BUSINESS TAX PROCEDURES AND MANAGEMENT

D S E 5 . 8 | D S E 5 . 7

U N I V E R S I T Y O F D E L H I

MOCK QUESTION PAPER — SET I

with Full Solutions

B.Com (Hons.) DSE-5.8 | B.Com (Prog.) DSE-5.7 — Third Year, Semester V

Three hours · Ninety marks · Five questions, each with an internal choice

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

T A X Y E A R 2 0 2 6 - 2 7

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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HOW THIS PAPER IS BUILT

This is a practice paper. It is not a University question paper and has no official status.

It follows the pattern of the papers actually set by the University in December 2024 (Sr. No. 844) and December 2025 (Sr. No. 7367): **three hours, ninety marks, five questions, all compulsory, every question carrying an internal choice, and all questions carrying equal marks of eighteen**. The five questions take the Units in the order those papers took them —

Question	Unit	What it draws on	Marks
Q. 1	Unit 1	Advance payment of tax, and the interest payable by the assessee and by the Government	9 + 9
Q. 2	Unit 1	Deduction and collection at source; deposit, statements and certificates; collection and recovery	9 + 6 + 3
Q. 3	Units 2 and 5	Income-tax authorities and the return of income; securities transaction tax and TAN	6 + 6 + 6
Q. 4	Unit 3	Assessment, re-assessment and rectification; appeals and revisions	6 + 6 + 6
Q. 5	Unit 4	Penalties and prosecutions; undisclosed income; search, seizure and survey	9 + 9

Every section number in this paper is a section of the Income-tax Act, 2025. The December 2024 and December 2025 papers were set on the Income-tax Act, 1961, which stood repealed with effect from 1 April 2026; their section numbers — 210, 234B, 194B, 194C, 200, 220, 116, 139, 132, 133A — have no application to Tax Year 2026-27. The questions here put the same points in the numbering now in force.

Set II is a second paper on the same pattern. The two together work the whole syllabus twice.

QUESTION PAPER

Mock Question Paper — Set I

Sr. No. of Question Paper : **M-101** *Mock — I of 2*

Unique Paper Code : 2413090018

Name of the Paper : Business Tax Procedures and Management

Type of the Paper : DSE

Semester : V

Programme : B.Com. (Hons.) — DSE-5.8 | B.Com. (Prog.) — DSE-5.7

Duration : **3 Hours** Maximum Marks : **90**

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **all** questions. Parts of a question are to be attempted together.
3. All questions carry equal marks.
4. Use of a simple calculator is allowed.
5. Answers may be written either in English or in Hindi, but the same medium must be used throughout.
6. All references are to the **Income-tax Act, 2025**, and the tax year is **2026-27**, unless the question says otherwise.

Q. 1.

(a) Mr. Aniruddh, resident in India, aged 52 years, estimates his total income for **Tax Year 2026-27** at ₹24,00,000, made up of income from house property and from business. His tax on that income, including the health and education cess, comes to **₹4,10,000**. Tax of **₹50,000** has been deducted at source from his receipts during the year. State the percentage and the amount of advance tax payable by him on or before each due date, and the dates themselves. **(9)**

(b) Mr. Somil paid nothing towards his first instalment of advance tax and only 30% of the advance tax payable by 15 September 2026. Is he liable to interest for deferment? Explain the provisions of **section 425**, and state the two safe harbours it provides. **(9)**

O R

(a) When does the liability to pay advance tax arise? Explain the provisions of **sections 403 and 404**, the exemption for a senior citizen, and the manner in which the advance tax is computed under **section 405**. **(9)**

(b) Smt. Kavita paid her advance tax on the due dates on an estimate made in April 2026. She left her employment in December 2026, so that her income for the year fell and the advance tax paid became excessive. She furnished her return within the due date and a refund was granted. Is the Government liable to pay interest on that refund? Explain the provisions of **section 437**. **(9)**

Q. 2.

(a) Mr. Deepak won a television game show carrying a cash prize of **₹5,00,000**. Is the organiser required to deduct tax at source? If so, under which provision, at what rate, at what point of time, and what is the amount Mr. Deepak will actually receive? What is the position if the prize is a motor car instead of cash? **(9)**

(b) State the due dates for depositing tax deducted or collected at source to the credit of the Central Government by a deductor who is not an office of the Government, and the due dates for furnishing the quarterly statements. Name the forms. **(6)**

(c) State any **three** modes by which a Tax Recovery Officer may recover the amount specified in a certificate drawn up by him. **(3)**

O R

(a) A college is having its building repaired by ABC Limited, a resident contractor, for a lump sum of **₹10,00,000** in Tax Year 2026-27. Discuss the provisions the college must keep in mind when making the payment, with particular reference to the deduction of tax at source — the provision, the rate, the thresholds, the time of deduction, and the college's obligations after deducting. **(9)**

(b) XYZ Limited, not being an office of the Government, deducts tax at source every month. State the due date for depositing the tax of each month, and the special position for the month of March. In what circumstances may the tax be deposited quarterly, and by what dates? **(6)**

(c) When is an assessee said to be in default in respect of a demand? State the consequence. **(3)**

Q. 3.

(a) Name the classes of income-tax authorities constituted under the Act, and state which of them is the Board. **(6)**

(b) Explain the provisions relating to a **defective return** — what makes a return defective, what the Assessing Officer must do, the time allowed to remove the defect, and the consequence of not removing it. **(6)**

(c) Write a short note on **securities transaction tax** — the enactment under which it is levied, the transactions on which it is charged, and its connection with the Income-tax Act, 2025. **(6)**

