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# THE CHAMBER'S JOURNAL

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**Centralised  
Processing Centre -  
Law & Practice**



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<b>Editorial — Vipul Choksi</b> .....	5
<b>From the President — Haresh Kenia</b> .....	8

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## SPECIAL STORY — CENTRALISED PROCESSING CENTRE (CPC) – LAW AND PRACTICE

---

<b>CPC – Legal Framework &amp; Judicial Intervention</b> — Vipul Joshi & Prashant Ghumare.....	13
---	----

<b>Computerised Processing of ITRs at Central Processing Centre (CPC) Bengaluru</b> — A Bane or Boon — Parveen Kumar & Gaurav Bhuddi .....	37
--	----

<b>CPC and Tax Demands and Refunds</b> — Tarini Chaudhary Tandan .....	52
---	----

<b>TDS Reconciliation Analysis and Correction Enabling System (TRACES)</b> — Aditi Gupta & Nehal Kumar.....	61
--	----

<b>AIS - Annual Information Statement &amp; TIS – Tax Information Summary</b> — Avinash Rawani .....	70
---	----

<b>Navigating the Labyrinth: Challenges Faced by Non-Resident Taxpayers while dealing with Income Tax Systems</b> — Manish Aggarwal .....	78
--	----

<b>Tax and Technology: Examining the role and relevance of digital signatures and DIN (document identification number)</b> — Ashish Mehta & Anuraag Bukkapatnam.....	90
---	----

<b>Judicial developments on the issues faced by the taxpayers considering the action undertaken contrary to the law by the CPC</b> — Rajat Soni .....	99
--	----

---

## DIRECT TAXES

<b>High Court — Jitendra Singh, Radha Halbe &amp; Harsh Shah</b> .....	111
<b>Tribunal — Nikhil Mutha, Viraj Mehta &amp; Kinjal Bhuta</b> .....	115

---

## INTERNATIONAL TAXATION

<b>Case Law Update — Dr. Sunil Moti Lala</b> .....	122
--	-----

---

## INDIRECT TAXES

<b>GST – Recent Judgments &amp; Advance Rulings — Naresh Sheth &amp; Jinesh Shah</b> .....	128
<b>Service Tax – Case Law Update — Rajiv Luthia &amp; Keval Shah</b> .....	136

---

## CORPORATE LAWS

<b>Case Law Update — Makarand Joshi</b> .....	142
---	-----

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## OTHER LAWS

<b>FEMA Update &amp; Analysis</b> — Hardik Mehta & Tanvi Vora .....	154
<b>Best of The Rest</b> — Rahul Hakani & Niyati Mankad.....	162
<b>The Chamber News</b> — Neha Gada & Vitang Shah .....	165

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# Computerised Processing of ITRs at Central Processing Centre (CPC) Bengaluru – A Bane or Boon



CA Parveen Kumar



CA Gaurav Bhuddi

## Overview

*The article discusses CPC's impact on the processing of Income Tax Returns (ITRs) in India. Though CPC has been instrumental in increasing efficiencies and accuracy with respect to tax return processing, but still there are areas of improvisation which have been highlighted in our article. Such key areas/issues include:*

- (i) Processing Time taken.*
- (ii) Limitation of Submission of detailed documents on the portal in response to CPC notice/orders.*
- (iii) Technical Glitches in the system leading to erroneous processing*
- (iv) Communication Gaps*
- (v) No mechanism at present for manual review of CPC orders*
- (vi) Intimations u/s 143(1) passed without providing opportunity to respond.*
- (vii) Others*

*Suggestions are also incorporated in the article to address these issues.*

The Central Processing Centre (CPC) in Bengaluru has been instrumental in revolutionizing and streamlining the income tax processing system in India. Through the implementation of advanced technologies and robust infrastructure, CPC has significantly enhanced the efficiency, accuracy, and transparency of tax return processing operations in very short time. Its sophisticated data processing systems and automated workflows have not only expedited the processing of tax returns but also minimized errors and discrepancies,

ensuring fair and equitable taxation for all citizens.

