Income-Tax Assessment Procedure Under Income-tax Act 2025

Summary: The supplied article explains the assessment framework under the Income-tax Act, 2025, covering inquiry before assessment under Section 268, processing and scrutiny under Section 270, best-judgment assessment under Section 271 and reassessment proceedings involving Sections 279 to 282. It discusses the Assessing Officer's powers to seek documents, returns, information and statements of assets and liabilities, the three-year restriction on calling for accounts, prior approval requirements, audit or inventory valuation directions and the six-month outer period for furnishing the relevant report. It also explains processing of returns and specified adjustments under Section 270, scrutiny notices and the prescribed limitation period. The article further discusses the cited decisions in Hotel Blue Moon v. ACIT and ACIT v. Rajesh Jhaveri Stock Brokers (P.) Ltd., as supplied in the article. The reassessment portion addresses the preliminary procedure before issuance of notice, notice where income has escaped assessment, information capable of triggering reassessment and the stated time limits under Section 282. TaxGuru also has a dedicated overview of Sections 279 to 286 relating to income escaping assessment. The article concludes with a consolidated assessment flow from return/non-filing through inquiry, processing, scrutiny, assessment order, best-judgment assessment or reassessment.

Income-Tax Assessment: Key Provisions

The **Income-tax Act, 2025** introduces a structured framework for assessment proceedings, including inquiry before assessment, processing of returns, scrutiny assessment, best-judgment assessment and reassessment of escaped income.

1. Inquiry Before Assessment — Section 268

The Assessing Officer may serve a notice on a person:

- Who has filed a return under Section 263; or
- Who has not filed a return under Section 263.

The AO may require the person to:

- Produce such documents or accounts as may be required

- Furnish a return of income
- Furnish information on specified points or matters
- Furnish a statement of all assets and liabilities

Important limitation

The AO **cannot require production of accounts relating to a period more than 3 years prior to the relevant tax year**.

Prior approval for statement of assets or liabilities

Further, before requiring the assessee to furnish a statement of all assets or liabilities, **prior approval of the JCIT** is required.

2. Direction for Audit of Accounts / Valuation of Inventory

The AO may direct the assessee:

- To get the accounts audited by an **Accountant**; or
- To get the inventory valued by a **Cost Accountant**.

However, certain safeguards apply.

Important points

- Prior approval of the **PCCIT / CCIT / PCIT / CIT** is required before issuing such direction.
- The Accountant or Cost Accountant is nominated by the PCCIT / CCIT / PCIT / CIT.
- These provisions apply irrespective of whether the accounts are already audited under any other law.
- Expenses relating to audit or inventory valuation are determined by the prescribed income-tax authority and are paid by the **Central Government**.
- The report has to be furnished within the period specified by the AO.
- The AO may extend the prescribed period on his own motion.

Maximum time

The **original period + extended period cannot exceed 6 months from the end of the month in which the direction is received**.

3. Assessment — Section 270

Where a return is filed under Section 263 or in response to notice under Section 268(1), the return may be processed and an intimation may be sent.

The total income or loss may be computed after making specified adjustments.

Adjustments may include:

- Any arithmetical error
- An incorrect claim apparent from the information in the return
- Any inconsistency with information relating to a preceding tax year
- Disallowance of expenditure or increase of income indicated in the audit report but not considered in the return
- Disallowance of deductions or losses where the return is filed beyond the due date.

Special point

Intimation may also be sent where the loss declared in the return is adjusted but:

- No tax, interest or fee is payable; and
- No refund is due.

Time limit for intimation

No intimation shall be sent after **9 months from the end of the financial year in which the return is made**.

4. Notice for Scrutiny Assessment — Section 270(8)

Where a return has been filed under Section 263 or Section 268(1), the AO may serve a notice requiring the assessee to ensure that:

- Income has not been understated
- Excessive loss has not been computed
- Tax has not been under-paid

Critical limitation

No scrutiny notice shall be served after the expiry of **3 months from the end of the financial year in which the return is furnished**.

5. Case Law — Defective Return & Time Limit of Scrutiny Notice

DCIT v. Travel Design India Pvt. Ltd. — Delhi High Court

The assessee filed its return on **29-11-2016** under Section 139(1), which was marked defective.

The defects were subsequently removed on **19-07-2017**.

However, the AO issued the scrutiny notice on **11-08-2018**.

Held:

The limitation period for issuing the scrutiny notice was to be calculated from the **original date of filing of the return**, and not from the date on which the defect was removed.

Accordingly, the last date for issuing the notice was **30-09-2017**.

Since the notice was issued after the prescribed limitation period, it was held to be invalid.

The Supreme Court subsequently dismissed the SLP filed by the Revenue.

6. Importance of Scrutiny Notice

<u>Hotel Blue Moon v. ACIT</u>

[2010] **321 ITR 362 (SC)**

The Supreme Court emphasized the importance of the statutory scrutiny notice.

The notice is the mechanism through which the AO obtains jurisdiction to undertake scrutiny of the return and the evidence produced.

The Supreme Court held that failure to issue the notice within the prescribed time is **not merely a procedural irregularity** and cannot be treated as a curable defect.

