Received income tax notice under section 143(1)(a)? Here's how to deal with it

Section 143(1)(a) of the income tax act deals with different approaches to assessment of tax returns filed by a taxpayer.

Many salaried individuals find it difficult to file their income tax returns. Some make mistakes like omission, some end up entering wrong numbers. To minimise such errors, the tax authorities have simplified the ITR filing form. However, there are still some mistakes which creep into the process. This leads to a receipt of income tax notice under section 143 (1) (a) by taxpayers.

In case you have received or fear receiving any I-T notice, then here is what you need to understand before moving ahead while dealing with the situation:

What is section 143(1)(a)?

S Vasudevan, Partner, Lakshmikumaran & Sridharan Attorneys told Moneycontrol that section 143(1) of the Income Tax Act, 1961, provides for processing of a return of income in determining the total income of an assessee/taxpayer, and ascertaining and intimating an assessee/taxpayer of tax payable/refund.

"To process the return of income filed and determine the correct total income, certain adjustments can be made by the Income Tax Department in computing the total income of an assessee/taxpayer," he added.

Section 143(1)(a) of the Act was amended some time ago to expand the scope of adjustments which can be made while processing income tax return filed for the Assessment Year (AY) 2017-18 and thereafter.

These new adjustments relevant to individual taxpayers were:

>> Disallowance of set-off of loss claimed in a case where the earlier tax return (relating to the year in which such loss was first incurred) was filed after the due date.

Alok Agrawal, Partner, Deloitte India told Moneycontrol that under the tax law, "unabsorbed capital losses" (which cannot be set-off against income of that year) cannot be carried forward if the tax return is not filed within the deadline. "The above amendment seeks to disallow a claim made in a tax return for set-off of old capital losses from earlier years where taxpayers had not filed tax returns for those years within the respective deadline," he said.

>> Addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the taxable income in the return.

Agarwal further told that due to certain reasons, this provision led to multiple adjustments for taxpayers, many of which were not required (e.g simple claim for exemption of HRA/LTA under Section 10 of the Act in the tax returns were also leading to queries). "In order to avoid unnecessary hardship to taxpayers, the law was amended from AY 2018-19 (i.e tax returns filed for Tax year 2017-18) to the effect that no such upward adjustments of taxable income could be made to the tax return based on Form 26AS / Form 16/ 16A," he said.

Reasons why taxpayers may get or are getting notice u/s 143(1)(a)

Agrawal said that usually, some taxpayer information is available with the tax authorities by the way of Form 26AS, annual information report from banks and other financial institutions, etc. While filing the tax returns, many taxpayers often miss out reconciling such information available with the tax authorities with the information reported by them in the tax returns, which can lead to adjustments on the tax returns.

"For example, deduction on account of interest from savings bank account under Section 80TTA is claimed at the time of filing of income tax return but the corresponding interest income is not reported," he said.

The taxpayers have been receiving or may receive notice under section 143(1)(a) for one or more of the following reasons:

-The computation of income of a taxpayer is not mathematically correct i.e. suffers from computational errors.

-The taxpayer has made a claim for deduction in the return of income which is incorrect on the face of it. For Example, claim of deduction under an incorrect section of the Income Tax Act, such as claim of deduction of contribution made to PF in section 80D instead of section 80C.

-The taxpayer may not have disclosed certain income which is appearing in the statement of TDS viz. Form 26AS or Form 16 or Form 16A. An instance of such a case can be where the taxpayer has either omitted to disclose an income in entirety which is appearing in the above stated forms or has done so only partially. For Example, Form 16 provides HRA in case of an employee as Rs 100, however, the employee in his return of income mentions, inadvertently or deliberately, such HRA as Rs 50.

-Maybe an expenditure has been claimed as deductible when the same has been disallowed in the audit report of the taxpayer.

-Other instances where a notice may be issued in the said section includes a claim of loss and/or certain area-based deductions in a return filed after due date.

Action required by the taxpayer on the intimation received

As per the above provision, in order to make any adjustments, an intimation for such adjustment has to be sent by the tax authorities to the taxpayers either in writing or electronically requiring him to respond to such adjustments within 30 days. If the taxpayer does not respond within such time limit, the Revenue authorities will process the tax return based on the proposed adjustments.

After receiving the intimation for adjustments, the response can also be filed online by the taxpayer. The taxpayer needs to login to their income tax account and submit the response under e-Proceeding tab.

Agarwal further said that in case the adjustment reflected in the Intimation is correct, then the taxpayer can provide his response online and he also needs to file a revised tax return to incorporate such change.

“If the taxpayer does not agree with the adjustments mentioned in the intimation then he has to respond online and provide the reasons along with supporting documents, if applicable,” he said.

Conclusion - Follow the best practices

In order to avoid such intimation/adjustments by the tax authorities, it is best practice for taxpayers to reconcile all the income details from different sources mentioned above, before filing the tax return. This will enable the taxpayer to avoid missing out any income from reporting in his tax return. Also, if he notices errors in documents issued by other parties (such as banks), then he can try to get the documents corrected by the relevant party.

"As the online tax return utility prepared by the tax department on an annual basis generally has new cross-checked features which seek to avoid input errors by taxpayers, we can expect fewer intimations under this provision," said Agarwal.

(Money Control)

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