It is worth acknowledging the remarkable transformation brought about by CPC in recent times. CPC has completely overhauled the process of handling Income Tax Returns (ITRs), rectifications, and demands. However, there is always scope for improvisation. Through this article we have pointed out certain issues/areas where improvements need to be done by CPC. Some of such issues/areas of improvement are as under:

### 1. Processing Time for ITRs

While CPC has made significant strides in expediting the processing of income tax returns, issuing intimation orders under section 143(1) within a day or less mostly in cases of individuals, though there remains a notable number of cases where taxpayers (mostly corporates) encounter prolonged waiting periods. This delay raises concerns regarding the certainty of tax refunds or liabilities for taxpayers. For instance, if a taxpayer has claimed a substantial refund amount, the processing of their ITR tends to take longer period as compared to a taxpayer who has claimed no refund or a minimal amount. The tax payer has no clue as to why the processing of the return is on hold in such cases and how much time it will take to get processed. Section 143(1)(e) second proviso provides maximum timeline of 9 months from the end of FY in which ITR was filed for processing of such ITR. This period is too long and it should be reduced considerably to 3 months or 6 months from end of the month in which ITR is filed. Since, the ITR processing at CPC is a complete automated system, we see no reason as to why such processing timeline cannot be reduced in today's world of advanced technology.

### 2. Limitation on submitting information/documents to CPC in response to notice u/s 143(1)(a) or while filing rectification u/s 154

CPC now extensively cross-references the details provided in ITRs filed with the data available with them regarding taxpayer's transactions. Occasionally, disparities may arise between the taxpayer's information and the data available to CPC, including TDS (Tax Deducted at Source) details, AIS, TIS, or employer-reported income. In such cases, CPC issues notices or communications to taxpayers under section 143(1)(a) to notify them of the discrepancies and request their responses. However, limitations such as word

or character limits, the inability to submit documents, or provide detailed explanations restrict the completeness of responses by taxpayers. Consequently, replies submitted by taxpayers are often not fully considered by CPC, leading to additions or disallowances in the intimation processed under section 143(1) and consequential litigations. The rectification process faces a similar issue, as it only offers three options/methods: (i) reprocessing the ITR, (ii) data correction in already filed ITR and (iii) tax credit mismatches. There is no mechanism provided whereby tax payers can submit detailed explanatory letters to the CPC along with necessary documents during the rectification process. This often results in mistakes remaining uncorrected, leading to rectification orders being issued with the same errors as initially identified in the 143(1) process. To address this issue, CPC could enhance its procedures by lifting these restrictions and allowing taxpayers an option to submit detailed responses with documentary evidences which should be processed by CPC team before passing any order u/s 143(1) or u/s 154.

### 3. Technical Glitches/System Errors

Despite the unprecedented pace of development in CPC's infrastructure, taxpayers still tend to encounter certain technical challenges while performing various actions such as filing online returns, downloading ITRs for different years, checking the status of ITR/rectification processing, or communicating with CPC. These issues lead to inconvenience for taxpayers attempting to file returns, accessing previously filed ITRs, or monitoring their processing status. Example:–

- (i) Sometimes it is seen that some technical error prevents ITR or related forms from being uploaded on portal and the error code is not understandable. Tax payers repeatedly verifies the form filled but still have no clue as to what is the error

preventing the ITR from being uploaded. Sometimes such errors are also related to the digital signatures being appended. In such cases, taxpayers approach the CPC customer care which then at back end resolves such errors by taking the system of the tax payers on AnyDesk. This leads to loss of precious time.

(ii) Instances have been seen where regarding any order u/s 143(1)/154, text message is received but no order received by email or on portal. Also, there are cases where such order

received by email but not reflected in portal for sometime resulting in delay in taking further action against such order such as filing further rectifications.

(iii) Also, there are instances where taxpayer submits a rectification request in response to section 143(1), and after several days discovers that the outstanding demand has been removed. However, the status of the rectification request still indicates that it is being processed. Refer sample screen shots below:

PAN : [REDACTED]	AY : 2023-24	Ack. No. : [REDACTED]	DIN [REDACTED]
<b>You have a Demand for A.Y. 2023-24</b>			
Amount of Demand : ₹ 5,02,83,640		Demand Reference No : [REDACTED]	
ITR Form Type <b>ITR6 Original</b>	Date of Filing <b>29/10/2023</b>	Intimation Order Date <b>22/12/2023</b>	
Due Date <b>31/10/2023</b>	Extended Due Date <b>31/10/2023</b>	Status <b>Private company</b>	Residential status <b>Resident</b>