O R

(a) Distinguish between a **belated return** and a **revised return**, stating the provision, the time limit and the effect of each. **(6)**

(b) Briefly explain the provisions relating to an **updated return** — who may furnish it, by when, in what circumstances it may not be furnished, and the additional tax payable. **(6)**

(c) Write a short note on the **Tax Deduction and Collection Account Number** — who must apply, in what form, the persons who need not apply, and the consequence of not quoting it. **(6)**

Q. 4.

(a) Faceless assessment is conducted through a National Faceless Assessment Centre and units set up for the purpose. Name any **three** such units and explain their functions. **(6)**

(b) Explain what is meant by **income escaping assessment**, and the circumstances in which an Assessing Officer may assess or re-assess such income. **(6)**

(c) Mr. Sachin, aggrieved by an order of the Assessing Officer, wishes to file a first appeal. Advise him on the authority, the form, the fee and the time within which the appeal must be filed. **(6)**

O R

(a) Explain in brief the directions that may be issued by an Assessing Officer in the course of an **inquiry before assessment**, and the reference that may be made to a Valuation Officer. **(6)**

(b) Explain the provisions relating to the **rectification of a mistake apparent from the record** — who may rectify, on whose initiative, the time limit, and the safeguard where the rectification enhances a liability. **(6)**

(c) Explain the provisions relating to an appeal to the **Appellate Tribunal** — who may appeal, against what orders, the form, the fee and the limitation. **(6)**

Q. 5.

(a) What is meant by a **penalty**? Explain any **five** penalties that may be imposed for defaults under the Act, stating in each case the provision and the amount. **(9)**

(b) State the circumstances in which a **search** may be authorised, and explain any **five** powers of the authorised officer conducting it. **(9)**

O R

(a) What is meant by **prosecution**? Explain any **five** offences for which prosecution may be launched under the Act, stating in each case the term of imprisonment. **(9)**

(b) Discuss the powers of an income-tax authority conducting a **survey**, and state three things such an authority may **not** do. **(9)**

SOLUTIONS

Solutions — Set I

Every section is a section of the Income-tax Act, 2025; every rule a rule of the Income-tax Rules, 2026. Rates are those in force for Tax Year 2026-27 under the Finance Act, 2026.

Q. 1 (a) — Advance tax instalments [sections 404, 405 and 408]

Step 1 — is he liable at all? Advance tax is payable during the financial year on the current income [section 403(1)]. It is payable only if the advance tax payable is **₹10,000 or more** [section 404]. The exemption in section 403(3) is for a **resident individual of sixty years or more who has no income under the head "Profits and gains of business or profession"**. Mr. Aniruddh is 52 and has business income, so the exemption is doubly inapplicable. He is liable.

Step 2 — the amount of advance tax [section 405]. Tax on the estimated current income at the rates in force, less the tax deductible or collectible at source on that income —

Particulars	₹
Tax on the estimated current income, including cess	4,10,000
Less: tax deducted at source [section 405(1)]	50,000
Advance tax payable for the year	**3,60,000**

₹3,60,000 is not less than ₹10,000, so the liability stands.

Step 3 — the four instalments [section 408(1)].

Due date	Percentage of the advance tax	Cumulative amount ₹	Payable on that date ₹
On or before **15 June 2026**	Not less than **15%**	54,000	**54,000**
On or before **15 September 2026**	Not less than **45%**, less what was already paid	1,62,000	**1,08,000**
On or before **15 December 2026**	Not less than **75%**, less what was already paid	2,70,000	**1,08,000**
On or before **15 March 2027**	**100%**, less what was already paid	3,60,000	**90,000**
Total			**3,60,000**

Two further points. Any amount paid by way of advance tax **on or before 31 March** is also treated as advance tax paid during the financial year [section 408(3)]. And if he were a presumptive assessee under section 58(2), the whole of the advance tax would be payable in a **single instalment on or before 15 March** [section 408(2)].

Q. 1 (b) — Interest for deferment [section 425]

The charge. Where the advance tax paid by an assessee on his current income on or before a due date falls short of the percentage of the **tax due on the returned income** specified for that date, he is liable to simple interest under section 425(1).

Instalment	Percentage required	Rate of interest on the shortfall
15 June	15%	**3%** — 1% per month for a block period of three months
15 September	45%	**3%**

Instalment	Percentage required	Rate of interest on the shortfall
15 December	75%	**3%**
15 March	100%	**1%** — no period, a single multiplication

The interest is not computed by counting months to the date of payment. For each of the first three shortfalls the charge is a flat 3%, and for the last a flat 1%.

The two safe harbours [section 425(2)]. No interest is payable —

- if the advance tax paid on or before **15 June** is **12% or more** of the tax due on the returned income; or
- if the advance tax paid on or before **15 September** is **36% or more** of that tax.

The concession recognises that an estimate made in the first ten weeks of the year is bound to be rough. It applies only to the first two instalments; there is no safe harbour for December or March. Where a safe harbour is met, **no interest at all** is charged for that instalment — not interest on a reduced shortfall.

Applying this to Mr. Somil. He paid nothing by 15 June. The requirement was 15% and the safe harbour 12%; he met neither, so interest at 3% runs on the shortfall of 15% of the tax due on the returned income. By 15 September he had paid 30%. The requirement was 45% and the safe harbour 36%; 30% is below both, so interest at 3% runs on the shortfall of 15% (45% − 30%). He is liable for both instalments.

Exceptions [section 425(4)]. No interest is charged on a shortfall attributable to capital gains, casual income, income from a business or profession of a kind first arising in that year, or dividend, provided the assessee pays the whole of the tax on it in the remaining instalments, or by 31 March where no instalment is due.

