



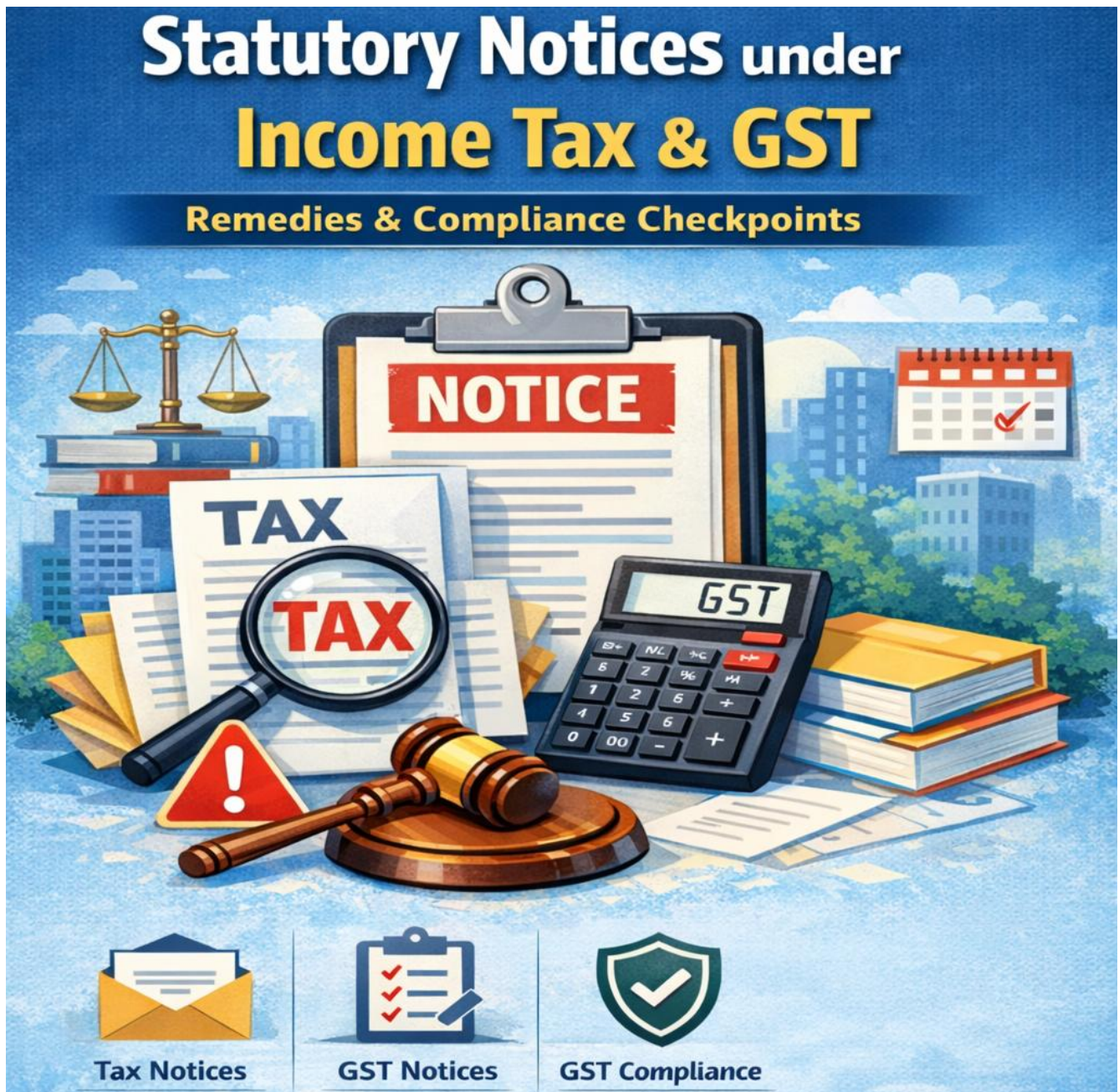
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Statutory Notices under Income Tax, GST - Remedies and Checkpoints

Knowledge Series

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❖ Introduction

Income tax notices, GST notices, PF, and ESI notices are common compliance triggers for businesses and individuals in India. They arise from mismatches, errors, or audits under respective statutes like Income Tax Act, CGST Act, EPF Act, and ESI Act. This knowledge series outlines key notices, remedies, and checkpoints to ensure timely response and minimize penalties.

Proper handling prevents escalation to demands, prosecutions, or attachments. Early action via portals saves costs.

❖ What is Notice?

A statutory notice is a formal written communication issued in accordance with a specific law (statute), informing a person or organization about a legal requirement, obligation, violation, or intended legal action.