### RETURN DETAILS

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed u/s 143(1)
01	Taxation option	Opted for 115BAA	Yes	Yes
02	Income Details	Total Income	2,22,08,780	22,20,60,430
03	Tax Details	Tax Liability after relief	55,48,132	5,11,48,080
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	0	61,75,520
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	70,50,127	70,39,960
06	Tax Payable	Net Amount Payable <a href="#">Click Here to E-PAY TAX</a>	0	5,02,83,640

### A.Y. 2023-24

Filing Type

Rectification

✓ Under Processing  
Mar 29, 2024

✓ Return is no more in PFA and it is under processing  
Jan 19, 2024

✓ Under Processing  
Jan 19, 2024

[View More](#)

ITR : ITR-6

Acknowledgement No. [REDACTED]

Filed By : Director

Filing Date : Dec 23, 2023

Filing Section : 154

[View Details](#)

[Download Form](#)

## Response to Outstanding Demand

Demand Communication History

Search By

Assessment Year ▾
2023
🔍

Records are as per the data available at Income Tax Department Date of last refresh: 14-May-2024

No records of outstanding demand found

Go to Dashboard

We understand that these issues are rectifiable by system engineers by making appropriate upgradation/changes in the system. We look forward to appropriate action by technological team of CPC.

#### 4. Communication Gap

Despite the provision of toll-free numbers, email addresses, and an online grievance portal by the CPC for taxpayers to communicate and address grievances, challenges persist in effectively engaging with the CPC. Taxpayers do encounter difficulties in obtaining updates on their returns, seeking clarification on processing issues, or resolving discrepancies. The current communication channels often lack direct engagement with the technical team at the CPC. Customer care representatives typically acknowledge the concerns raised by taxpayers and assure them that their feedback will be forwarded to the relevant team. However, there is a need for more interactive communication methods, such as video conferencing, to facilitate direct discussions between taxpayers and the technical team responsible for addressing their concerns.

#### 5. Lack of detailed justification for additions/disallowance made/sustained in the order by CPC u/s 143(1)/154

The processing of income tax returns and rectifications is conducted mechanically. The taxpayer's response to proposed adjustments under section 143(1)(a) or along with rectification applications is neither considered nor is any response provided for rejecting the taxpayer's contention. Orders issued by the CPC under sections 143(1) or 154 does not mention detailed reason/justification for making additions/disallowances and for rejecting taxpayer's response to such proposed adjustments. Such orders passed u/s 143(1)/154 should include detailed comments from the relevant officer who reviewed the taxpayer's response to notices under section 143(1)(a).

#### 6. Provide mechanism for review of orders passed by CPC by higher authorities

It may please be noted that at present assessee has not option other than to file an appeal before CIT(A) against the wrongful additions made by CPC vide order u/s 143(1) or wrongful rectification order passed u/s 154. Many times, the quantum and demand/stake involved for the tax payer is very high and the issues involved is clearly and apparently in favour of assessee. In such cases the assessee

has to go through the hardship of long drawn litigation before CIT(A). There must be some mechanism of review of the orders of CPC by a higher reviewing authority atleast in the cases of high stake say exceeding 10 lakhs so that unnecessary litigation can be curtailed.

### 7. Orders u/s 143(1) passed without opportunity

It has been noticed in many cases that CPC has passed orders u/s 143(1) and made additions/disallowances without first issuing notice u/s 143(1)(a) for proposed adjustments and providing opportunity to the assessee to file its response against the adjustment to be made. Such orders and additions made therein are unlawful and against the well-known principle of natural justice. Although section 143(1) itself provides that no such adjustments shall be made unless an intimation is given to the assessee of such adjustments either in writing or in electronic mode, still sometimes it is not followed religiously. Such orders passed does not stand in appeal before appellate authorities. Please refer to some of the ITAT judgements mentioned below wherein such orders of CPC are quashed/set aside:

- *Arham Pumps vs. DCIT\_140 taxmann.com 204 (ITAT Ahmedabad)*
- *ITO vs. Camillia Educare Trust\_152 taxmann.com 304 (ITAT Kolkata)*

**Suggestion:** CPC should enhance their systems to ensure that whenever adjustments to an assessee's return are proposed, whether regarding income or tax calculations, the assessee is given an opportunity to respond in each case.