Q. 1 OR (a) — When the liability arises [sections 403, 404 and 405]

The charge [section 403]. Advance tax is payable during any financial year in respect of the **current income** of the assessee, which would be chargeable to tax for the tax year immediately following. The tax is payable in advance of the year in which it will be assessed, and section 390(2) makes it payable even though the assessment will be made later.

The exemption [section 403(3)]. An individual who is **resident in India**, who is of the age of **sixty years or more** at any time during the tax year, and who does **not** have any income chargeable under the head "Profits and gains of business or profession", is not liable to pay advance tax. All three conditions must be satisfied; a single rupee of business or professional income destroys the exemption.

The threshold [section 404]. Advance tax is payable only where the amount payable is **₹10,000 or more**. Below that figure there is no liability at all.

The computation [section 405].

Step	What is done
1	Estimate the **current income** of the financial year
2	Compute the tax on it at the **rates in force** for the tax year
3	Add surcharge, and the health and education cess
4	Deduct the relief available under the Act
5	Deduct the tax **deductible or collectible at source** on any income included in the estimate
6	The balance is the advance tax payable, subject to the ₹10,000 threshold

Net agricultural income is taken into account in arriving at the rate [section 405(2)]. The assessee pays of his own accord under **section 406**, without any notice; but where he has already been assessed, the Assessing Officer may pass an order under **section 407** requiring him to pay, and the assessee may meet it with his own lower estimate under section 407(8) or a higher one under section 407(9).

Q. 1 OR (b) — Interest on a refund [section 437]

Yes. Where a refund is due, the assessee is entitled to receive, in addition to the refund, **simple interest at 0.5% for every month or part of a month** [section 437(1)].

Sl.	The refund is out of	The period for which interest runs
1	Tax collected at source under section 394, **advance tax**, or tax deducted at source treated as paid under section 390(5)	From **1 April** of the year following the tax year to the date the refund is granted, where the return was furnished by the due date under section 263(1); otherwise from the date of furnishing the return
2	**Self-assessment tax** paid under section 266	From the date of furnishing the return or the date of payment of the tax, **whichever is later**, to the date the refund is granted
3	Any other case — chiefly tax or penalty paid against a notice of demand	From the date of payment to the date the refund is granted

The 10% threshold [section 437(2)]. No interest is payable under Sl. No. 1 or 2 if the refund is **less than 10%** of the tax determined under section 270(1) or on regular assessment. The threshold does not apply to Sl. No. 3; and it is a test on the size of the refund, not an exemption of the first 10% — once the refund reaches 10%, interest runs on the whole of it.

Applying this to Smt. Kavita. Her refund arises out of advance tax, so it falls under Sl. No. 1. She furnished her return within the due date, so interest runs from **1 April 2027** to the date the refund is granted, at 0.5% for every month or part of a month, provided the refund is not less than 10% of the tax determined. Any period of delay attributable to her is excluded [section 437(4)].

Q. 2 (a) — Winnings from a game show [section 393(3), Table, Sl. No. 1]

Question	Answer
Is tax deductible?	**Yes.** Winnings from a card game or other game of any sort fall under section 393(3), Table, Sl. No. 1
Who deducts?	**Any person** paying the winnings — here the organiser
Rate	**Rates in force — 30%** (Part II of the First Schedule to the Finance Act, 2026)
Threshold	**₹10,000 in a single transaction.** The prize of ₹5,00,000 crosses it
Time of deduction	At the time of **payment**

The threshold is a switch, not a slab. Once ₹10,000 is crossed the deduction is on the **whole** of the winnings, not on the excess.

Particulars	₹
Cash prize	5,00,000
Less: tax deducted at source at 30% of ₹5,00,000	1,50,000
Amount Mr. Deepak actually receives	**3,50,000**

No surcharge or cess is added to the deduction where the payee is a resident; the rate in force is applied as it stands. Mr. Deepak will show ₹5,00,000 as his receipt, because tax deducted at source is treated as income received [section 396], and will take credit for ₹1,50,000 [section 390(5)].

If the prize is a motor car. Where the winning is wholly or partly **in kind**, or partly in cash and partly in kind and the cash is not enough to meet the tax, the person responsible for paying must **satisfy himself that the tax has been paid** in respect of the winnings before releasing them [Note 2 to the Table]. In practice the organiser either recovers ₹1,50,000 from the winner before handing over the car, or bears the tax himself; he may not deliver the car and leave the tax unpaid.

Q. 2 (b) — Deposit and quarterly statements [Rules 218 and 219]

Deposit to the credit of the Central Government [Rule 218(2)].

Month in which the deduction or collection is made	Due date for deposit
April 2026 to February 2027	Within **seven days** from the end of the month — that is, the 7th of the following month
March 2027	**30 April 2027**

Where the Assessing Officer permits quarterly payment with the prior approval of the Joint Commissioner, for tax deducted under section 392(1) and section 393(1) Sl. Nos. 1(i), 1(ii), 5(ii) and 5(iii), the dates are **7 July, 7 October, 7 January and 30 April** [Rule 218(4)].

Quarterly statements [Rule 219].