❖ Essential Contents of a Notice

A valid statutory notice generally contains:

1. Names and addresses of the parties concerned
2. Reference to the relevant statutory provision
3. Statement of material facts
4. Clear demand, claim, or relief sought
5. Time limit for compliance
6. Consequences of failure to comply
7. Signature of the authorized person or legal representative

❖ Common Triggers for Issuance of Notices

Notices are typically triggered due to:

1. Mismatch between returns and financial statements.
2. Discrepancies between different statutory filings.
3. Delay or non-filing of returns.
4. Short payment of tax or contribution.
5. Incorrect claims, exemptions, or deductions.
6. Payroll inconsistencies.

7. High-value or suspicious transactions
8. Inspection findings.
9. Underreporting / Suppression of Income.
10. Risk-Based / Targeted Selection by Departments.

Increasing digitization and inter-departmental data sharing have significantly increased automated detection of discrepancies.

❖ Classification of Notices

Statutory notices may broadly be classified based on their purpose and stage of proceedings.

1. **Information / Clarification Notices:** Issued to seek additional details, explanations, or supporting documents.
2. **Discrepancy / Defect Notices:** Issued when mismatches or inconsistencies are identified in returns, statements, or records.
3. **Show Cause Notices (SCN):** Issued when the authority proposes to levy tax, contribution, interest, or penalty and provides an opportunity to explain.
4. **Demand Orders:** Issued after adjudication confirming liability payable.
5. **Recovery Notices:** Issued when confirmed dues remain unpaid and recovery proceedings are initiated.

Understanding the category of notice helps determine the urgency and response strategy.



❖ INCOME TAX

Receiving an income tax notice does not always mean wrong doing. However, delayed or incorrect response can lead to penalties, reassessment, or unnecessary litigation.

Here is a structured guide to understand what matters.

➤ **When Can the Income Tax Department issue notices and how to respond to such notices.**

1. A. Processing Intimation – Sec 143(1)

- Under Section 143(1) of the Income-tax Act, 1961, a Processing Intimation is issued after the Income Tax Department processes the return of income filed by the assessee.
- This processing involves preliminary checks such as arithmetical corrections, incorrect claims apparent from the return, and verification of tax payments.
- The intimation is required to be issued within 9 months from the end of the financial year in which the return is filed.
- Upon processing, the outcome may result in a refund (if excess tax has been paid), a demand notice (if tax is payable), or no adjustment where the return is accepted as filed.

B. How should you respond?

- Review the intimation and compare the adjustments made by the Income Tax Department with the details reported in the return of income.
- If the intimation results in a tax demand and the computation is correct, the taxpayer should pay the demand within the prescribed time to avoid interest or further proceedings.
- Where the demand arises due to an apparent error such as mismatch in tax credit, incorrect adjustment, or calculation mistake, a rectification request under

Section 154 may be filed on the Income Tax e-filing portal.

- If the discrepancy arises due to incorrect reporting of income, deductions, or other particulars in the return filed, the taxpayer may file a revised return under Section 139(5) within the prescribed time limit.
- In case the taxpayer disagrees with the adjustment made in the intimation and the issue cannot be resolved through rectification, an appeal may be filed before the Commissioner of Income Tax (Appeals).

2. A. Scrutiny Notice – Sec 143(2)

- Under Section 143(2) of the Income-tax Act, 1961, a Scrutiny Notice is issued when the Income Tax Department selects a return for detailed examination to verify the correctness of income declared, deductions claimed, exemptions availed, and taxes paid by the assessee.
- The purpose of this notice is to ensure that the taxpayer has not understated income or claimed excessive loss or relief.
- Such notice must be issued within 3 months from the end of the financial year in which the return is filed. If the notice is issued beyond the prescribed time limit, the scrutiny proceedings become invalid in law.

B. How should you respond?

- Review the notice and identify the issues or transactions for which the return has been selected for scrutiny.
- Compile and maintain relevant supporting documents such as books of accounts, financial statements, bank statements, invoices, and other records supporting the income and deductions reported.
- Submit the required explanations, information, and documents through the Income Tax e-filing portal within the time limit specified in the notice.

- Ensure proper reconciliation between the return filed, financial statements, Form 26AS, AIS, and other statutory records.
- Failure to comply with the notice may result in the department proceeding with Best Judgment Assessment under Section 144, which may lead to higher tax liability along with interest and penalties.



3. A. Inquiry Notice – Sec 142(1)

- Under Section 142(1) of the Income-tax Act, 1961, an Inquiry Notice is issued by the Assessing Officer to call for specific information, books of account, documents, statements, or explanations from the assessee for the purpose of making an assessment.
- This notice may also require the assessee to furnish a return of income if not already filed. It is generally issued during the assessment proceedings and before the completion of assessment to enable the officer to properly examine the correctness and completeness of the return and related financial details.

B. How should you respond?

- You are required to submit the requested details such as bank statements, books of accounts, proofs of deductions, financial records, and any other documents specified in the notice.
- The purpose of this inquiry is to verify the correctness, completeness, and accuracy of the return of income filed by you.
- Failure to comply with such notice may result in best judgment assessment under Section 144.