### 8. Option should be provided to transfer the rectifications rights to Jurisdictional Assessing Officer (JAO)

Many times, it is seen that the mistakes involved in orders passed by CPC is such

that it would have been corrected if the assessee had chance to file detailed reply with documents and explain the case to the officer in personal interaction. However, CPC being computerised processing lack personal interface. Thus, there is need of a system/mechanism whereby the assessee has option to get its case transferred to the JAO on a click of a button in its e-filing portal. At present there is no such option available on online portal. At present assessee has to visit the office of its JAO and request him to call for rectification rights from CPC which sometimes takes too much time.

### 9. Challan Correction Option

The taxpayers sometimes make inadvertent mistakes while depositing the taxes like assessment year, Tax Applicable (Major Head), and Type of Payment (Minor Head) wrongly mentioned. Due to such inadvertent mistakes, the taxpayers have to suffer unwanted tax demands. The process of correction of challans by CPC is available only from AY 2020-21 onwards. So, for mistakes in challans prior to AY 2020-21, the taxpayers are facing issues in getting demands rectified from CPC in such years. Therefore, CPC should come with an option to rectify the challans of years prior to AY 2020-21.

### 10. Disclosure of information of Carried forward losses & Mat Credit

As present intimation order u/s 143(1) does not provide information as to how much brought forward/carried forward losses or MAT credit available to assessee as per the records of Income Tax Department which leads to unnecessary litigation at a later stage when the assessee adjusts the said losses/Mat Credit due to difference of amount as per the records of department and as per the assessee.

**Suggestion:** CPC should include a table in order u/s 143(1) providing the details of brought forwarded/carried forwarded losses



and MAT credit available to the assessee for set off so that the assessee can take further action in case of any difference.

**Common mistakes seen in intimation order passed u/s 143(1) or rectification order passed u/s 154 by CPC**

**Mistakes in Total Income Calculation**

Though in vast majority of cases returns are processed correctly, there are still instances where, perhaps due to technical glitches in the system or other factors, CPC's tax computations are inaccurate resulting in incorrect demands and lower refunds. For example, please refer to the following relevant extract from intimation processed in some cases:

**Technical error made in calculation of surcharge resulted into incorrect refund**

**Technical error made in calculation of surcharge resulted into incorrect refund**

21	TAX PAYABLE ON TOTAL INCOME			
	(a) Tax at normal rates on 18 of above		1,12,66,502	1,12,66,502
	(b) Tax at special rates		23,36,470	25,52,435
	(c) Rebate on agricultural income		0	0
	(d) Tax Payable on Total Income (21a+21b-21c)		1,36,02,972	1,38,18,937
	(e) Rebate u/s 87A		0	0
	(f) Tax Payable after Rebate (21d-21e)		1,36,02,972	1,38,18,937
	(g) Surcharge			
	Surcharge computed before marginal relief			
	(i) 25% of Tax on Income chargeable u/s 115BBE		0	0
	(ii) 10% or 15%, as applicable of 2(ii), 3(ii), 9(ii), 12(ii), 22(ii), 24(ii) of Schedule SI		28,99,613	29,32,007
	(iii) On [(21f) - (17(ii), 2(ii), 3(ii), 9(ii), 12(ii), 22(ii), 24(ii) of Schedule SI)]		0	0
	Surcharge after marginal relief (if any)			
	(ia) 25% of Tax on Income chargeable u/s 115BBE		0	0
	(iia) On the components mentioned at (ii) and (iii) above		28,99,613	7,84,090
	(iv) Total (ia + iia)		28,99,613	7,84,090
	(h) Health and education cess @ 4% on (21f+ 21g(iv))		6,60,103	5,84,121

**RETURN DETAILS**

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed in order u/s 154
01	Taxation option	Opted for 115BAC	No	No
02	Income Details	Total Income	4,98,70,690	5,13,10,460
03	Tax Details	Tax Liability after relief	1,71,62,688	1,51,87,148
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	0	0
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	1,71,62,690	1,71,62,690
06	Refund Details	Refund Amount (Including 244A interest)	0	19,30,380

Here Surcharge Amount is Rs 29.32 Lacs

  

Here Surcharge Amount reduced to Rs 7.84 Lacs without any reason & irrespective of much change in income. Surcharge reduced by approx. 22 lacs resulted to incorrect refund of Rs 19.30 lacs which was not claimed by assessee.

