To: All Tax Return Filers,

THIS EMAIL IS LITTLE LENGTHY BUT VERY IMPORTANT,
(You can take print & read in your free time)

Hi All

This email is intended to give insight on Income Tax Scrutiny (hereinafter referred as ITS) and to facilitate all salaried people to get prepare themselves to face **ITS with smile.**

Till 2006, Filing of Tax returns by salaried people was just a paper work. Salaried people were expected to only to file their tax returns on time. Even Dept had impression that salaried people are most obedient with regards to Tax payment. Now Tax Dept is in view that there may be cases of Income escaping with salaried people too
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When IT dept had introduced **e filing & paperless filing of Income Tax returns**, all salaried people were happy & they had thought that they can even save Tax return filing fees. They even thought its simple work & no need to approach any CAs on this. To some extent it's true.

But IT Dept had started discovering many loopholes & felt that even there may be cases Income Escaping with regards to salaried cases

Eg1. Interest Income from FD is not disclosed
2. Not accounting 2nd Form 16 when there is change in job
3. Business people had used salaried people's bank account to transact huge amount to avoid their Taxation (Black Money Route)
4. Wrong claim of HRA
5. Wrong Form 16
6. Incomplete Investment details

To plug all above loopholes & make even salaried people accountable like businessman, Income Tax Act has amended & introduced a new concept "**SCRUTINY ASSESSMENT**". The notice must be served upon the assessee within 6 months from the end of the relevant assessment year. That is the notice must be received by the assessee now up to 30th September for the preceding Assessment Year. For Tax return filed in July 2010. IT Dept can select for ITS till Sept 30th 2011. (1.5 year from your filing date)

This change has created below changes with regards to Income Tax return filing.

1. Filing of Income Tax return is no longer an event. It's going to be starting point for IT dept to send a notice.
2. Earlier filed copy of IT return was itself a proof & they were rare case of processing them unless salary was huge. Now each filed ITR (Paper or e filing) is being processed as Imp return. Even a person whose salary is less than 2 lakhs will get notice unless he has not filed his Tax returns properly. **Many of you already getting notice from Income Tax - CPC for wrong filing.**

New Change -"Scrutiny Assessment" expects even salaried people to account their Income & Expenditures like businessman. Filing of Tax return with incomplete details or Incomes/wrong claim may lead to notices from Income tax dept. This will make assessee to pay tax as well as penalty (1%per month). You can study more about Income tax applicability to salaried people & about ITS in my articles which I have shared with you all time and again & these are available in www.

ITS is of costly affair for salaried people. It asks for all documents & proofs for each claim (HRA & others) in tax returns & proofs/explanations for each transactions in your bank accounts. Sources & utilizations of your amount. You cannot have more expenses & purchases than your income unless you have loans which are documented.

Each tax return should comply -NWPCD PRINCIPLE. Tax return is expected to have

1. **N**umerical Accuracy 2.**W**ork paper - Each calculation should be supported by documents 3. **Presentation** should be correct 4. **C**omply with all Income tax rules & provisions 5. Should have character of “Permanent **D**ocument.

If any of the above principle is not followed while filing your tax return, then you may get notice from Income Tax dept - CPC (sometimes because of CPC error too) or you may get ITS notice u/s 143(2).

You can avoid notices from CPC if you file your tax returns without error. **But ITS is unavoidable**. Department will have its own criteria to select cases & you may one of them to get that notice. Also you need to search for documents plus you need to visit CAs/ IT dept till case gets completed. You should be ready for Scrutiny. This has no limitation & any one of you may get notice. BE READY FOR SCRUTINY ASSESSMENT. For this, please remember 2 principles

1. **Income without proper document & source is poisonous**. So document everything- All incomes & expenditures/credit & debit of your bank account/purchase & sales

2. **Income Tax dept is tech savvy, not Income tax officers** - Make sure that you should have hard copy of your documents than soft copy.

Steps to prepare for ITS

1. Take printout of your Form 16 & ITR returns including ITR V & maintain a separate file.

2. Collect all your bank statements for the whole year from all banks at your weekend so that you can produce them to ITO at the time of ITS. Highlight or record explanation for each transactions by pen or maintain soft copy in excel **with separate column for date/ particulars/debit or credit/amount/ explanations & sources**

3. Collect/Maintain all your credit card statement for the whole year (April to March). If you had utilized your card for others, maintain records for the same

4. Maintain all records related to purchase/sale of Immoveable property/Vehicle/Shares. Maintain even loan documents.

5. Avoid huge transactions through net banking/cheques between friends. Your e transactions should not be more than 10,000 each day/each time with friends. Otherwise these things may become reason for ITS.

6. Try to draw Receipts & Payment Account (RP) to know whether you have all known & documented receipts &payment at least once in quarter. You can take help of your CAs

7. Try to draw Statement of Affairs (SOA) to know what are assets & liabilities once in each quarter. You can take help of your CAs. Remember ITO will ask for above 2- RP & SOA at the time of Assessment. So be ready with these.

Hope you all will start yourself getting ready for ITS by trying to collect all documents at your free time to save ***1 leave (1 day salary)*** & to start preparing RP & SOA to know where you stand as on that date.

Precaution is better than Cure, Be Ready to face ITS with smile ☺

Happy Tax time & Cheers

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