Quarter of Tax Year 2026-27	Due date	Form
Quarter ended 30 June 2026	**31 July 2026**	138 · 140 · 143 · 144
Quarter ended 30 September 2026	**31 October 2026**	138 · 140 · 143 · 144
Quarter ended 31 December 2026	**31 January 2027**	138 · 140 · 143 · 144
Quarter ended 31 March 2027	**31 May 2027**	138 · 140 · 143 · 144

Form	What it covers
138	Tax deducted from **salary**, and under section 393(1) Sl. No. 8(iii)
140	Tax deducted from **residents** other than from salary
143	Tax **collected** at source under section 394(1)
144	Tax deducted from **non-residents**

A late statement attracts a fee of **₹200 for every day** of delay under section 427, capped at the amount of tax deductible or collectible, and the fee must be paid **before** the statement is filed.

Q. 2 (c) — Modes of recovery by the Tax Recovery Officer [section 413(1)]

The Tax Recovery Officer draws up a statement, called the **certificate**, in Form No. 153, and proceeds to recover the amount specified in it by one or more of four modes. Any three of the following —

Clause	Mode	Where the procedure is
413(1)(a)	**Attachment and sale** of the movable property of the assessee	Rule 225(21) to (47)
413(1)(b)	**Attachment and sale** of the immovable property of the assessee	Rule 225(48) to (70)
413(1)(c)	**Arrest** of the assessee and his **detention** in prison	Rule 225(75) to (83)
413(1)(d)	Appointing a **receiver** for the management of his movable and immovable property	Rule 225(71) to (74)

The modes are **cumulative, not alternative**: the Officer may proceed under section 413(1) whether or not proceedings by any other mode have been taken [section 413(2)].

Q. 2 OR (a) — Payment to a contractor [section 393(1), Table, Sl. No. 6(i)]

Question	Answer
Which entry?	Sl. No. 6(i) — any sum for **carrying out any work**, including the supply of labour, in pursuance of a contract
Who must deduct?	A **designated person** [section 402(11)] — which includes a **university**, and so this college
Rate	**1%** where the contractor is an individual or a Hindu undivided family; **2%** in any other case. ABC Limited is a company, so **2%**
Threshold	**₹30,000** for any single sum, **and ₹1,00,000** for the aggregate in the tax year. Either limit crossed attracts the deduction
Time	At **credit** to the contractor's account or **payment**, whichever is earlier

Particulars	₹
Contract payment	10,00,000
Tax to be deducted at 2%	**20,000**
Net payment to ABC Limited	9,80,000

The Note to Sl. No. 6(i). Where the work is of the kind described in section 402(47)(e) — manufacturing a product to the customer's specification out of material bought from him — tax is deducted on the invoice value **excluding the value of the material** if that value is shown separately in the invoice, and on the whole of the invoice value if it is not.

What the college must do after deducting.

- Obtain a **TAN** if it has none, and quote it on every challan, statement and certificate [section 397(1), Rule 216, Form No. 134 or 135].
- **Deposit** the tax within seven days from the end of the month of deduction; and by 30 April if the deduction is made in March [Rule 218(2)].
- File the **quarterly statement in Form No. 140** by 31 July, 31 October, 31 January and 31 May [Rule 219].
- Issue the **certificate in Form No. 131** within fifteen days of the due date for the statement [Rule 215].
- Obtain the contractor's **PAN**. Without a valid PAN the deduction is at the higher of the rate in the provision, the rates in force, and 20% [section 397(2)].

If the college fails to deduct. It becomes an assessee in default under section 398(1) unless saved by section 398(2), and interest runs at **1% a month** from the date the tax was deductible to the date it is deducted [section 398(3)(a)(i)]; if it deducts and does not pay, at **1.5% a month** from the date of deduction.

Q. 2 OR (b) — Monthly and quarterly deposit [Rule 218]

Case	Due date
Tax deducted or collected in **April 2026 to February 2027**	Within **seven days** from the end of the month
Tax deducted or collected in **March 2027**	**30 April 2027**
An office of the Government paying **without** a challan	**The same day**, by book adjustment [Rule 218(1)(a)]

Case	Due date
An office of the Government paying **with** a challan	Within seven days from the end of the month [Rule 218(1)(b)]

Quarterly deposit [Rule 218(4)]. In special cases the Assessing Officer may, with the **prior approval of the Joint Commissioner**, permit quarterly payment of the tax deducted under section 392(1) — salary — and under section 393(1) Sl. Nos. 1(i), 1(ii), 5(ii) and 5(iii). The dates are —

Quarter ended	Date for quarterly payment
30 June 2026	**7 July 2026**
30 September 2026	**7 October 2026**
31 December 2026	**7 January 2027**
31 March 2027	**30 April 2027**

The concession is not available as of right; it must be permitted, and it does not extend to collection at source or to the other entries of section 393(1).

Q. 2 OR (c) — Assessee in default [section 411]

A notice of demand under section 289 requires the sum to be paid within **thirty days** of service [section 411(1)]. If it is not paid within that time, or within any extended time or instalments allowed under section 411(5), the assessee is **deemed to be in default** [section 411(10)]; and where payment is by instalments, default in one instalment makes the whole of the balance due at once [section 411(11)].

The consequences. Interest runs at **1% for every month or part of a month** on the amount unpaid from the day following the end of the thirty days [section 411(3)]; a **penalty** not exceeding the amount in arrears may be imposed under section 412, but only after a reasonable opportunity of being heard and not where there was good and sufficient reason; and the Tax Recovery Officer may draw up a certificate under section 413 and recover by the four modes.

An assessee is **not** treated as in default while an appeal is pending, if the Assessing Officer so directs on such conditions as he thinks fit [section 411(12)].