## Technical error made in calculation of surcharge resulted into huge incorrect demand

### RETURN DETAILS

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed u/s 143(1)
01	Taxation option	Opted for 115BAC	Yes	Yes
02	Income Details	Total Income	3,47,20,430	3,48,72,040
03	Tax Details	Tax Liability after relief	92,81,145	3,30,31,990
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	1,19,354	45,89,930
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	94,00,500	94,00,500
06	Tax Payable	Net Amount Payable <a href="#">Click Here to E-PAY TAX</a>	0	2,82,21,420

Sl.No.	Particulars	As provided by Taxpayer	As Computed u/s 143(1)
22	<b>TAX PAYABLE ON TOTAL INCOME</b>		
	(a) Tax at normal rates on 18 above	12,22,863	12,22,863
	(b) Tax at special rates	59,18,693	59,49,016
	(c) Rebate on agricultural income	0	0
	(d) Tax Payable on Total Income (22a+22b-22c)	71,41,556	71,71,879
	(e) Rebate u/s 87A	0	0
	(f) Tax Payable after Rebate (22d-22e)	71,41,556	71,71,879
	(g) Surcharge		
	Surcharge computed before marginal relief		
	(i) 25% of Tax on income offered u/s 115BBE in Schedule SI	0	0
	(ii) 10% or 15%, as applicable of 2(ii), 3(ii), 9(ii), 12(ii), 22(ii), 24(ii) of Schedule SI	17,82,622	17,90,202
	(iii) On [(22f) - (17(ii), 2(ii), 3(ii), 9(ii), 12(ii), 22(ii), 24(ii) of Schedule SI)]		
	Surcharge after marginal relief (if any)		

Here Surcharge Amount is Rs 17.90 Lacs

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed u/s 143(1)
	(ia) 25% of Tax on income chargeable u/s 115BBE		0	0
	(iia) On the components mentioned that (ii) and (iii) above		17,82,622	2,45,89,650
	(iv) Total (ie + iia)		17,82,622	2,45,89,650
	(h) Health and education cess @ 4% on (22f+ 22g(iv))		3,56,967	12,70,461
	(i) Gross Tax Liability [22i=(22f+22g(iv)+22h)]		92,81,145	3,30,31,990
23	Gross tax payable (higher of 21d and 22i)		92,81,145	3,30,31,990
	Tax on income without including income on perquisites referred in section 17(2)(vi) received from employer, being an eligible start-up referred to in section 80-IAC (Schedule Salary)		92,81,145	3,30,31,990
	Tax deferred -relatable to income on perquisites referred in section 17(2)(vi) received from employer, being an eligible start-up referred to in section 80-IAC (Schedule Salary)		0	0
	(c) Tax deferred from earlier years but payable during current AY (total of col 7 of schedule Tax deferred on ESOP)		0	0
24	Credit u/s 115JD of tax paid in earlier years (applicable if 22i is more than 21d) (5 of Schedule AMTC)		0	0
25	Tax payable after credit u/s 115JD [25=(23e+23c-24)]		92,81,145	3,30,31,990

Here Surcharge Amount increased to Rs 2.46 Crores without any reason & irrespective of much change in income. Surcharge increased by approx. 2.28 Crores resulted to incorrect huge demand of Rs 2.82 Crores.

### **11. Denial of TDS Credit for TDS Credit Transfer**

Sometimes it happens that TDS on any income is deducted in the name of a person say A but the corresponding income is taxable in the hands of other person say B. In such cases section 199 r.w Rule 37BA provides that the credit of TDS deducted be given to other person B who is showing the corresponding income in his ITR. While ITR forms also permit a taxpayer (A) to transfer TDS credit to another taxpayer (B) who includes the income in its return, the CPC does not allow this credit during processing of ITR of such other taxpayer (B). As a result, demands are raised against the taxpayer (B). This needs to be looked into and corrected.

