

**F.No. 225/391/2017/ITA.II
Government of India
Ministry of Finance
Department of Revenue (CBDT)**

North Block, New Delhi, the 24th of November, 2017

To
All Principal Chief-Commissioners of Income-tax/Directors-General of Income-tax

Sir/Madam,

Subject: Some of the important issues to be considered while framing scrutiny assessments pertaining to filing of revised/belated returns by assessees, post-demonetisation-reg.-

Post-demonetisation, it was found that some of the assessees tried to build an explanation for cash deposits in their bank account(s) by manipulating their books-of-accounts and filing revised/belated income-tax returns. In this regard, Finance Ministry issued a Press Release dated 14th December 2016 in which it had cautioned that post-demonetisation exercise, provisions of Income-tax Act, 1961 ('Act') which permitted filing of a revised or a belated return in certain situations should not be misused. The Release further stated that any instance of a revised/belated return of income coming to the notice of Income-tax Department which reflected any manipulation of book-of-accounts, cash-in-hand, profits etc. to justify the cash deposit being made in bank-account(s) might lead to taking necessary action under the relevant provisions of the Act by Income-tax Department. Based upon risk-assessment, several of such cases were selected for scrutiny in Computer Aided Scrutiny Selection (CASS) during this financial year.

2. Under the Act, revision of income-tax return is allowed only if any omission or wrong statement is discovered therein by the concerned assessee. Such omission or wrong statement should have occurred due to a bonafide inadvertent error or a mistake on the part of the assessee. Therefore, in situations where enquiries/verification in course of assessment proceedings suggest manipulations made fictitiously merely to build an explanation for cash deposits in bank account(s), the revised return itself becomes questionable and therefore, the transactions disclosed in it which are over and above the original return are liable to be taxed under anti-abuse provisions of the Act. Similarly, in case of a belated return, it would be crucial to examine the trend and business practices of a particular assessee while ascertaining the legitimacy of the transactions disclosed in a belated return, filed post-demonetisation. In such cases already under scrutiny, some instances which might indicate that assessee had filed revised or belated return merely as a cover up to explain the cash deposits in bank accounts are:

- i. Unsubstantiated reduction in closing stock in the revised return vis-à-vis the figures in original return;
- ii. Reporting of higher sales in the revised return;
- iii. Cash-in-hand as on 31.03.2016 or 31.03.2015 was enhanced in the revised return;
- iv. Additional cash inflow claimed to be out of earlier year savings, receipt of loans/advances /gifts/repayments/sale of capital assets;

- v. In some cases, cash outflow might have been reduced by paying some of the liabilities in cash;
- vi. Significantly lower closing stock as on 31.03.2015 or 31.03.2016 as compared to the earlier years in a belated return;
- vii. Significantly higher cash-in-hand as on 31.03.2016 or 31.03.2015 compared to the preceding year in a belated return.

3. In such scenarios, following issues may be kept in consideration during verification and framing of assessments-

- I. The claim of enhanced sales may be compared with the Central Excise/VAT returns;
- II. Whether the parties to whom additional sales were disclosed have identity, creditworthiness and transaction was genuine or not;
- III. Where the accounts are subjected to tax-audit, whether omission or wrong statement in the original return was pointed out by the audit or not;
- IV. The source of cash in hands of the person who had made payments to the assessee has to be verified carefully;
- V. The past profile of the concerned assessee should be thoroughly analysed;
- VI. Where as a result of enquiries/investigations it emerges that figures in the revised/belated return are fudged, the figure of manipulated receipts/sales/stock etc. is liable to be taxed as a cash credit under section 68 and not merely on net profit basis;
- VII. Any undisclosed expenditure detected after reduction of cash in hand by the assessee may be verified carefully;
- VIII. Unaccounted income so assessed in scrutiny assessment is liable to be taxed at a higher rate without any set-off of losses, expenses etc. under section 115BBE of the Act;
- IX. In the scenario pertaining to Wealth tax returns of earlier years, it should be examined whether there is an attempt to build cash-in-hand or any other asset so as to justify deposit of cash, post-demonetisation.

4. The above guidance note may be brought to the notice of field authorities in your charge. The above guidelines are only suggestive. Therefore, depending upon specific facts and circumstances of a particular case, Assessing Officer should also look into other relevant issues as well.

Yours faithfully,



(Rohit Garg)

Director-ITA.II, CBDT

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