

How to tackle with income tax notices

Many of my family members & friends are receiving notices from Income tax department; usually any communication from the Income Tax department, especially receiving a notice from them, can send shivers down anyone's spine. A majority of the notices is sent in the normal course of processing returns& might be for routine enquiry or a request for simple clarification, so don't be panic.

What to do when you receive an Income Tax notice?

1. **Don't Ignore**: Handle the situation carefully and sincerely, or you may end up paying a penalty of up to Rs 10,000 along with the tax payment.
2. **Back to basics**: Check the whether the notice is really meant for you by checking basic things like PAN, Name, Assessment year it related to issuing officer, signature, address with details of ward and circle number. Verify these details to avoid being cheated. To see details go to E filling website see know your AO
3. **Preserve the envelope:-** If the notice comes by snail mail, preserve the envelope. It serves as proof of the dates on which it was posted and received.
4. **DIN**: If the notice is delivered online, then check the Document Identification Number.
5. **Identify the reason behind the notice**: By normal reading one can easily indentifies the reason behind notice. Reasons could be a simple mismatch in TDS or inconsistency in your returns, or some serious concerns like income concealment. It can also be a survey or scrutiny of accounts.
6. **Validity**: Check the validity of the notice and the timely issuance. Also check the section under which the notice has been issued. For example: A notice under Section 143(3) for scrutiny assessment has to be served within six months of the end of the financial year in which the return was filed. If served later than this period, it will be considered invalid.
7. **Gather the documents**: Start collecting the documents that the department has requested via the notice. Documents needed can vary depending on the gravity of the notice, usually scrutiny notice may ask for several documents, including bank statements, pay-slips, rent receipts and brokerage statements. While it may not be possible to put all this together in the short time.

8. **Letter:** Prepare a covering letter along with the set of documents.
9. **Acknowledgement:** Prepare two set of all the documents required, along with a copy of the covering letter. Get your copy stamped to maintain personal records, and as a proof of submission of the documents thereby complying with the notice.
10. **Reply on time:** Always respond to the notice on time even if you are unable to collect the required documents. You can even ask for some time to gather all the documents. Timely response will help establish that you are honest, and cooperating with the law.
11. **CA help :-** If the notice is simply about a factual matter, such as an arithmetical error, TDS mismatch or deduction amount, a taxpayer should respond on his own, Only when it is a serious issue, such as a notice for scrutiny or reassessment under Section 148, should one get a professional to respond. But A chartered accountant will be better equipped to deal with the situation and provide apt responses.

Interpreting notices under different sections of income tax for individuals

Sec 131(1A):- Assessing officer has reason to suspect that income has been concealed.

- Enforcing the attendance of any person, including any officers of a banking company and examining him on oath and completing the production of books of accounts and documents.
- Failure to comply with the summons issued under Section 131(1) has been made punishable with a penalty of Rs 10,000 for each default under Section 272A.

Sec133(A):- For survey or scrutiny of accounts

Sec 139(9):- for filing defective return

Sec142:- For not filing the income tax return or for the scrutiny of a documents & accounts in support of the return filed by the tax payer

Sec143(1):- For adjustment or additional tax demand if an error or incorrect information is detected in the return filed by the tax payer.

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Sec143(2):-For scrutiny assesment after detailed inquiry by assessing officer

Sec 148:- For reassessment if the officer believes some income has escaped assessment.

Sec156:- For dues(tax, interest,penalty,fine or any other sum) payable by the assessee)

Sec 245 :-for adjustment of refund with any demand due

Reasons behind getting Notice :-

Return not filed or delayed: Employer deducted tax from you salary. However, Employee did not file the return. In such a case, the tax department will send a notice asking employee to file the return. The notice has to be responded to within the given time. Otherwise, employee may be penalized. Such a notice can be sent for any of the previous six assessment years. In case of delayed filing, the department can levy a penalty of Rs 5,000 a year. However, the penalty is not mandatory, and depends upon the discretion of the assessing officer. However, if any tax is due, the department charges 1% interest per month from the due date.

