer is empowered to assess or re-assess income of such assessment year subject to the provisions of section 148 to 153.

Sections	Title of the Section
147	Income escaping assessment
148	Issue of Notice if income has escaped assessment
148A	Conducting inquiry subject to provide opportunity before issuing such notice
148B	Prior approval required for assessment, re-assessment or re-computation
149	Time limit for Notice
150	Provision for cases where assessment is in pursuance of an order on appeal
151	Sanction for issue of notice
151A	Faceless assessment for income escaping assessment
152	Other Provision
153	Time limit for completion of assessment, re-assessment or re-computation

### Analysis

If the Assessing Officer (AO) believes that any income of a taxpayer has escaped assessment for a particular year, they can:

1. Assess or reassess the escaped income.
2. Recompute any loss, depreciation, or other deductions for that year.

Additionally, if during the reassessment process, the AO discovers other income that has escaped assessment; they can assess that too, even if prior notice procedures under Section 148A were not followed.

If AO wants to make assessment u/s 147 then it is mandatory for AO to serve notice u/s 148, and before issue of notice u/s 148, assessing officer has to follow the procedure given u/s 148A. Notice u/s 148 will be served with order u/s 148A (3). Hence the proper sequence is (1) Check procedure first u/s 148A (2) Then Issue notice u/s 148 then :

- Require the assessee to file a return of income (his own or of another person for whom he is assessable).
- The return must be filed within the time mentioned in the notice, but the time allowed cannot exceed 3 months from the end of the month in which notice is issued. However: No notice can be issued unless the AO has "information" suggesting escapement of income.
- If information is received under the scheme notified u/s 135A (Faceless Scheme), then AO must obtain prior approval of the specified authority before issuing notice.

**Section 148 (2) – Nature of return**

- The return filed in response to the notice is treated like a return under Section 139, and all provisions of the Act apply.
- If such a return is furnished after the time limit in the notice, it will not be deemed a return u/s 139.

**Section 148 (3) – What qualifies as “information” for escapement**

The law defines information that enables the AO to reopen:

1. Risk management strategy information formulated by CBDT.
2. Audit objection that an earlier assessment order is not in accordance with law.
3. Information from tax treaties (Section 90 / 90A).
4. Information under Section 135A scheme (faceless).
5. Information requiring action in consequence of a Tribunal or Court order.
6. Survey information [u/s 133A, except 133A(2A)] on or after 1 Sept 2024.

**(3) Then complete assessment u/s 147.**

During the assessment if AO **finds some other income which is escaped for same assessment year** then fresh notice u/s 148 and procedure given in section 148A is not required to follow again to assess the income by assessing officer.

**Example:** AO having information related to the escaped income under Profit and Gains from Business and Profession ‘PGBP’ head of Mr. Suresh for AY 2023-24. AO follow all the procedures laid down u/s 148A and accordingly served a notice u/s 148. During the assessment AO also finds that Mr. Suresh having capital gain for same assessment year which was not assessed earlier. In this case AO may assess income from capital gain also without following procedure of section 148 and 148A.

Suppose in above example if AO finds that capital gain is related to AY 2022-23 then he has to follow procedure of section 148 & 148A.

### CONDUCTING INQUIRY, PROVIDING OPPORTUNITY BEFORE ISSUE OF NOTICE U/S 148 [SECTION 148A]

<b>Inquiry Before Issuing Notice (Section 148A)</b>	<p>Before issuing a notice under <b>Section 148</b>, the <b>Assessing Officer (AO)</b> must:</p> <ol style="list-style-type: none"> <li>1. <b>Have information</b> suggesting that income has escaped assessment.</li> <li>2. <b>Send a notice</b> to the assessee, explaining why reassessment is being considered.</li> <li>3. <b>Allow the assessee to respond</b> within the specified time mentioned in the notice not exceeding 3 months</li> <li>4. <b>Decide</b> whether to proceed with reassessment after considering the assessee’s response and obtaining prior approval from the <b>specified authority</b> (as defined in Section 151).</li> <li>5. This process does <b>not</b> apply if the AO has received information under a scheme notified under Section 135A.</li> </ol>
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<b>Time Limit to Issue Notice under Section 148A</b> <b>[Section 149(2)]</b>	<p>A notice to show cause under Section 148A (prior inquiry) cannot be issued if:</p> <ul style="list-style-type: none"> <li>● More than 3 years have passed from the end of the relevant assessment year (except in special cases).</li> <li>● Beyond 5 years unless the escaped income (as per AO's information) is Rs. 50 lakh or more.</li> </ul>
<b>Authority granting sanction for issue of Notice u/s 148A</b>	<p>Specified authority for the purposes of sections 148 and 148A shall be the Additional Commissioner or the Additional Director or the Joint Commissioner or the Joint Director, as the case may be. w.e.f. 01.09.2024</p>

