

THERE'S BEEN A SURGE IN INCOME TAX NOTICES. HERE'S WHY, AND HOW TO RESPOND



POWER
POINT

NEERAJ AGARWALA

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mintmoney@livemint.com

There has been a marked increase in the number of income tax notices issued to taxpayers across India in recent months. These communications – on everything from defective returns to demands for additional taxes – have caused anxiety and confusion, especially among individual taxpayers. This article delves deeper into the reasons behind the increase in income tax notices and offers advice on how to respond to them effectively.

Reasons for the surge

The surge in these notices is largely due to the Income Tax Department's heightened focus on compliance and its efforts to identify discrepancies in financial reporting. These include:

Incorrect income tax return filing: One of the most common reasons for receiving an income tax notice is selecting the incorrect tax-return form. For individuals, there are four forms – ITR1, ITR 2, ITR 3 and ITR 4. Many taxpayers with first-time income from capital gains or futures and options (F&O) trading mistakenly use

ITR1 or ITR 4, instead of ITR 2 or ITR 3. This can lead to non-disclosure of such income, resulting in defective-return notices.

Mismatch with Form 26AS: Taxpayers who filed their returns in June 2024 using data from Form 26AS are now receiving notices due to mismatches in income details. Some taxpayers failed to cross-check their actual income with the details in Form 26AS, which at that time may not have reflected their income from the last quarter (January to March) of FY24. This has led to underreporting and subsequent demand notices.

Non-taxable gifts: Gifts received from specified relatives are exempt from income tax, and there is currently no provision in the income tax forms to declare these non-taxable gifts. Still, some individuals have received demand notices for not paying taxes on such gifts, highlighting a gap in the reporting process.

Revised returns not processed: Some taxpayers who filed a revised return after identifying errors in their original filing have received notices based on their original returns. These notices are often generated because the revised return has not yet been processed, or because an automated query requires further verification by the taxpayer.

How to respond to income tax notices

Verify the notice: Always confirm the authenticity of a notice on the Income Tax Department's e-filing portal under the 'Pending Actions' tab. This is particularly important because of widespread phishing scams, especially those related to tax refunds.

Understand the type of notice: Notices are issued under different sections of the Income Tax Act, and each requires a specific



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response. For example, Section 139(9) pertains to defective returns, while Section 143(D) deals with processing errors. Identifying the type of notice helps determine the necessary actions.

File a timely response: Each notice comes with a specific response deadline. For instance, defective return notices typically allow 15 days for rectification, while demand notices usually grant 30 days to respond. Meeting these deadlines is critical to avoiding penalties, interest charges, or legal action. Responding within the stipulated time shows compliance and a willingness to cooperate

with tax authorities.

Rectify errors by filing a revised return: If a notice highlights errors or omissions, rectify them by filing a revised return or providing the necessary information. For instance, notices issued under Section 139(9) for defective returns can be addressed by correcting the errors and re-filing within the stipulated 15-day period.

Pay additional tax if required: In cases where a notice demands additional tax due to under-reported income or discrepancies,

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promptly calculate and pay the correct amount, including any applicable interest. It's important to note that filing a revised return is not necessary in such cases. Instead, you can reply to the outstanding demand directly through the e-filing portal's dashboard under the Pending Actions tab.

The increase in income tax notices is also partly driven by the expanded scope of compliance measures, such as the statement of financial transactions (SFT). Banks, financial institutions and other entities are now required to report high-value transactions, leading to increased scrutiny of taxpayer activities. Even minor discrepancies or unusual transactions can trigger a notice.

By responding promptly and accurately, and seeking professional advice, taxpayers can ensure compliance, avoid delays in processing tax refunds and minimise the risk of penalties.

Neeraj Agarwala is a partner at Nangia & Co. LLP.