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Direct Tax Newsletter

Tax Digest

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Demand Management Facilitation Centre (DFC) Set Up for Outstanding Tax Demands

The Income Tax Department has established the Demand Management Facilitation Centre (DFC) to assist and guide taxpayers with issues and grievances regarding their outstanding tax demands. Taxpayers can reach out to the DFC directly for resolution via email at taxdemand@cpc.incometax.gov.in, or contact their support team through the toll-free number 1800 309 0131 or the chargeable line 0821-6671200. Taxpayers with pending demand notices are advised to utilize these dedicated channels to seek clarification or lodge grievances before filing formal rectifications.

1. Failure to Adjudicate Jurisdictional Challenge under Section 144B Warrants Remand of Matter

In the instant case[1], the assessee, engaged in the business of painting and advertising, claimed deduction of expenditure towards purchases and labour charges. However, the Assessing Officer treated the said expenditure as unexplained under section 69C read with section 115BBE on the ground that the genuineness of the transactions was not established. The Commissioner (Appeals) restricted the disallowance to 12.5% of the expenditure. The Hon'ble Tribunal upheld the order of the Commissioner (Appeals). Aggrieved by the order of the Hon'ble Tribunal, the assessee preferred an appeal before the Hon'ble High Court.

The assessee contended that the assessment proceedings were vitiated on account of non-compliance with the mandatory procedure prescribed under section 144B, as the show-cause notice did not contain the basis on which the impugned additions were ultimately made. It was further contended that the Hon'ble Tribunal failed to adjudicate the jurisdictional challenge and also did not properly consider the documentary evidence produced to establish the genuineness of the impugned transactions.

The Hon'ble High Court observed that the issue relating to non-compliance with section 144B went to the very root of the assessment proceedings and, therefore, required adjudication by the Hon'ble Tribunal. It was further observed that the Tribunal had failed to render any finding on the jurisdictional issue despite the same having been specifically raised by the assessee. The Hon'ble High Court also observed that the Tribunal was required to consider and appreciate the documentary evidence produced by the assessee before arriving at any conclusion on the genuineness of the transactions.

Accordingly, the Hon'ble High Court held that the impugned order of the Hon'ble Tribunal could not be sustained. Consequently, the order of the Hon'ble Tribunal was set aside and the matter was remanded to the Tribunal for fresh adjudication of the jurisdictional issue under section 144B as well as the merits of the additions after considering the evidence placed on record.

[1] Accost Media LLP v. Deputy Commissioner of Income-tax [2026] 188 taxmann.com 497 (High Court of Bombay)

2. Reassessment Beyond Three Years Invalid for Failure to Satisfy Conditions under Section 149(1)(b)

In the instant case[2], the assessee had sold shares during the relevant assessment year and received the sale consideration through banking channels. Based on information received from the Investigation Wing pursuant to a search conducted in the case of certain entry operators, the Assessing Officer alleged that the sale consideration represented accommodation entries and initiated reassessment proceedings by issuing a notice under section 148 beyond three years from the end of the relevant assessment year.

Aggrieved thereby, the assessee preferred appeal before the Hon'ble Jaipur ITAT. It was contended that the transactions were duly recorded in the books of account, necessary statutory compliances had been undertaken, and the mandatory conditions prescribed under section 149(1)(b) for issuance of notice beyond three years were not fulfilled.

[2] Pace Iron and Steel (P.) Ltd. v. Income-tax Officer [2026] 188 taxmann.com 470 (Mumbai - Trib.)

The Hon'ble Tribunal observed that where a notice under section 148 is issued beyond three years from the end of the relevant assessment year, the conditions prescribed under sections 148 and 149(1)(b) are required to be cumulatively satisfied. It further observed that the Assessing Officer must possess books of account, documents or other evidence which reveal, and not merely suggest, that income chargeable to tax has escaped assessment. The Hon'ble Tribunal held that no satisfaction had been recorded by the Assessing Officer demonstrating compliance with the conditions prescribed under section 149(1)(b), nor was there any material establishing that the alleged escaped income was represented in the manner contemplated under the said provision.

Accordingly, the Hon'ble Tribunal held that the notice issued under section 148 beyond the prescribed period was barred by limitation for non-fulfilment of the conditions under section 149(1)(b). The reassessment proceedings and the consequential assessment order were, therefore, set aside.

3. Reassessment Cannot Be Initiated on Mere Assumptions Without Verifying the Assessee's Records

In the instant case[3], the assessee-company underwent Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code, 2016 and was subsequently sold as a going concern on a 'clean slate' basis. Pursuant to a search conducted in the case of CFM ARC, the Assessing Officer issued a notice under section 148A(b) alleging that the assessee might have claimed deduction of unpaid interest, the cessation of which could attract the provisions of section 41(1) and Explanation 1(b) to section 115JB(2).

During the course of proceedings, the assessee submitted that it had never claimed deduction of the unpaid interest, no interest had been debited to the profit and loss account since FY 2015-16, and the bankers had also issued a No Due Certificate. However, rejecting the explanation, the Assessing Officer passed an order under section 148A(d) and issued a notice under section 148 for reassessment.

Aggrieved thereby, the assessee filed a writ petition before the Hon'ble Gujarat High Court.

The Hon'ble High Court observed that the reassessment proceedings were initiated merely on the presumption that the assessee might have claimed deduction of unpaid interest. It further observed that despite the assessee specifically explaining that no such deduction had ever been claimed, the Assessing Officer failed to verify the profit and loss account before initiating reassessment. Accordingly, the reopening, being based on surmises and conjectures, was held to be unsustainable in law.

Accordingly, the Hon'ble High Court held that the reassessment proceedings, being based on mere surmises and conjectures, were unsustainable in law and quashed the impugned order passed under section 148A(d) along with the consequential notice issued under section 148.

4. Partial Refund to Be Adjusted First Towards Interest Before Principal Refund

In the instant case[4], the assessee was granted a partial refund prior to the passing of an Order

[3] Vimal Oil and Foods Ltd. v. Assistant Commissioner of Income-tax [2026] 188 taxmann.com 517 (High Court of Gujarat)

[4] Deputy Commissioner of Income-tax v. Sony India (P.) Ltd. [2026] 188 taxmann.com 567 (Delhi - Trib.)

Giving Effect pursuant to the order of the Hon'ble ITAT. While computing the refund under section 244A in the said order, the Assessing Officer adjusted the partial refund first against the principal component of tax and thereafter against the interest component.

Aggrieved thereby, the assessee preferred appeal before the Commissioner (Appeals), who directed the Assessing Officer to recompute the refund by first adjusting the partial refund against the interest refundable up to the date of such refund and thereafter against the principal component of tax. Aggrieved by the said order, the Revenue preferred appeal before the Hon'ble Delhi ITAT.

The Hon'ble Tribunal observed that the issue in the instant case was not whether interest on interest was payable, but the correct mechanism for adjustment of a partial refund while computing refund under section 244A. It further observed that although the Income-tax Act, 1961 does not prescribe any specific mechanism for such adjustment, the principle laid down by the Hon'ble Delhi High Court requires that the partial refund granted earlier be first adjusted against the interest refundable up to the date of such refund and only the remaining balance, if any, be adjusted against the principal component of tax refundable.

Accordingly, the Hon'ble Tribunal upheld the order of the Commissioner (Appeals) and held that, while computing refund under section 244A, a partial refund granted earlier must first be adjusted against the interest component and thereafter against the principal component of tax refundable.