Q. 3 (a) — Classes of income-tax authorities [section 236]

Section 236 constitutes the following classes of income-tax authorities for the purposes of the Act —

#	Authority
1	The **Central Board of Direct Taxes** constituted under the Central Boards of Revenue Act, 1963
2	Principal Director General of Income-tax or Principal Chief Commissioner of Income-tax
3	Director General of Income-tax or Chief Commissioner of Income-tax
4	Principal Director of Income-tax or Principal Commissioner of Income-tax
5	Director of Income-tax or Commissioner of Income-tax, or Commissioner of Income-tax (Appeals)
6	Additional Director of Income-tax, Additional Commissioner of Income-tax, or Additional Commissioner of Income-tax (Appeals)
7	Joint Director of Income-tax, Joint Commissioner of Income-tax, or Joint Commissioner of Income-tax (Appeals)
8	Deputy Director of Income-tax or Deputy Commissioner of Income-tax
9	Assistant Director of Income-tax or Assistant Commissioner of Income-tax
10	**Income-tax Officer**

#	Authority
11	Tax Recovery Officer
12	Inspector of Income-tax

The Board is the Central Board of Direct Taxes, at the head of the list. It is the highest executive authority under the Act; its instructions bind all subordinate authorities [section 239], though it may not direct a particular assessment in a particular manner or interfere with the discretion of the Commissioner (Appeals). The Board also lays down the **Taxpayer's Charter** under section 240.

Q. 3 (b) — Defective return [section 263(7)]

What makes a return defective. A return is defective if it is not accompanied by the prescribed statements, computations, proofs of tax paid and audit reports, or if the annexures, statements and columns are not duly filled in — the particulars are those set out in the section and the rules.

What the Assessing Officer must do.

- He **shall intimate** the defect to the assessee. He has no power simply to ignore the return.
- The assessee is allowed a period of **fifteen days** from the date of the intimation, or such further period as the Assessing Officer may on an application allow, to **rectify** the defect.

The consequence of not rectifying. If the defect is not removed within that period, the return is treated as an **invalid return**, and the provisions of the Act apply as if the assessee had **failed to furnish the return** at all. The consequences of a failure to furnish then follow — the fee under section 428, interest under section 423, and the loss of the right to carry forward losses.

The saving. If the assessee rectifies the defect **after** the period has expired but **before the assessment is made**, the Assessing Officer **may condone** the delay and treat the return as a valid return. The power is discretionary, and it lapses once the assessment is made.

Q. 3 (c) — Securities transaction tax

Not a tax under the Income-tax Act. Securities transaction tax is levied by **Chapter VII of the Finance (No. 2) Act, 2004**, and not by the Income-tax Act, 2025. The charging provision is **section 98 of that Act**. Section 2(28) of the Income-tax Act, 2025 does no more than borrow the expression, providing that "securities transaction tax" has the meaning assigned to it in that Chapter.

What is charged. The tax is on the **transaction**, not on income, and not on profit. It is payable whether the transaction results in a gain or a loss. It is charged on the value of a **taxable securities transaction** — chiefly the purchase or sale of an equity share in a company or a unit of an equity oriented fund entered into on a recognised stock exchange, the sale of such a unit to the mutual fund itself, and transactions in derivatives.

Who pays, and how. The liability falls on the purchaser or the seller as the Chapter prescribes for each transaction. It is collected by the recognised stock exchange or the mutual fund, which pays it to the credit of the Central Government and furnishes the prescribed return.

Its connection with the Income-tax Act, 2025. Where securities transaction tax has been paid on the transaction, the concessional rates apply — **section 196** for a short-term capital gain and **section 198** for a long-term capital gain on the transfer of an equity share or a unit of an equity oriented fund. The tax itself is not deductible in computing income under the head "Capital gains".

Q. 3 OR (a) — Belated return and revised return

Point	Belated return — section 263(4)	Revised return — section 263(5)
When it is filed	Where the return was **not furnished** within the time allowed under section 263(1)	Where a return **has been furnished** and the assessee discovers an **omission or wrong statement** in it

Point	Belated return — section 263(4)	Revised return — section 263(5)
Who may file	Any person who has not furnished the return in time	Any person who has furnished a return under section 263(1) or a belated return under section 263(4)
Time limit	Before **three months** before the end of the tax year, or before the completion of the assessment, whichever is earlier	The same outer limit — three months before the end of the tax year, or completion of the assessment, whichever is earlier
Effect	A valid return, but a **late** one	The revised return **replaces** the original for all purposes; the original is treated as withdrawn
Fee and interest	**Fee under section 428** and interest under section 423 are attracted	No fee merely for revising; interest already running is not disturbed
Carry forward of losses	A business loss or a capital loss **cannot be carried forward** [section 112]	Not affected, if the original return was in time
Number of times	Once — it is the return	May be revised **more than once** within the time limit

Q. 3 OR (b) — Updated return [section 263(6)]

Question	Answer
Who may furnish it?	**Any person**, whether or not he has furnished a return under section 263(1), (4) or (5) for the tax year
What may it show?	Additional income, so that the tax payable **increases**. It is a return of income for the year, updated
By when?	Within **forty-eight months** from the end of the tax year
Additional tax	**25%** of the aggregate of tax and interest if furnished within twelve months; **50%** within twenty-four months; **60%** within thirty-six months; **70%** within forty-eight months

When it may not be furnished. An updated return is not available —

- if it is a return of a **loss**, or has the effect of **reducing** the tax liability determined earlier, or results in or increases a **refund**;
- if a **search** has been initiated under section 247, or books or assets requisitioned under section 248, in the case of the person, for that year and the two preceding years;
- if a **survey** has been conducted under section 253;
- if an assessment, re-assessment, revision or re-computation is **pending or has been completed** for that year;
- if the Assessing Officer has information under specified enactments and it has been communicated to the assessee; and
- if an updated return has **already** been furnished for that tax year — only one is permitted.