### Analysis of Section 148A – Conducting inquiry, providing opportunity before issue of notice under Section 148

The assessing officer before issuing notice u/s 148

- i. Conduct any enquiry with approval from specified authority
- ii. Provides an opportunity of being heard to assessee by serving upon him a notice to show cause as to why notice u/s 148 should not be issued on the basis of information which suggest that income has escaped assessment.
- iii. Consider the reply given by assessee, AO decide whether or not it is a fit case to issue notice u/s 148 by passing an order u/s 148A subject to prior approval from specified authority.
- iv. Assessee can not file appeal against the order issued u/s 148A.
- v. Section 148A is not applicable in the following cases (It means AO can send direct notice u/s 148 without following the procedures laid down u/s 148A)
  - (a) If search-initiated u/s 132 or books of accounts or any assets requisitioned u/s 132A (Applicable after 01-04-2021)
  - (b) If AO satisfied after taking approval from principal commissioner or commissioner that any assets or books of accounts requisitioned u/s 132 or 132A in case of any other person is actually belongs to the assessee.
  - (c) If AO received any information under the scheme notified u/s 135A.

### ISSUE OF NOTICE [SECTION 148]

<b>Issuance of Notice for Escaped Income (Section 148)</b>	<p>Before making the assessment, reassessment or re-computation u/s 147</p> <ol style="list-style-type: none"> <li>1. The AO <b>issues a notice</b> on the assessee under <b>Section 148</b>, attaching a copy of the <b>148A order</b> requiring him to furnish his return of income.</li> <li>2. The assessee must <b>submit a return</b> of income within the specified time (within 3 months from the end of the months in which notice received)</li> <li>3. If the return is <b>filed late</b>, it will not be considered a valid return under <b>Section 139</b>, and the AO may proceed with a <b>best judgment assessment</b>.</li> </ol>
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<b>Conditions for Issuing Notice</b>	<p>A notice under Section 148 can be issued <b>only if</b>:</p> <ul style="list-style-type: none"> <li>● The AO has <b>reliable information</b> that income has escaped assessment.</li> <li>● If information is obtained under a <b>scheme notified under Section 135A</b>, prior approval from the <b>specified authority</b> is needed.</li> </ul>
<b>“Information” Suggesting Escaped Income</b>	<p>The AO must have at least one of the following:</p> <ul style="list-style-type: none"> <li>● <b>Risk-based alerts</b> under Board’s strategy.</li> <li>● <b>Audit objections</b> indicating assessment errors.</li> <li>● <b>Information from tax treaties</b> (Section 90/90A).</li> <li>● <b>Faceless information collection</b> (Section 135A).</li> <li>● <b>Tribunal/Court orders</b> requiring action.</li> <li>● <b>Survey findings</b> (Section 133A, except TDS/TCS verification) from <b>01.09.2024</b> onward.</li> </ul>

### Analysis of Section 148

Before making the assessment, reassessment or re-computation u/s 147 the AO shall serve on the assessee a notice u/s 148 along with a copy of order passed u/s 148A requiring him to furnish return of income. Such ROI should be filed within 3 months from the end of the months in which notice received.

If assessee request to AO to extend the time limit, then Return of Income (ROI) must be filed within the extended time period. If notice issued u/s 148 requiring assessee to file ROI then it shall be presumed that assessee was required to file his ROI u/s 139, it means assessee can not claim that his income is below the basic exemption limit hence ROI is not required to be filed.

If return is filed late, it will not be considered a valid return under **Section 139**, and the AO may proceed with a **best judgment assessment**

The assessee is required to file ROI u/s 148 even if he has already filed his ROI as per normal provision. Return filed u/s 148 can not be revised as return can be revised only if return is filed u/s 139(1) or 139(4).