Mismatch in tax credit: Tax deducted at source, or TDS, figure in your Form 16 may be different from the actual tax credit mentioned in Form 26 AS, a document issued by the income tax department that has all your tax-related information such as tax deducted, refund, etc, against your permanent account number (PAN). In case there is mismatch between the two, the department goes by the figure in Form 26 AS.

The mismatch could be because either the employer has not deposited the tax deducted from your salary with the department or has credited it in someone else's account. In such a case, you have to file a rectified return.

If the employer has not paid the TDS to the tax department, point this out to him. In case the tax has being credited to someone else's account, furnish the TDS certificate to the assessing officer for making the necessary changes.

Investments in the name of spouse

Many individuals resort to purchasing assets in the name of their spouse, children or other close family members in the hope of evading taxes. Assets in this case refer to any

kind of investment like land, buildings, fixed deposits, mutual funds, shares, debentures etc.

Let's say x bought mutual funds in your wife's name. As per section 64 of the Income Tax Act, any income x generate out of these mutual funds is still considered x income and x will be taxed for it.

You need to ensure that you declare such income at the time of filing your return, else you will attract attention from the taxman and receive a notice for the same.

High Value Transactions

High value transactions need to be updated to the Income Tax department by the entity with which you carry out such a transaction. This is in order to ensure taxes are levied as required on each of these transactions in a timely manner. Failure to do so is an invitation for a tax notice.

What qualifies as a high value transaction?

- Cash deposits in a bank worth Rs 10 lakh or more in a year
- Credit card purchases of Rs 2 lakh or more
- Mutual fund investments for Rs 2 lakh or more
- Purchase of bonds and debentures worth Rs 5 lakh or more in a year
- Sale or purchase of property worth Rs 30 lakh or more

Non-disclosure of assets for wealth tax

If you own assets whose net value is over Rs.30 Lakhs, you are liable to pay wealth tax at the rate of 1% of the amount that is above the Rs.30 Lakhs limit. If you do disclose such assets that you own or do not pay taxes on them, there is a good chance that you might receive an IT notice.

Assets can include anything from land, second homes, cars, yachts, gold jewellery, antiques, art etc. If you are unsure about the exact value of the assets you own, you can approach government approved valuers for this purpose.

Random Scrutiny

To enforce tax compliance, the IT department has started randomly scrutinizing returns under section 143 (3). If you receive such a scrutiny notice, don't panic. Just follow these simple steps:

1. Check the validity of the notice as well as the duration within which you have to respond to the Assessing Officer. Usually, a scrutiny notice is served to the assessee within a period of 6 months from the end of the financial year. Very rarely, notices related to older cases are also sent under section 148, if the Assessing Officer finds genuine reason to do so.

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2. Make multiple copies of the notice received
3. Submit documents requested along with a cover letter listing all the documents to the Assessing Officer
4. Request for an acknowledged copy of the cover letter from the Assessing Officer for your own records
5. If the notice is regarding your old dues, they can be adjusted against any pending refund claims made by you for a current year.

What Should One do in a Scrutiny Proceeding ?

When you receive notice from Income tax department , Do this things

- ✚ Ensure that all related documents to the assessment proceeding with you. Ex Form 16, 26AS, Previous year ITRs, Proofs for deductions, Wealth tax file, bank accounts, etc... details regarding all monetary transaction
- ✚ For salaried person, keep your Form 16 issued by your employer.
- ✚ All your bank statements .
- ✚ Reasons for high amount transactions.
- ✚ Documents, details asked in notice.
- ✚ If you have received any loan or gift, get a certificate from such person with his complete address on the loan certificate.
- ✚ On hearing date ,you must appear either yourself or through any Chartered Accountant or tax practitioner before the Assessing Officer on the date of hearing.
- ✚ Keep calm & argue politely with A.O. by quoting relevant sections
- ✚ Take acknowledgment for copies submitted
- ✚ Write down relevant points.

Thanks for reading!!

Source: - Income tax act & Article ship exposure.

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