### **12. Denial of Tax Credit in Returns filed pursuant to Amalgamation/demerger etc.**

In cases of amalgamation/mergers/demergers, the amalgamated company or resulting company files its income tax return incorporating the incomes of the amalgamating company or demerged company and claims the credit of TDS/TDS deducted or advance tax/self-assessment tax paid by the amalgamating/demerged company. In such cases, the tax payers face an issue that the credit of such TDS/TCS/Advance tax/Self-assessment tax is not allowed by CPC while processing the ITR of amalgamated/resulting company as the corresponding TDS is not reflected in Form 26AS of such amalgamated/resulting company but the same is reflected in the Form 26AS of amalgamating company or demerged company. Such denial of tax credits results in raising of substantial unlawful demands. The ITR form already includes details of such restructuring including Name/PAN etc of amalgamating/

demerged companies. Therefore, there should be an automated process for transferring tax credits in cases of amalgamation/demerger, where details of the amalgamating/demerged companies are provided in the ITR form.

### **13. Benefit of lower tax rate u/s 115BAA/115BAB etc not allowed despite filing requisite forms**

Section 115BAA/115BAB provides for lower tax rates to the companies subject to the fulfilment of the prescribed conditions and subject to filing of Form 10IC/10ID alongwith ITR in the first year when such option is opted. Instances have been seen where CPC has not computed tax liability as per the beneficial provisions of sec. 115BA/115BAB even if the requisite forms are filed within the due dates and the assessee has duly selected the option of 115BAA/115BAB in ITR form. This is despite the fact that in past years such benefit was duly allowed. It is not known as to how such benefit can be denied in subsequent years when in past/first year it was duly allowed. This is completely a system error in processing by CPC resulting in huge demands and hardship to the assessee. We have given below some instances:

#### ***Example:***

Assessee filed its return for AY 2023-24 in November 2023. Thereafter, the assessee received intimation u/s 143(1) in December 2023 raising demand of ₹ 3.54 Crores denying the benefit of lower rate u/s 115BAB despite the fact that the assessee has claimed and CPC has allowed the benefits of concessional tax rates as per section 115BAB in AY 2022-23 i.e. preceding assessment year. Relevant extracts of intimation order u/s 143(1) passed for AY 2023-24 are as under:

### RETURN DETAILS

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed u/s 143(1)
01	Taxation option	Opted for 115BAB	Yes	No
02	Income Details	Total Income	17,50,95,920	17,50,95,920
03	Tax Details	Tax Liability after relief	3,00,46,460	6,11,85,518
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	6,85,563	50,10,859
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	3,07,32,035	3,07,32,035
06	Tax Payable	Net Amount Payable	0	3,54,64,340

Relevant extracts of intimation order u/s 143(1) passed for preceding AY i.e. AY 2022-23 are as under:

### RETURN DETAILS

Sl.No.	Particulars	Reporting Heads	Amount in ₹	
			As provided by Taxpayer	As Computed u/s 143(1)
01	Taxation option	Opted for 115BAB	Yes	Yes
02	Income Details	Total Income	3,95,35,190	3,95,35,190
03	Tax Details	Tax Liability after relief	67,84,238	67,84,238
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	2,35,170	2,35,172
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	70,19,408	70,19,408
06	Balance		0	0
07	Net Amount Payable / Refundable		0	0

Furthermore, when the assessee applied for rectification u/s 154, then in the order passed u/s 154 also, CPC has not provided the benefit of 115BAB resulting into huge tax demands. This needs urgent attention and resolution. Screenshot of rectification order u/s 154 is as under:

SUMMARY			Amount in ₹	
Sl.No.	Particulars	Reporting Heads	As provided by Taxpayer	As Computed in order u/s 154
01	Taxation option	Opted for 115BAB	Yes	No
02	Income Details	Total Income	17,50,95,920	17,50,95,920
03	Tax Details	Tax Liability after relief	3,00,46,460	6,11,85,518
04	Interest and Fee Payable	Total Interest And Fee ( 234A, 234B, 234C & 234F )	6,85,563	50,10,859
05	Pre-paid Taxes	Total Taxes Paid ( Advance Tax, TDS, TCS, Self Assessment Tax )	3,07,32,035	3,07,32,035
06	Tax Payable	Net Amount Payable	0	3,54,64,340

**14. Wrong additions/disallowances on the basis of matching of ITR with Tax Audit Report (TAR)**

Section 143(1)(a)(iv) allows adjustment in income of the assessee based on reporting in TAR. This clause reads as under:

(a) *the total income or loss shall be computed after making the following adjustments, namely:—*

.....