### Conditions to be fulfilled before issue of notice

#### Notice can be issued only when

- i. If AO is having such information which suggest that the income chargeable to tax has escaped assessment
  - (a) Any information in accordance with the risk management strategy formulated by CBDT
  - (b) Any audit objection which suggests that assessment has not been made as per the provision of this act; or
  - (c) Any information received under DTAA u/s 90 or 90A; or
  - (d) Any information made available to AO under the scheme notified u/s 135A; or

- (e) Any information which requires action is consequence of the order of Tribunal or a Court.
- ii. The AO has obtained prior approval from specified authority (Refer Section 151 for Sanction authority)
- iii. AO has complied with the procedure given u/s 148A (not required in case of search)

**Cases where it shall be deemed that AO having information which suggest the income has escaped assessment-**

- (a) If search-initiated u/s 132 or books of accounts or any assets requisitioned u/s 132A (Applicable after 01-04-2021)
- (b) A survey is conducted u/s 133A (other than TDS/TCS survey)
- (c) If AO satisfied after taking approval from principal commissioner or commissioner that any assets or books of accounts requisitioned u/s 132 or 132A in case of any other person is actually belongs to the assessee.

**Example:** Search conducted u/s 132 on 20<sup>th</sup> September in the premises of Mr. Kaka. During the search AO found some document related to Mr. Deepak. In this case AO of Kaka will forward such documents to the AO having jurisdiction of Mr. Deepak. In this case it is deemed that respective AO having information and notice u/s 148 can be issued.

**Prior approval for assessment, reassessment or re-computation in certain cases [Section 148B]**

Where search-initiated u/s 132 in case of assessee or any other person or survey conducted as per section 133A, than assessment or reassessment shall not be made by AO below the rank of joint commissioner except with the prior approval of Joint Commissioner or Joint Director or Additional Commissioner or Additional Director.

**Time limit for issue of Notice u/s 148 [Section 149]**

Category	Amount Involved	Time Period	Specific Authority
Normal Provision	< 50 Lakh	Up to 3 years and 3 months from the end of relevant assessment year	Specified authority for the purposes of sections 148 and 148A shall be the Additional Commissioner or the Additional Director or the Joint Commissioner or the Joint Director, as the case may be. w.e.f. 01.09.2024
Special Provision	= > 50 Lakhs	Up to 5 years and 3 months from the end relevant assessment year	

**Analysis of Section 149 - Time limit for issue of Notice u/s 148**

Notice u/s 148 case be issued for the relevant assessment year

- (a) Up to 3 years and 3 months from the end of relevant assessment year
- (b) Up to 5 years and 3 months from the end relevant assessment year if income of assessee has escaped assessment wherein amount to or is likely to amount to Rs. 50 Lakhs or more for that year.

**UNLIMITED TIME LIMIT TO ISSUE NOTICE [SECTION 150]****Unlimited time period for issue of notice for assessment in pursuance of order on appeal**

Notice u/s 148 can be issued at any time if assessment, re-assessment or re-computation to be carried out to give effect to any findings or directions in order passed by CIT Appeal, ITAT, High court, supreme court or any court under any other law for this year to another year.

This provision is applicable when the order passed by above contains a direction;

- Which states to exclude income from one assessment year to include in another assessment year; or
- Which states to exclude income from one assessee and include in another assessee.

This provision shall not apply in any case where assessment, re-assessment, or re-computation relates to an assessment year in respect of which assessment, re-assessment, or re-computation could not have been made at the time the order which was the subject matter of appeal, reference or revision was made by reason of any other provision limiting the time within which any action for assessment, re-assessment, or re-computation may be taken.

**Analysis of Section 150 - Unlimited Time Limit to Issue Notice**

Normally, notices under Section 148 must follow the time limits in Section 149. However, Section 150 overrides Section 149 in certain cases. If an assessment, reassessment, or recomputation is required to give effect to a finding or direction in an order passed by:

- Appellate authority
- Reference authority
- Revision authority
- Any court in any legal proceeding.

In such cases, a notice under Section 148 can be issued at any time, even beyond normal time limits.