The tax on an updated return is paid under **section 267**, and the return is invalid unless it is accompanied by proof of that payment.

Q. 3 OR (c) — Tax Deduction and Collection Account Number [section 397(1)]

Question	Answer
Who must apply?	Every person deducting or collecting tax at source who has not already been allotted a number [section 397(1)(a)]

Question	Answer
In what form?	**Form No. 134** for a Government entity; **Form No. 135** for any other person [Rule 216(1)]. It may also be made through the common application form notified by the Central Government
To whom?	The officer to whom the function has been assigned by the Director General of Income-tax (Systems) [Rule 216(3)]
By when?	Before the deduction or collection; and where it has not been so made, within **thirty days** from the end of the month in which the tax was deducted or collected [Rule 216(4)]
Where must it be quoted?	In all challans, statements and certificates referred to in Chapter XIX-B, and in all prescribed documents [section 397(1)(b)]

Who need not obtain one [section 397(1)(c)]. The requirement does not apply to a person required to deduct under section 393(1), Table, Sl. Nos. **2(i)** rent, **3(i)** transfer of immovable property and **6(ii)** payments by an individual or Hindu undivided family; to the specified individual or Hindu undivided family referred to in section 393(4), Table, Sl. No. 12.C(a) — the small payer on the transfer of a virtual digital asset; and to a person notified by the Central Government. Such persons use their **PAN** in place of a TAN, deposit the tax with a challan-cum-statement in **Form No. 141** within thirty days, and issue the certificate in **Form No. 132**.

The consequence of not applying or not quoting. A penalty of **₹10,000** is leviable under section 468.

Q. 4 (a) — The faceless assessment units [section 273]

Faceless assessment is conducted by the **National Faceless Assessment Centre**, which is the single point of contact with the assessee, through units set up for the purpose. All communication is electronic and the assessee never meets the officer. Any three of the following —

Unit	Function
Assessment unit	Identifies the points material to the determination of any liability, seeks information and analyses the material, and makes the draft assessment order
Verification unit	Carries out the verification — enquiry, cross-verification, examination of books of account, examination of witnesses and the recording of statements
Technical unit	Provides technical assistance on legal, accounting, forensic, information-technology, valuation, transfer-pricing and data-analytics questions
Review unit	Reviews the draft assessment order — whether the material evidence has been brought on record, the relevant points of fact and law incorporated, the issues correctly applied and the arithmetic correct

The National Faceless Assessment Centre assigns the case to an assessment unit through an **automated allocation system**. The draft order goes to the review unit, which may concur or suggest modification; where a modification prejudicial to the assessee is proposed, a **show-cause notice** must be served before the final order is passed. The assessee may request a **personal hearing**, which is conducted exclusively through video conferencing.

Q. 4 (b) — Income escaping assessment [section 279]

The meaning. Income chargeable to tax is said to have escaped assessment where it has not been assessed at all, or has been under-assessed, or assessed at too low a rate, or has been made the subject of excessive relief, or where excessive loss, depreciation or other allowance has been computed.

The power. Subject to sections 280 to 285, an Assessing Officer may assess or re-assess such income, and also any other income chargeable to tax which comes to his notice in the course of the proceedings, and may re-compute the loss or the depreciation allowance or any other allowance for the tax year.

The condition. He may do so only where he has **information which suggests** that income chargeable to tax has escaped assessment. "Information" is defined, and includes information flagged in accordance with the risk management strategy formulated by the Board, and any audit objection or information received under an agreement or from another authority.

The safeguards.

- Before issuing a notice the Assessing Officer must follow the **procedure in section 281** — provide an opportunity to the assessee, consider his reply, and pass an order on whether it is a fit case.
- The notice under **section 280** requires the assessee to furnish a return.
- There is a **time limit** under section 282, and the notice requires the **sanction** of the specified authority under section 284.
- Where the assessment is a consequence of a finding or direction in an appellate order, section 283 applies.

Q. 4 (c) — Filing the first appeal [sections 356 to 358]

Question	Answer
To whom does the appeal lie?	To the **Joint Commissioner (Appeals)** under section 356, or to the **Commissioner (Appeals)** under section 357, according to the order appealed against and the authority that passed it
In what form?	**Form No. 99**, verified in the prescribed manner, filed electronically [Rule 167]
Within what time?	**Thirty days** from the date of service of the notice of demand, or of the order where there is no demand
Delay	The appellate authority **may admit** an appeal after the thirty days if satisfied that there was sufficient cause for not presenting it in time

The fee [section 358(2)].

Where the total income as computed by the Assessing Officer is	Fee
₹1,00,000 or less	**₹250**
More than ₹1,00,000 but not more than ₹2,00,000	**₹500**
More than ₹2,00,000	**₹1,000**
Where the subject of the appeal is not the assessment of total income	**₹250**

The condition precedent. No appeal is admitted unless, at the time of filing, the assessee has **paid the tax due on the income returned**. Where no return has been furnished, he must have paid an amount equal to the advance tax payable; the appellate authority may, on an application and for good and sufficient reason, exempt him from that requirement.