(iv) *disallowance of expenditure or increase in income indicated in the audit report but not taken into account in computing the total income in the return;*

In view of the above provision, during the processing of ITRs, CPC mechanically compares the reporting done in ITR (Allowances and disallowances made) with

reporting done in TAR and make additions/disallowances if any mismatch found between ITR and TAR. Though in many cases such adjustments would be correct but there are vast number of cases where such adjustment is completely wrong on facts. This being the result of computerised processing which has its own limitations. Some examples are outlined below:

**a. Double addition/taxation:** Sometime it happens that a particular disallowance is reported by Tax Auditor under one provision whereas the same was disallowed by the tax payer in ITR under some other provision.

**Example:-** Provision for gratuity reported to be disallowed by Tax auditor u/s 40A(7) but the same was disallowed by taxpayer in ITR u/s 43B. In such cases, CPC mechanically comes to the

conclusion that the assessee has not disallowed the amount u/s 40A(7) as reported by the Tax Auditor and makes the addition in intimation u/s 40A(7). And the problem is that such addition is made ignoring the reply filed by the taxpayer in response to notice u/s 143(1)(a) that it has already disallowed the same though under different provision being 43B. It is the trite law that there cannot be double taxation of same amount. Refer Hon'ble Supreme Court's ruling in case of **Laxmipat Singhania vs. CIT [1969] 72 ITR 290**.

In such cases, though taxpayers should also be cautious that they should make disallowance under same head as done by tax auditor, but CPC also should not ignore the submissions of the assessee that it has already disallowed the item under different head/section.

- b. Addition u/s 41 for cessation of trading liability:** Section 41 requires any profit or benefit obtained from the cessation or remission of trading liabilities previously claimed as deductions to be treated as taxable income in the year of remission or cessation. . For example – Write back of trading liabilities shall be taxable as per Section 41.

**Disclosure of Write back amount in Audited Financials** – Trading liabilities written back is generally credited to P/L and thus becomes the part of Profit before taxes (PBT) as per P/L.

**Disclosure in TAR** – Tax Auditor has to report profit chargeable to tax u/s 41 in Clause 25 of TAR and therefore, Tax Auditor reports the written back amounts in the said clause.

**Disclosure in ITR** – Assessee is required to report “Any amount of profit chargeable to tax under section 41”

in clause 14 of Part A -OI of ITR and in clause 20 of Schedule BP of ITR. However, as the Schedule BP starts with PBT which already includes the written back amount, so there is no need to report the said amount again in the in clause 14 of Part A -OI of ITR and in clause 20 of Schedule BP of ITR because the same will result into double taxation of the same amount.

**Issue in processing of ITR** – The issue here is that CPC compares the amount reported at Clause No. 25 of TAR with the amount reported in Clause 14 of Part A-OI of ITR and in clause 20 of Schedule BP of ITR. So, when CPC compares the said clauses of TAR & ITR, it proposes addition of amount reported in clause 25 of TAR due to the reasons that nothing was found reported at in clause 14 of Part A-OI of ITR and in clause 20 of Schedule BP of ITR.

**Suggestion:** CPC should come up with a solution either in form of making changes in clause no. 25 of Tax Audit Report by specifying that only amount which are not included in P/L are required to be reported or make changes in format for tax auditor to specify for each amount being reported in clause 25 of TAR whether the said amount is included in PBT or not and then compares the amount which are not included in PBT with amount reported at Clause 14 of Part A-OI of ITR & in clause 20 of Schedule BP of ITR. This will help in mitigating the hardship caused to assessee in form of addition made for amount reported at clause 25 of TAR leading to double taxation of same amount.

- c. ICDS adjustment:** Clause 13 of the Tax Audit Report requires Tax Auditor to provide details of adjustments in income

required due to application of income computation and disclosure standards (ICDS) notified under section 145(2). In the TAR, the Tax Auditor has to report for each ICDS, increase in profit, decrease in profit and the net effect on income due to application of each ICDS. Thus, in TAR there is sum total of “increase in income” and “decrease in income” and “net increase/decrease” due to application of ICDS. However, in clause 3a of Part A -OI of ITR related to effect of ICDS, there is no option to report increase in profit, decrease in profit for each ICDS. Rather there is option to only report the net effect only (whether increase or decrease after adjustment). So, the assessee reports the net effect of ICDS adjustments in ITR.