**Section 151 – Sanction for issue of notice**

Specified authority for the purposes of sections 148 and 148A shall be

- Additional Commissioner or
- the Additional Director or
- the Joint Commissioner or
- the Joint Director

**FACELESS ASSESSMENT OF INCOME ESCAPING ASSESSMENT [SECTION 151A]**

Faceless assessment scheme may be notified by Central Government and as per such scheme,

- (a) Assessment, re-assessment or re-computation u/s 147
- (b) Issuance of notice u/s 148.

Will be through automated allocation and in a faceless manner, in accordance with section 144B with reference to making faceless assessment of total income or loss of assessee.

**TAX RATE APPLICABLE FOR ESCAPED INCOME [SECTION 152(1)]**

In the case of any assessment, re-assessment or re-computation u/s 147 respective year tax rate shall apply.

Example: If assessment, re-assessment or re-computation u/s 147 made for AY 2017-18 in AY 2021-21 then tax rates for AY 2017-18 is applicable as income was escaped for AY 2017-18.

**DROPPING OF ASSESSMENT PROCEEDING [SECTION 152(2)]**

Where the proceedings are initiated u/s 147 the same may be dropped by Assessing Officer if assessee satisfying Assessing officer that –

- (a) After assessing the income u/s 147 there will be no impact or no effect on his tax liability, even after taking into account the income which is escaped for assessment; and
- (b) Assessee has not gone in any appeal, revision against such original assessment order.

**TIME LIMIT TO COMPLETE ASSESSMENT AND REASSESSMENT [SECTION 153]**

The following time limits are provided by section 153 to complete the assessment and reassessment

Section		Assessment	Time limit for Completion
153(1)	143(3)	Scrutiny Assessment	In respect of order of assessment related to <b>For AY 2022-23 and Onwards</b> - 12 Months from the end of the AY in which the income was first assessable <b>For AY 2021-22</b> - 9 Months from the end of the AY in which the income was first assessable <b>For AY 2020-21</b> - 18 Months from the end of the AY in which the income was first assessable <b>For AY 2019-20</b> - 12 Months from the end of the AY in which the income was first assessable <b>For AY 2018-19</b> - 18 Months from the end of the AY in which the income was first assessable <b>For AY 2017-18 and earlier years</b> - 21 Months from the end of the AY in which the income was first assessable
	144	Best Judgement Assessment	
<i>Note: In case of updated return u/s 139(8A) is furnished then time limit is 48 months from the end of the financial year in which such return was furnished.</i>			
153(2)	147	Income Escaping Assessment	12 months from the end of the financial year in which notice u/s 148 was served
153(3)		Fresh Assessment u/s 143/144/147 or on fresh order u/s 92CA (Transfer pricing officer) where the original assessment or order u/s 92CA has been set aside, cancelled and sent back to AO by an order u/s 254, 263, 264.	12 Months from the end of the financial year in which (a) Order u/s 254 received by Principal chief commissioner of income tax, Chief commissioner of income tax, Principal commissioner of income tax or Commissioner of income tax (b) Order u/s 263/264 passed by Commissioner or Income Tax/Principal commissioner of income tax, Chief commissioner of income tax, Principal Chief commissioner of income tax.

Section		Assessment	Time limit for Completion
153(3A)		Where any assessment or re-assessment is already pending for earlier year on the date of initiation of search u/s 132 or making of requisition u/s 132A	All above time limits are extended by fresh 12 months
153(4)		Where reference made to TPO (Transfer pricing officer) u/s 92CA	Additional time period of 12 months is available for completion of assessment hence revised time limit for all the above assessment is as follows
	Completion of assessment u/s 143(3) and 144		For AY 2022-23 and Onwards - 24 Months from the end of the AY in which the income was first assessable
			For AY 2021-22 - 21 Months from the end of the AY in which the income was first assessable
			For AY 2020-21 - 30 Months from the end of the AY in which the income was first assessable
			For AY 2019-20 - 24 Months from the end of the AY in which the income was first assessable
			For AY 2018-19 - 30 Months from the end of the AY in which the income was first assessable
			For AY 2017-18 and earlier years - 33 Months from the end of the AY in which the income was first assessable
<p><i>Note : In case of updated return u/s 139(8A) is furnished then time limit is 24 months from the end of the financial year in which such return was furnished.</i></p>			
147	Income Escaping Assessment	24 months from the end of the financial year in which notice u/s 148 was served	
		Fresh Assessment u/s 143/144/147 or on fresh order u/s 92CA (Transfer pricing officer) where the original assessment or order u/s 92CA has been set aside, cancelled and sent back to AO by an order u/s 254, 263, 264.	24 Months from the end of the financial year in which (a) Order u/s 254 received by Principal chief commissioner of income tax, Chief commissioner of income tax, Principal commissioner of income tax or Commissioner of income tax (b) Order u/s 263/264 passed by Commissioner or Income Tax/Principal commissioner of income tax, Chief commissioner of income tax, Principal Chief commissioner of income tax
		Where any assessment or re-assessment is already pending for earlier year on the date of initiation of search u/s 132 or making of requisition u/s 132A	Additional time period of 12 months is available for completion of assessment, reassessment referred u/s 153(1), 153(1A), 153(2), 153(3), 153(3A)