Failure to adhere to this time limit results in the assessment order being non-est and bad in law. It was held by the Hon'ble SC that "omission on the part of the assessing authority to issue notice within time limit cannot be a procedural irregularity and it is not curable. Therefore, the requirement of notice cannot be dispensed with."

7. Assessment Order — Section 270

The AO shall:

- Make an assessment of the total income or loss by an order in writing.
- Consider the evidence produced by the assessee.
- Take into account all relevant material gathered by the AO.
- Determine the amount payable by the assessee.
- Determine the amount of refund, if any, due to the assessee.

8. Best-Judgment Assessment — Section 271

Best-judgment assessment may arise where a person:

- Fails to furnish a return, revised return, belated return or updated return;
- Fails to comply with the terms of notice issued under Section 268(1);
- Fails to comply with a direction issued under Section 268(5); or
- Fails to comply with the terms of a scrutiny assessment notice.

The AO may make the assessment after taking into account all relevant material gathered and, subject to the statutory provisions, after giving the assessee an opportunity of being heard.

AO may:

- Determine total income or loss to the best of his judgment.
- Compute the amount payable on the basis of such assessment.

Important

Before making a best-judgment assessment, the AO is required to serve a notice explaining why the assessment should not be completed to the best of his judgment.

However, a separate opportunity of being heard is not necessary where notice under Section 268(1) had already been issued before making the assessment.

9. Procedure Before Issuance of Reassessment Notice — Section 281

Where the AO has information suggesting that income chargeable to tax has escaped assessment,

Step 1: AO has information suggesting escapement of income.

Step 2: Before issuing the reassessment notice, the assessee is given an **opportunity of being heard**.

Step 3: The assessee is asked to explain **why notice under Section 280 should not be issued**.

Step 4: The notice must be accompanied by the information suggesting that income chargeable to tax has escaped assessment.

Step 5: The assessee furnishes its reply.

Step 6: The AO considers:

- Information available; and
- Reply furnished by the assessee.

Step 7: With the prescribed prior approval, the AO passes an order determining whether it is a **fit case for issuance of notice under Section 280**.

10. Notice Where Income Has Escaped Assessment — Section 280

Before making an assessment, reassessment or recomputation, the AO issues a notice along with a copy of the order passed under Section 281(3).

The notice requires the assessee to furnish a return of income.

Time allowed for filing return

The assessee must be allowed:

More than 30 days from the end of the date on which notice is issued

but

Less than 3 months from the end of the month in which the notice is issued.

Return filed within prescribed period

- Deemed to be a return filed under Section 263.

Return filed after prescribed period

- Not deemed to be a return filed under Section 263.

Fundamental requirement

No notice under Section 280 can be issued unless the AO has information suggesting that income chargeable to tax has escaped assessment.

11. What Information Can Trigger Reassessment?

Information suggesting escapement may include:

- Information available for the relevant tax year under the **Risk Management Strategy**
- **Audit objection**
- Information received under an agreement with foreign countries
- Information made available to the AO under the **Faceless Collection Information Scheme**
- Information requiring action in consequence of an **ITAT order.**

1) Where any income chargeable to tax has escaped assessment for a relevant tax year, Assessing Officer may, reassess such escaped income or recompute the loss, depreciation, allowance, or deduction for that tax year.

2) During assessment, reassessment, or recomputation proceedings, Assessing Officer may also assess or reassess any other income that has escaped assessment and comes to his notice during course of such proceedings, even if no separate notice has been issued for that issue.

13. Time Limit for Reassessment Notices — Section 282

One of the most important aspects of reassessment proceedings is the limitation period.

Where escaped income is ₹50 lakh or more:

Section 280:

Notice can be issued up to **6 years and 3 months from the end of the relevant tax year**.

Section 281:

The prescribed period is **6 years from the end of the relevant tax year**.

Where escaped income is below ₹50 lakh:

Section 280:

4 years and 3 months from the end of the relevant tax year

Section 281:

4 years from the end of the relevant tax year

Important restriction

No notice under Section 280 or Section 281 shall be issued within 1 year from the end of any tax year.

Case Law: ACIT v. Rajesh Jhaveri Stock Brokers (P.) Ltd.

(2007) 291 ITR 500 (SC)

The Supreme Court held that **processing of a return under Section 143(1) is not an assessment**.

Therefore, where the return was merely processed under Section 143(1) and **no assessment under Section 143(3) was made**, reassessment proceedings under Section 148 could still be initiated if the statutory conditions for reassessment were satisfied.

Key Takeaway:

143(1) Intimation ≠ Assessment

Mere processing of a return does not create an opinion on the issues in the return and, by itself, does not bar subsequent reassessment.

Practical Point: Always examine the **reason for reopening, statutory conditions, notice validity and limitation period** before challenging reassessment proceedings.

Complete Assessment Flow

Route 1 — Regular Assessment

Return / Non-Filing

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Inquiry — **Section 268**

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Processing / Assessment — **Section 270**

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Scrutiny Notice

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Scrutiny Assessment

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Assessment Order

Route 2 — Non-Compliance

Non-Compliance

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Best-Judgment Assessment — **Section 271**

Route 3 — Income Escapement / Reassessment

Information Suggesting Escapement

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Preliminary Procedure — **Section 281**

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Reassessment Notice — **Section 280**

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Reassessment / Recomputation — **Section 279**

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Assessment / Reassessment Order