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**CBDT issues guidelines to handle mismatch in income as per tax returns and Forms 16, 16A and 26AS**

**Issue no:** GES/01/2018

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## Background

- The Finance Act, 2016 had introduced sub-clause (vi) in clause (a) of Section 143(1) of the Income-tax Act, 1961 (the Act), which comes into effect from 1 April 2017.
- The said clause provides that while processing income tax returns, the tax department shall compute total income/ loss after making an adjustment for income appearing in Forms 26AS, Form 16A, Form 16 to the extent not disclosed in the tax return filed.
- Couple of instructions<sup>1</sup> were issued by the Central Board of Direct Taxes (CBDT) for identification of cases where the above indicated provisions may be invoked based on the information contained in income tax return forms filed (ITR 1 to 6).
- As Centralized Processing Center (CPC) of the Income tax department will start issuing intimations where there is a mismatch between the said Forms and the tax returns filed, CBDT has now issued a circular on the same.

<sup>1</sup> Instruction no. 09/2017 dated 11 October 2017 and Instruction no. 10/2017 dated 15 November 2017

## CBDT Instructions

The circular provides instructions to the tax officers on the process to be followed in intimating the tax payers of such mismatches and provides guidelines to the tax payers on filing responses to the same. These can be summarized as below:

### Instructions to tax authorities

- Carry out an awareness campaign for drawing attention of the taxpayers to their income differences prior to issuing intimations proposing for adjustments to the returned income.
- This would be in the form of e-mail/ SMS communication – response to which may be submitted electronically by the taxpayer within one month of its receipt.
- In case of no response/ unsatisfactory response, formal intimation under Section 143(1)(a)(vi) of the Act proposing for income adjustment to be issued by the authorities to the taxpayer.
- Where no response is received to such intimation within thirty days, the proposed adjustment shall be made to the returned income.

### Instructions to taxpayers

- File timely and satisfactory response to the message issued by the authorities under the awareness campaign as also the consequent intimation proposing income adjustment.
- Manner of furnishing response:
  - Login to e-filing account and choose the option: View>Returns/ Forms.
  - Status of communication/ intimation issued under this Section would display in the e-filing user dashboard as: "*Response to Communication/ Intimation under Section 143(1)(a) is pending*".
  - Taxpayer to click on the same to submit the response.

- The responses may be as under:
  - Where the taxpayer **fully agrees** with the proposed adjustment, file a revised return;
  - if the taxpayer **partially agrees** with the proposed adjustment -
    - to file a revised return for the part he agrees with and
    - to file a reconciliation statement for the part he does not agree with;
  - if the taxpayer **fully disagrees** with the proposed adjustment: to file a reconciliation statement.
- Format of the reconciliation statement to be provided by CPC-ITR shortly.
- The tax returns will be processed based on the response of the taxpayer and the information available with the CPC.

## Comments

This is clear messaging that tax payers need to track and disclose their incomes after reconciling the information reported in various forms such as Forms 16, 16A and 26AS.

The awareness program for drawing attention of the taxpayer to the mismatches before issue of a formal intimation is a welcome tax payer friendly measure. The circular also provides guidance on the electronic process to be followed to respond to such notices.

**Source:** CBDT Circular No. 01/ 2018 dated 10 January 2018

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