Section		Assessment	Time limit for Completion
153(5)		Effect to be given by AO/ Transfer pricing officer u/s 250/254/260/263/264 (Otherwise than fresh assessment/orders)	3 Months from <b>END OF THE MONTHS</b> in which order u/s 250/254/260/262 is received by CCIT/CIT/PCCIT/ PCIT or order u/s 263/264 passed by CIT/PCIT/CCIT/ PCCIT
		Additional period of 6 months may be allowed - if AO/TPO apply that order could not be given effect within 3 months	
		IF AO/TRP requires to verify any document submitted by assessee - Time limit is 12 months as given in section 153(3)	
		IF AO/TRP requires to give opportunity of being heard to assessee - Time limit is 12 months as given in section 153(3)	
		IF TPO wants to give effect to an order or direction u/s 263 or order u/s 92CA to AO - Time limit is 2 months from the end of the month in which such order of the TPO received by AO.	
153(6)(i)		Where assessment/ reassessment made because of giving effect to any findings or direction in any order u/s 250/254/260/262/263/264 or by order of any court (Refer section 150 for unlimited time period)	12 Months from the end of the months in which such order is received or passed by the PCCIT/PCIT/CCIT/ CIT
153(6)(ii)		Where assessment made on partner due to assessment made on firm u/s 147	12 months from the end of the months in which the assessment order in case of firm was passed.

**Following time limits are to be excluded for the purpose of Section 153 - Time Limit to complete Assessment and Reassessment**

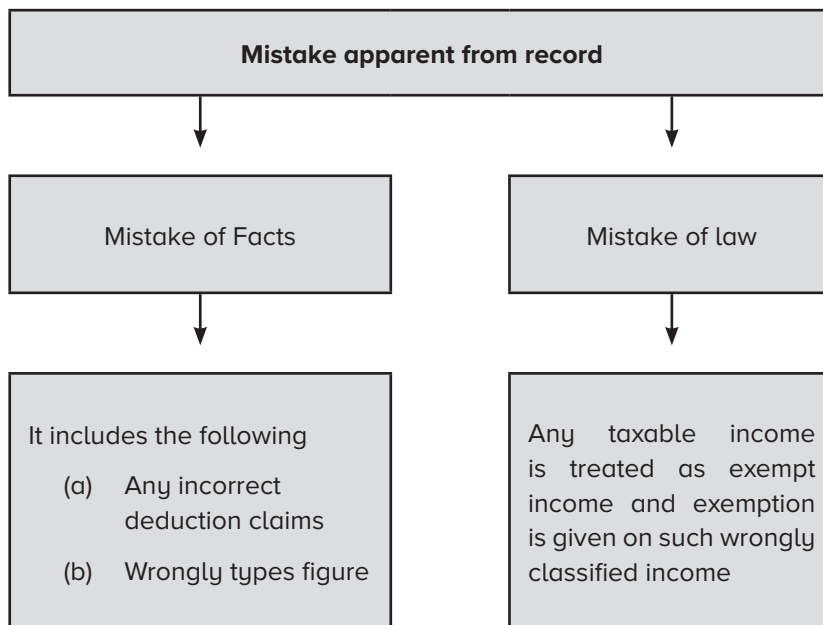
S. No.	Particular	Period exclude	
		From	To
1	Contravention of provision 10(21), 10(22B), 10(23A), 10(23B)	Date on which AO inform Central Government	Till the date on which Government notification received by AO withdrawing the approval
2	Direction u/s 142(2A) - Special Audit and Inventory valuation	Date on which AO gives direction	Last date to furnish report by assessee or, Date on which order set aside by court for such direction received by Principal Commissioner/ Commissioner of Income Tax