Q. 4 OR (a) — Inquiry before assessment [sections 268 and 269]

The three directions under section 268(1). For the purpose of obtaining full information in respect of the income or loss of any person, the Assessing Officer may serve a notice requiring him —

Clause	What may be required
(a)	To **furnish a return**, where he has not made one within the time allowed
(b)	To **produce, or cause to be produced, such accounts or documents** as the Assessing Officer may require
(c)	To **furnish information** in writing, verified in the prescribed manner, on such points or matters as he may require, including a statement of all assets and liabilities whether or not included in the accounts

Two limits. The Assessing Officer may not require the production of accounts relating to a period **more than three years before the tax year**; and a statement of assets and liabilities not included in the accounts may be required only with the **prior approval of the Joint Commissioner**.

Special audit [section 268(5)]. Having regard to the nature and complexity of the accounts, the volume of the accounts, doubts about their correctness, the multiplicity of transactions or the specialised nature of the business, and the interests of the revenue, the Assessing Officer may — with the **previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner** — direct the assessee to get the accounts **audited by an accountant** nominated by that authority and to furnish the report. The assessee must be given a **reasonable opportunity of being heard** before such a direction. The expenses of the audit are determined by that authority and paid by the Central Government.

Reference to the Valuation Officer [section 269]. For the purpose of assessment or re-assessment the Assessing Officer may refer to a **Valuation Officer** the estimation of the value, including the fair market value, of any asset, property or investment, and of any expenditure. He may do so whether or not he is satisfied about the correctness of the accounts. The Valuation Officer's report is sent to the Assessing Officer and to the assessee, and the assessee is given an opportunity of being heard before the report is used.

Q. 4 OR (b) — Rectification of a mistake apparent from the record [section 287]

Question	Answer
What may be rectified?	A **mistake apparent from the record** — an error obvious and patent on the face of the record. A point on which two views are possible is not such a mistake
Who may rectify?	The **income-tax authority** that passed the order; and the appellate authority in respect of its own order
On whose initiative?	On its **own motion**; or on a mistake **brought to its notice** by the assessee, or by the deductor or collector, or by the Assessing Officer where the order is that of an appellate authority
Time limit	**Four years** from the end of the tax year in which the order sought to be amended was passed
On an application	Where an application is made by the assessee, deductor or collector, the authority **shall pass an order** making the amendment or refusing the claim within **six months** from the end of the month in which the application is received

The four years and the six months answer different questions. The **four years** is the period within which the power may be exercised; the **six months** is the period within which an application must be disposed of. An application made within four years must be decided even though the four years expire while it is pending.

The safeguard. An amendment which has the effect of **enhancing an assessment, or reducing a refund, or otherwise increasing the liability** of the assessee may not be made unless the authority has given him **notice of its intention** and a reasonable opportunity of being heard. Where the rectification results in a refund, it is granted; where it results in a demand, a notice of demand under section 289 is served.

Q. 4 OR (c) — Appeal to the Appellate Tribunal [section 362]

Question	Answer
Who may appeal?	The **assessee**, aggrieved by the specified orders; and the **Principal Commissioner or Commissioner**, who may direct the Assessing Officer to appeal
Against what orders?	Orders of the Joint Commissioner (Appeals) or the Commissioner (Appeals) under sections 356, 357, 359 and 360; certain orders of the Principal Commissioner or Commissioner; and orders of the Assessing Officer under the directions of the Dispute Resolution Panel
Form	**Form No. 115**, verified in the prescribed manner [Rule 193(1)]
Time	**Sixty days** from the date on which the order appealed against is communicated

Question	Answer
Cross-objections	The respondent may, within **thirty days** of receipt of notice of the appeal, file a **memorandum of cross-objections** in **Form No. 116**, and it is disposed of as if it were an appeal — no fee is payable on it

The fee [section 362(6)].

Where the total income as computed by the Assessing Officer is	Fee
₹1,00,000 or less	**₹500**
More than ₹1,00,000 but not more than ₹2,00,000	**₹1,500**
More than ₹2,00,000	**1% of the assessed total income, subject to a maximum of ₹10,000**
An application for stay, or an appeal not relating to the assessment of total income	**₹500**

No fee is payable on an appeal filed by the Principal Commissioner or Commissioner, nor on a memorandum of cross-objections. The Tribunal may **admit an appeal after the sixty days** if satisfied that there was sufficient cause for the delay.

Q. 5 (a) — Penalty, and five penalties under the Act

What a penalty is. A penalty is a **civil, pecuniary consequence** imposed by an income-tax authority for a default in complying with an obligation under the Act. It is distinct from **tax**, which is the charge on income; from **interest**, which is compensatory and runs automatically for the detention of money; from a **fee**, which is a fixed charge for delay and requires no proceeding; and from **prosecution**, which is criminal and is tried by a court. A penalty is imposed only after a proceeding in which the assessee is given a reasonable opportunity of being heard [section 471], and no penalty is imposable if the assessee proves that there was **reasonable cause** for the failure [section 470].

Any five of the following —

Section	Default	Penalty
439	**Under-reporting** of income; and **misreporting**	**50%** of the tax payable on the under-reported income; **200%** where the under-reporting is in consequence of misreporting
441	Failure to keep, maintain or retain **books of account** and documents	**₹25,000**
444	A **false entry**, or omission of an entry relevant to the computation of total income, in the books of account	A sum equal to the **aggregate amount** of the false or omitted entries
449	Failure to **collect** tax at source, wholly or partly	A sum equal to the amount of tax **not collected**
461	Failure to furnish the **quarterly statement** of tax deducted or collected, or furnishing an incorrect one	**₹10,000 to ₹1,00,000**. No penalty if the tax, fee and interest were paid and the statement filed within one month of the due date
465	Failure to **issue a certificate**, or to deliver a declaration or statement	**₹500 for every day** of default, capped at the amount of tax deductible or collectible
467 / 468	Failure relating to the **PAN** / the **TAN**	**₹10,000** in each case

Two general provisions. Section 469 gives the Principal Commissioner or Commissioner power to **reduce or waive** a penalty in the circumstances stated; and section 440 gives **immunity** from penalty under section 439 and from prosecution where the tax and interest on the assessment have been paid and no appeal filed, on an application made within one month from the end of the month of receipt of the assessment order.

