

To,
Shri Ravi Agarwal,
Chairperson,
The Central Board of Direct Taxes,
New Delhi.

Date: 21st November 2024

Ref No: 005/2024-25

SUBJECT: REPRESENTATION REGARDING INCORRECT PROCESSING OF RETURNS BY CPC

The Karnataka State Chartered Accountants Association (R) (in short 'KSCAA')), established in 1957 and registered under the Karnataka Societies Registration Act, is dedicated to advocating for the welfare of Chartered Accountants. Our mission is to represent their interests before regulatory authorities and to address the professional challenges faced by both Chartered Accountants and the business community, striving for effective resolutions.

Over the years, we have raised various concerns about the challenges and hardships faced by taxpayers and Chartered Accountants, along with proposed solutions. In this representation, we wish to draw attention to specific hardships encountered by taxpayers, and professionals regarding the defective notices issued and erroneous processing of income tax returns by the Centralized Processing Centre (CPC), which has increasingly led to concern and delays.

1. ISSUES:

INCORRECT/INCONSISTENT PROCESSING OF INCOME TAX RETURNS BY THE CPC:

These challenges, which we outline below, are significantly impacting taxpayers and professionals. Urgent attention is needed to ensure accurate and efficient processing of these returns in line with the principles laid down under the Act.

2. CHALLENGES FACED:

A. DEFECTIVE NOTICE

- **Classification of Income Head Based on TDS Deduction Section:** Certain taxpayers have received defective notices incorrectly suggesting that income should be classified under the head "Profits and Gains from Business and Profession" rather than "Income from Other Sources" solely based on the section under which tax was deducted (such as Sections 194J or 194C of the Act).

The said suggestion overlooks the fact that classification of an item income by the deductor cannot override/overshadow the true of nature of income as received and recorded by the Taxpayer. Further, such an exercise requires application of mind which is often debatable and outside the domain of the adjustments stipulated under section 143(1). Therefore, such issues cannot be subject matter of automated proceedings by CPC under Section 143(1) of the Act.

- **Defective Notices Issued Due to Incorrect TDS Classification in Form 26AS:** Many taxpayers have received defective notices after filing their Income Tax Returns in Form ITR-1, where Tax Deducted at Source (TDS) on interest income was initially, and erroneously, shown under Sections 194J and 194C of the Act in Form 26AS. Subsequently, Form 26AS was corrected/ updated to reflect these deductions under the appropriate section for interest income (Section 194A of the Act). Despite this correction, the CPC has issued defective notices, disregarding the updated and accurate classification in Form 26AS at the time of return filing.

B. CPC PROCESSING ERRORS

- **Old/ New tax regime:** Numerous taxpayers have received intimations erroneously calculating their tax liability under the old tax regime, despite these taxpayers having opted for the new tax regime at time of filing their returns.
- **Incorrect due date considered:** Certain taxpayers, specifically partners of firms liable to tax audit, have filed their income tax returns by the extended due date of 15 November 2024. However, the CPC has issued demand notices to these taxpayers, incorrectly considering the due date as 31 July 2024 and levying late filing fee of Rs. 5,000/- under Section 234F of the Act.

- **Interest under Section 234A and 234B of the Act:** Many taxpayers have reported receiving demand notices where the CPC has incorrectly calculated interest under Sections 234A and 234B of the Act, resulting in inflated tax liabilities. Additionally, the absence of a detailed breakdown of the interest calculations in the intimation is creating difficulties for taxpayers to verify and address discrepancies.
- **Late fees for revised Return under section 234F:** In certain cases, taxpayers have received demand notices imposing a late fee of ₹5,000 under Section 234F of the Act on filing of revised returns under section 139(5) of the Act. This is erroneous, as in such cases the original return was filed within the due date specified under Section 139(1) of the Act and accordingly no late fee should not be levied for filing a valid revised return.
- **Proportionate TDS credit allowed:** In cases where TDS is deducted on non-income components like GST or other reimbursements, the credit of TDS is not allowed in total, though the assessee has suffered the deduction. This creates an **unjust enrichment** situation where the taxpayer has to forego the TDS credit forever.

3. REPRESENTATION:

In light of the issues highlighted above, we respectfully request the following actions or any other measures that is deemed fit to address the challenges faced by the taxpayers and professionals:

A. **REVIEW AND RECTIFY DEFECTIVE NOTICE ISSUANCE:**

We urge a thorough review of the process and criteria used by the CPC to issue defective notices specifically:

- Ensure the classification of income is based on its true nature rather than solely the section under which TDS has been deducted by independent third party, to prevent undue misclassification for assessees.
- Ensure that updated Form 26AS is considered for processing the income tax return filed by assessee.
- TDS credit should be allowed in full especially if it is reflected in Form 26AS. The allowability of the same may be taken up during assessments, etc and not restricted while processing intimation.

B. IMPLEMENT ENHANCED VALIDATION CHECKS FOR CPC PROCESSING:

We humbly request the implementation of stronger validation protocols to prevent errors in tax regime selection, due date recognition, and interest calculations. This would include:

- Ensuring taxpayers' chosen tax regimes are respected in demand notices, avoiding unnecessary disputes.
- Correctly identifying extended due dates in cases of tax audit, particularly for partners in audited firms, to prevent unwarranted demand notices.
- Providing detailed breakdowns of interest under Sections 234A and 234B of the Act in demand notices, allowing taxpayers to verify calculations and address any discrepancies effectively.
- Request that late fees under Section 234F not be imposed on returns filed within the due date under Section 139(1), even if subsequently revised.

C. ESTABLISH A RESPONSIVE REDRESSAL MECHANISM:

To further support taxpayers and tax professionals, we request the establishment of a dedicated grievance redressal cell within the CPC to address processing errors promptly. This would allow for quicker resolution of issues and minimize the compliance burden on honest taxpayers.

While we appreciate the steps taken so far by the CBDT to streamline tax processes, addressing the issues raised in this representation would further the goal of a fair, efficient, and taxpayer-friendly system. We trust that the CBDT will give this matter the urgent attention it requires and will take corrective measures to resolve compliance challenges faced by taxpayers and professionals alike.

We trust in your commitment to upholding the principles of fairness, justice, and efficient tax administration. Your intervention in this matter would not only alleviate the financial difficulties faced by taxpayers but also reinforce confidence in the tax system and the government's commitment to protecting the rights of taxpayers.

Karnataka State Chartered Accountants Association (R)



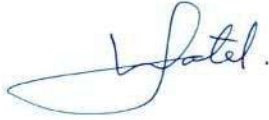
CA. Vijaykumar M Patel
President

CA. Praveen S Shettar
Secretary

In light of the difficulties encountered, we, the members of the Karnataka State Chartered Accountants Association, respectfully urge you to consider our request on behalf of the entire Chartered Accountants community and the trade and industry in Karnataka.

Yours sincerely,

For Karnataka State Chartered Accountants Association ®



**CA Vijaykumar M Patel
President**



**CA Praveen S Shettar
Secretary**



**CA Babitha G
Chairperson,
Representation Committee**

Cc to:

1. Smt. Nirmala Sitharaman, Hon. Union Minister of Finance and Corporate Affairs, Government of India
2. Shri. Pankaj Choudhary, Hon'ble Minister of State, Finance.
3. Shri. Sanjay Malhotra, Hon'ble Revenue Secretary
4. Shri. Shelly Jindal, PCCIT, Karnataka and Goa
5. Shri. Govind Lal, Director General of Income Tax (Systems) (OSD)
6. DGIT(Systems)(OSD), Bengaluru
7. Director of Income Tax, CPC, Bengaluru