S. No.	Particular	Period exclude	
		From	To
3	Reference to valuation officer u/s 142A	Date on which AO gives reference	Date on which AO received report
4	If assessee furnish declaration claiming for any question of law arising in his case if pending with AO (Section 158A- Covered in Appeal Chapter)	Date of which AO received declaration	Date on which ITAT passed order for acceptance or rejection of such declaration.
5	Application made to Board for Advance ruling	Date of which application made	Date on which rejection order received by Principal Commissioner/ Commissioner of Income Tax
6	In case of reference for exchange of information u/s 90/90A	Date of which reference made	Date of which information received by CIT/PCIT or 1 year whichever is less
7	In case of Search u/s 132 or requisition u/s 132A	From the Date of search-initiated u/s 132 or requisition made u/s 132A	Date on which Books of accounts, documents, money, bullion handed over by authorized officer to Assessing officer having jurisdiction over assessee. (However, period should not be more than 180 Days)
8	Reference made by AO to CIT/PCIT if any trust or institution u/s 12AB(4) violates specified conditions.	Date of which reference made by AO to CIT/PCIT	Date on which copy of order or CIT/PCIT received by the AO
9	The time period for which assessment proceeding is stayed by any court. The period commencing on the date on which stay on the assessment proceeding was granted by an order or injunction of any court and ending on the date on which certified copy of the order vacating the stay was received by the jurisdictional Principal Commissioner or Commissioner.		
10	Time lost for giving opportunity for re-opening the proceeding as defined in section 129		

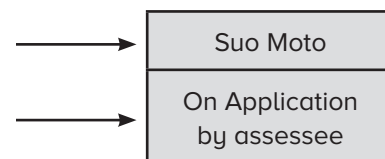
**Note:** After exclusion all the above time limits, the period referred to in section 153(1)/ (2)/ (3) available to AO for making the order of assessment/reassessment or re-computation is less than 60 days – Then such remaining shall extended to 60 days.

**RECTIFICATION OF MISTAKES [SECTION 154]**

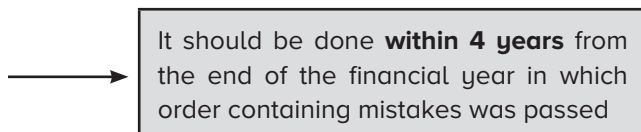
If any authority passes any assessment order in which there is any mistake which is apparent from the record, then such income tax authority [AO/CIT/CIT(A)/Joint commissioner (Appeal)] can rectify a mistake which is apparent on record



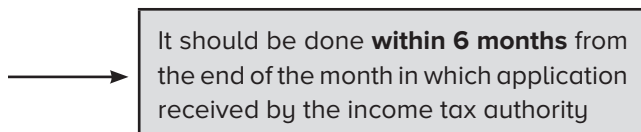
➤ Rectification can be done by income authority



➤ If Rectification done suo moto: -



➤ If rectification done on application by assessee



**Analysis of Section 154 - Rectification of Mistakes**

- a) Rectification order shall be made within four years from the end of the financial year in which the order sought to be amended was passed
- b) Opportunity of being heard is required if rectification results into increasing the tax liability or reducing the refund.
- c) Notice of demand (section 156) to be issued in case rectification results into enhancing the tax liability or reducing the refund
- d) Refund to be given in case rectification results into reduction in tax liability.

**DEMAND NOTICE [SECTION 156]**

- Demand Notice to be serve on the assessee – If any tax, interest, penalty or any other sum payable under income tax act due to order passed by income tax authority.
- Deemed Notice of demand – In case if any amount is payable under section 143(1) i.e., Intimation received, u/s 200A(1) i.e., the deductor or u/s 206CB(1) i.e., The collector, the same shall be treated as notice of demand, separate demand notice/s 156 not required ion this case
- Payment of Tax – Assessee should paid the said amount within 30 days from the date of receipt of notice of demand
- Consequences if not paid in 30 days – If assessee fails to pay the demand within 30 days then recovery proceeding shall be initiated and assessee shall be treated as assessee in default
- Assessee is liable to pay interest u/s 220 and penalty u/s 221 – If not paid in 30 days.