Q. 5 (b) — Search, and the powers of the authorised officer [section 247]

The circumstances in which a search may be authorised. The competent authority must have, in consequence of **information in his possession**, **reason to believe** —

Clause	The circumstance
(a)	A person has been **issued a summons or notice** to produce books of account or documents and has **omitted or failed** to produce them
(b)	A person to whom a summons or notice has been or might be issued **will not produce** the books of account or documents required
(c)	A person is in possession of **money, bullion, jewellery, virtual digital assets or other valuable article or thing** which represents wholly or partly income or property which **has not been, or would not be, disclosed**

The reasons must be **recorded**, and the authorisation is issued to an officer of a rank not below that prescribed. The reasons recorded are **not required to be disclosed** to any person or authority or the Appellate Tribunal [section 249].

Five powers of the authorised officer. Any five of —

- **Enter and search** any building, place, vessel, vehicle or aircraft where he has reason to suspect that such books, documents, money, bullion, jewellery or other valuable article or thing is kept — and, in a computer system, any information stored electronically.
- **Break open** the lock of any door, box, locker, safe, almirah or other receptacle where the keys are not available; and, where he has reason to suspect concealment on the person, **search any person** who has got out of, is about to get into, or is in the place.
- **Require any person** in possession or control of books of account or other documents maintained in electronic form to **afford the facility** to inspect them.
- **Seize** any such books of account, documents, money, bullion, jewellery, virtual digital asset or other valuable article or thing found as a result of the search — but he may **not seize stock-in-trade** of the business; of that he makes only a note or inventory.
- Where seizure is **not practicable** — for a heavy article, or a bank locker — serve an order that the owner shall not remove or deal with it without previous permission: a **deemed seizure**.
- **Place marks of identification** on the books and documents, take extracts or copies, and make a note or inventory of anything found.
- **Examine on oath** any person found in possession or control of the books, documents or assets; a statement so made may be used in evidence in any proceeding under the Act.

Two presumptions [section 247]. Where anything is found in the possession or control of a person in the course of a search it may be presumed that it belongs to him, that the contents of the books and documents are true, and that the signature and handwriting are those of the person whose they purport to be.

Q. 5 OR (a) — Prosecution, and five offences

What prosecution is. Prosecution is the **criminal** consequence of a default. Unlike a penalty, it is not imposed by an income-tax authority but tried by a **court**, and the punishment is **imprisonment**, with or without fine. Proceedings may be instituted only with the **sanction** of the specified authority, and an offence may be **compounded**, either before or after institution, by the authority named in section 491.

A change made by the Finance Act, 2026. In every case the imprisonment is now **simple**, and except in two cases there is **no minimum** term.

Section	Offence	Punishment
473	Contravention of an order made during a search restraining removal or dealing with an asset	Up to **two years**, and fine
474	Failure to afford the authorised officer the facility to **inspect books of account** maintained in electronic form	Up to **two years**, and fine
476	Failure to **pay over to the Central Government the tax deducted** at source	**Three months to seven years**, and fine
477	Failure to pay over the tax **collected** at source	**Three months to seven years**, and fine
478	**Wilful attempt to evade** tax, penalty or interest	Up to **seven years**, and fine
479	Wilful failure to **furnish the return of income** in due time	Up to **seven years**, and fine
482	A **false statement in a verification**, or delivery of a false account or statement	Up to **seven years**, and fine
483	**Falsification of books of account** or documents to enable another to evade tax	Up to **seven years**, and fine

A **second or subsequent offence** is separately punishable under section 485. Where the offence is by a company, the person in charge of and responsible to the company for the conduct of its business is deemed guilty, unless he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent it.

Q. 5 OR (b) — Powers on a survey [section 253]

An income-tax authority may enter **any place** at which a business or profession is carried on, whether or not it is the principal place, and any place where books of account, documents, cash, stock or other valuable article or thing relating to the business are kept. **Entry is limited by time**: a place of business may be entered only during the **hours at which it is open** for the conduct of business, and any other place only **after sunrise and before sunset**.

The powers.

- **Inspect** the books of account and other documents available at the place, and place marks of identification on them and take extracts or copies.
- **Impound and retain** books of account or documents, after recording reasons — but not for more than **fifteen days** (exclusive of holidays) without the approval of the Principal Chief Commissioner, Chief Commissioner, Principal Director General, Director General, Principal Commissioner, Commissioner, Principal Director or Director.
- Make an **inventory** of the cash, stock or other valuable article or thing checked or verified.
- **Record the statement** of any person which may be useful for, or relevant to, any proceeding under the Act.
- Require the person in charge to **afford the necessary facility** to inspect the books, to check or verify the cash and stock, and to furnish such information as may be required.

Three things such an authority may not do.

#	What may not be done
1	It may **not seize** anything. A survey confers no power of seizure — only impounding of books and documents, and that for a limited time

#	What may not be done
2	It may **not remove cash, stock or any other valuable article or thing**; of these it may make only a note or an inventory
3	It may **not break open** any lock, and may not search any person

The survey of expenditure. An authority may also enter a place where a function, ceremony or event is held, for the purpose of ascertaining the expenditure incurred; but only **after the event**, and it may require information from the assessee or any other person likely to possess it.