CPC while processing ITR, compares the amount reported in “increase in profit” in TAR (ignoring decrease reported) with the amount reported in clause 3a

of Part A -OI of ITR being net effect of ICDS which cannot be the same in any case. Based on such erroneous comparison CPC proposes the addition of the differential amount. CPC ignores the “decrease in profit” amount reported in Tax Audit Report while processing ITR resulting into unlawful additions. Moreover, additions are being made without considering the online response filed by the assessee.

*Example*

As seen from the following screenshot taken from TAR of an assessee, the Tax Auditor has reported increase in profit of ₹ 70,44,987, decrease in profit of ₹ 99,59,463 and net effect of ₹ 29,14,476 in context of ICDS adjustments. Therefore, as per the Tax Auditor ₹ 29,14,476 should be reduced from the income of the assessee. Relevant extracts of TAR

(d). Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2) ?				Yes
(e). If answer to (d) above is in the affirmative, give details of such adjustments:				
Sl. No.	ICDS	Increase in profit	Decrease in profit	Net effect
1	ICDS I - Accounting Policies	₹ 70,44,987	₹ 99,59,463	₹ -29,14,476
Total		₹ 70,44,987	₹ 99,59,463	₹ -29,14,476

The assessee has done the right treatment by reporting the figure of ₹ 29,14,476 clause 3b of Part A-OI of ITR and clause 34 of Schedule BP which resulted in reduction of income by ₹ 29,14,476 as reported by Tax Auditor. Relevant extracts of ITR are as under:

Part A-OI	Other Information	<i>(optional in a case not liable for audit under section 44AB)</i>						
<b>OTHER INFORMATION</b>	1	Method of accounting employed in the previous year	(Tick)	R	R	mercantile	0	Cash
	2	Is there any change in method of accounting	(Tick)	R	0	Yes	R	No
	3a	Increase in the profit or decrease in loss because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11a(iii) of Schedule ICDS]					3a	<b>Nil</b>
	3b	Decrease in the profit or increase in loss because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11b(iii) of Schedule ICDS]					3b	<b>2914476</b>

**Schedule BP**

34	Decrease in profit or increase in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3b + 4e of Part A- OI)	34	<b>2914476</b>
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However, without comparing the net effect of TAR with amount reported in ITR, CPC is comparing the increase in profit figure with the net figure reported in ITR which is incorrect and based on the said comparison, CPC is issuing notices u/s 143(1)(a) proposing the additions as seen from the following screenshot:

<b>Part - A Adjustments u/s 143(1)(a)</b>				
<b>Part - A Adjustments u/s 143(1)(a)(iv)</b>				
Disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return-143(1)(a)(iv)				
Sl. No.	Particulars	Amount in Income Tax Return	Amount mentioned in Form Annexure 3CD	Proposed adjustment to total income
1	There is inconsistency in amount mentioned at Sl. No. 3(a) of Part A OI "Increase in the profit or decrease in loss because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2)" in return as compared to amount mentioned in clause 13 (e) of audit report.	0	7044987	7044987



**Resolution:** Solution of the above is simple that CPC must compare the amount reported in “net effect” column in TAR rather than the increase amount only and pursuant to the correct comparison, the said issue will automatically be resolved.

**d. Addition of club expenses reported in clause 21 of TAR:** Clause 21(a) of the TAR requires Tax Auditor to provide details of various expenses incurred at clubs. In our view, the said clause required only reporting of the club expenses. Such reporting per se does not mean that such expense is disallowable. Many times, it is the contention of the taxpayers that such club expenses are incurred in routine course of their business for business promotion etc and thus duly allowable u/s 37 of the Act.

But CPC while processing of ITR, assumes as if such expenses are disallowable in each case once reported by Tax Auditor. This leads to undue

hardship to tax payers and prolonged litigation.

**Suggestion:** - CPC should not make this addition simply based on reporting in TAR. They should call for history of assessment on such issue. If in past such additions are made and sustained in appeal, then only CPC should make such additions.

#### **Disclaimer**

*The above summary note is based on our observations in certain cases. While the information is believed to be accurate, we make no representations or warranties, express or implied, as to the accuracy or completeness of it. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, advice, or solicitation. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, howsoever caused or sustained, by the person who relies upon it.*



“We are responsible for what we are, and whatever we wish ourselves to be, we have the power to make ourselves. If what we are now has been the result of our own past actions, it certainly follows that whatever we wish to be in the future can be produced by our present actions; so we have to know how to act.”

— Swami Vivekananda