**TEST YOURSELF**

*(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation)*

**Multiple Choice Questions**

1. Under which section of the Income Tax Act can an assessment be reopened if income has escaped assessment?
  - a) Section 139
  - b) Section 142
  - c) Section 144
  - d) Section 147

Answer : d

2. What is the time limit for rectification under Section 154 of the Income Tax Act?
  - a) 1 year from the end of the financial year
  - b) 2 years from the end of the financial year
  - c) 3 years from the end of the financial year
  - d) 4 years from the end of the financial year

Answer : d

3. What is the time frame for completing a reassessment under Section 147 if it is initiated based on the information that income has escaped assessment?
  - a) 1 Year
  - b) 2 Years
  - c) 3 Years
  - d) No Time limit

Answer : c

4. If a taxpayer fails to comply with the requirement of information requested during the assessment, which of the following sections is likely to be invoked?

- a) Section 139
- b) Section 143(3)
- c) Section 144
- d) Section 147

Answer: c

5. What happens if an assessment order is not passed within the stipulated time limit?

- a) The assessment is automatically void
- b) The assessment is treated as completed
- c) The taxpayer is penalized
- d) Additional time is automatically granted for completion

Answer: b

6. Which section mandates the assessment of income to be carried out by the Assessing Officer after scrutiny?

- a) Section 142
- b) Section 143
- c) Section 144
- d) Section 147

Answer: b

7. What is the purpose of issuing a notice under Section 142(1)?

- a) To assess the tax liability directly
- b) To obtain information for the completion of the assessment
- c) To impose penalties
- d) None of the above

Answer: b

8. An assessment order made under Section 143(3) cannot be revised under which of the following sections?

- a) Section 154
- b) Section 263
- c) Section 264
- d) Section 147

Answer: a

9. What is the primary objective of an assessment under Section 144 (Best Judgment Assessment)?
- To provide taxpayer with additional time
  - To estimate the income of a taxpayer when they do not comply with request for information
  - To rectify any mistakes made in previous assessment
  - To re-evaluate tax slabs and rates

Answer: b

10. Which of the following statements is correct regarding the assessment process?
- The assessment can be done without verifying the taxpayer's record
  - The taxpayer must be given an opportunity to present their case
  - Reassessment is a continuation of the original assessment
  - Best judgement assessment is always to the prejudicial of the taxpayer

Answer: b

### Practice Question

#### Q1. What is a summary assessment under Section 143(1) of the Income Tax Act?

A summary assessment under Section 143(1), also known as an intimation, is an automated initial processing of income tax returns filed by taxpayers. This process is conducted without human intervention and primarily focuses on identifying apparent errors and inconsistencies based on the information provided in the return and the records available with the Income Tax Department. It is a preliminary step and does not involve a detailed scrutiny of the taxpayer's affairs.

#### Q2. What kind of adjustments can be made during a summary assessment?

During a summary assessment, the Assessing Officer (through the automated system) can make adjustments for the following reasons:

- **Arithmetical errors:** Mistakes in calculations within the income tax return.
- **Incorrect claims apparent from the records:** Claims that are clearly inconsistent with the information already available with the tax authorities.
- **Disallowance of loss claimed/expenses/deductions or increase in income indicated in the audit report but not included in the return:** Situations where the audit report submitted by the taxpayer suggests a different income, expense, loss, or deduction figure than what was reported in the income tax return.
- Inconsistencies apparently from returns filed from earlier years

#### Q3. Does the taxpayer get an opportunity to respond before adjustments are made during a summary assessment?

Yes, before any adjustments are made to the income tax return during a summary assessment, the taxpayer is provided with an opportunity to explain the apparent error or inconsistency or to rectify the same. The Income Tax Department issues an intimation regarding the proposed adjustments, and the taxpayer is typically given 30 days from the issuance of such intimation to submit their response. The Assessing Officer is obligated to consider the taxpayer's response before finalizing any adjustments.

**Q4. How is the final tax liability determined after a summary assessment?**

After processing the income tax return and considering any adjustments made (and the taxpayer's response, if any), the total tax liability is calculated. This calculation takes into account various factors such as the tax deducted at source (TDS), advance tax payments, eligible deductions, and tax reliefs claimed by the taxpayer.

**Q5. What happens if there is additional tax payable or a refund due after the summary assessment?**

If, after the summary assessment, it is determined that there is additional tax payable by the taxpayer, a Notice of Demand is issued. This notice will specify the amount of tax due and typically requires the taxpayer to make the payment within 30 days. Conversely, if the summary assessment indicates that a refund is due to the taxpayer, the Income Tax Department will process the refund accordingly.

**Q6. What is the timeline for receiving an intimation under Section 143(1)?**

The Income Tax Department is required to send the intimation (summary assessment order) to the taxpayer within 9 months from the end of the financial year in which the income tax return was filed. This timeframe ensures that the initial processing of returns is completed in a timely manner.

**Q7. What happens if no errors or inconsistencies are found during the summary assessment?**

If, upon the initial automated processing of the income tax return, no arithmetical errors, incorrect claims apparent from records, or discrepancies with the audit report are identified, then the acknowledgment of the return filed by the taxpayer is itself considered as the intimation under Section 143(1). No separate intimation document might be issued in such cases.

**Q8. Is a summary assessment mandatory even if the tax return is selected for a more detailed scrutiny?**

Yes, even if an income tax return is selected for scrutiny under Section 143(2) (which involves a more in-depth examination of the taxpayer's records), the return must first undergo the summary assessment process under Section 143(1). This initial processing ensures that all filed returns are subjected to a basic level of automated checks for compliance before any further action is taken.

**SELF-TEST QUESTIONS**

1. Explain the purpose of self-assessment tax under Section 140A. When is it typically paid, and what happens if an assessee fails to pay this tax?
2. Describe the circumstances under which an Assessing Officer (AO) can issue a notice under Section 142(1). What kind of information or documentation might the AO request through this notice?
3. What is the role of a Valuation Officer under Section 142A? Under what conditions can an Assessing Officer refer a case to a Valuation Officer for the estimation of asset value?
4. Outline the key objectives of the Faceless Inquiry & Valuation Scheme under Section 142B. How does it aim to improve the efficiency and transparency of tax inquiries?
5. Describe the process of summary assessment under Section 143(1). What types of adjustments can be made during this initial assessment, and is it mandatory?

6. What distinguishes a scrutiny assessment under Section 143(3) from a summary assessment? What is the time limit for issuing a scrutiny notice?
7. Under what conditions can an Assessing Officer make a Best Judgment Assessment under Section 144? Does the AO need to provide an opportunity to be heard before making such an assessment?
8. Explain the concept of faceless assessment, particularly in the context of best judgment assessments under Section 144B. What are the main features of this scheme?
9. What are the initial steps an Assessing Officer must take under Section 148A before issuing a notice for income escaping assessment under Section 148? What kind of information must the AO possess?
10. What are the time limits for issuing a notice under Section 148 for income escaping assessment? How do these time limits differ based on the amount of escaped income?

#### Application based Questions

1. Critically analyse the significance of the Faceless Assessment Scheme in modernizing the income tax assessment procedures in India. Discuss its potential benefits and challenges for both taxpayers and the Income Tax Department.
2. Compare and contrast the different types of income tax assessments (Self-Assessment, Summary Assessment, Scrutiny Assessment, and Best Judgment Assessment). Under what circumstances is each type of assessment typically initiated, and what are the key procedural differences between them?
3. Evaluate the safeguards provided to taxpayers during the assessment process, particularly concerning inquiries under Section 142, referrals to the Valuation Officer under Section 142A, and Best Judgment Assessments under Section 144. Are these safeguards adequate to ensure fairness and prevent arbitrary assessments?
4. Discuss the implications of the revised procedures for assessing income escaping assessment under Sections 147 to 151 (as amended by the Finance Act, 2021 and subsequent amendments). How do these changes affect the rights and obligations of both the Assessing Officer and the taxpayer?
5. Analyze the role of technology in transforming income tax assessment procedures in India. How have initiatives like faceless assessment and automated summary assessments impacted the efficiency, transparency, and taxpayer experience in the assessment process?

#### LIST OF FURTHER READINGS

- **Direct Taxes Law and Practice**  
**Author:** Dr. Vinod K. Singhanian & Dr. Kapil Singhanian  
 Publisher: Taxmann
- **Direct Taxes Ready Reckoner with Tax Planning**  
**Author:** Dr. Girish Ahuja & Dr. Ravi Gupta  
**Publisher:** Wolters Kluwer