4. A. Reassessment Notice – Sec 148 / 280

- A Reassessment Notice under Section 148 of the Income-tax Act, 1961 is issued when the Assessing Officer has information which

suggests that any income chargeable to tax has escaped assessment for a particular assessment year.

- Such notice is generally issued within 3 years from the end of the relevant assessment year. However, in specified cases involving high-value assets or substantial income escaping assessment, the time limit may extend up to 5 years, subject to prescribed conditions.
- Under the amended provisions, reassessment proceedings now require a prior show-cause opportunity to be given to the assessee, ensuring that the taxpayer is heard before the notice under Section 148 is formally issued.

B. How should you respond?

- You are required to file a return of income in response to the notice within the time specified, even if the return was already filed earlier.
- You may request the Assessing Officer to provide the reasons recorded for reopening the assessment in order to understand the basis of the reassessment proceedings.
- After receiving the reasons, you may submit objections, explanations, and supporting documents to justify the income reported in the return.
- The reassessment proceedings are conducted to examine income that is believed to have escaped assessment in the original proceedings.

- Failure to comply with the notice may lead to reassessment of income along with additional tax liability, interest, and penalties under the provisions of the Income-tax Act.

➤ What If the Notice Is Invalid ?

1. Check Legal Validity

For any notice issued under the Income-tax Act, 1961 to be legally valid, certain mandatory requirements must be fulfilled.

- Firstly, it must be issued by the proper jurisdictional Assessing Officer who has lawful authority over the assessee.
- Secondly, the notice must be issued within the prescribed statutory time limit; if issued beyond the limitation period, it becomes invalid in law.
- Thirdly, the notice must be properly served in accordance with Section 282 of the Act, which governs the valid modes of service, including electronic communication.
- Lastly, the notice must contain a valid Document Identification Number (DIN), as required by CBDT guidelines, to ensure authenticity and transparency of departmental communication.



❖ GOODS AND SERVICES TAX (GST)

A GST notice is issued by the GST department to address matters such as return mismatches, non-filing of returns, excess input tax credit claims, or verification of business transactions.

It serves as an opportunity for the taxpayer to explain or correct the reported information.

➤ When Can GST Authorities Issue Notices?

1. A. Scrutiny of Returns - Sec 61

- Under Section 61 of the GST law, the department may scrutinize a registered person's returns when discrepancies are noticed between GSTR-1 and GSTR-3B, or when inconsistencies are identified through data analytics and system comparisons.
- The taxpayer is generally required to furnish a reply **within 30 days** from the date of service of the notice.
- If the explanation provided is found to be satisfactory, no further action is taken.
- However, if the reply is not submitted within the prescribed time or the explanation is considered unsatisfactory, the department may initiate further proceedings under **Section 74A** for determination of tax, interest, and penalty, as applicable.

B. How should you respond?

- When a scrutiny notice under Section 61 is received, immediately reconcile the turnover and tax liability declared in GSTR-1 with GSTR-3B to identify discrepancies.
- Carefully verify Input Tax Credit claimed in GSTR-3B with GSTR-2A/2B to detect any excess or ineligible credit.
- Submit a clear explanation supported by proper reconciliation statements and working papers.
- If any short payment is identified, pay the tax along with applicable interest. Early

correction at this stage helps prevent escalation into demand proceedings.

2. A. Audit by Department – Sec 65

- Under Section 65 of the GST Act, the tax authorities are empowered to conduct an audit of a registered person to verify the correctness of turnover declared, taxes paid, refunds claimed, and input tax credit availed.
- The audit is generally conducted at the registered place of business of the taxpayer or at the office of the department, as informed.
- The department is required to issue a prior notice at least **15 working days** before commencement of the audit.
- Based on the findings of the audit, if any discrepancies or short payments are identified, the proceedings may culminate in initiation of tax demand under the relevant provisions of the GST law.

B. How should you respond?

- Prepare updated books of accounts, reconciliations of turnover and tax, ITC workings, and proper classification details.
- Ensure that all records are organized and readily accessible. Respond formally and in writing to any audit observations raised by the department to demonstrate compliance and clarity.
- Respond in writing to audit observations

3. A. Inspection, Search & Seizure – Sec 67

- Under Section 67 of the CGST Act, the proper officer is empowered to initiate inspection, search, and seizure proceedings where there is a reasonable belief that a taxpayer has suppressed transactions, claimed excess input tax credit, contravened provisions of the Act, or is involved in tax evasion.
- The proceedings may include inspection of business premises, warehouses, or other places of business, books of accounts,

documents, or electronic records considered relevant for investigation.

- This stage is generally regarded as a **high-risk litigation phase**, as findings during inspection or seizure often lead to substantial tax demands, penalties, and possible prosecution if serious violations are established.

B. How should you respond?

- On initiation of proceedings under Section 67, verify the officer's authorization and retain copies of the search order, panchnama, and seizure memo.
- Maintain copies of seized documents and goods, and conduct an immediate internal review of stock, ITC, and transactions to assess exposure. If goods are seized, apply for provisional release as permitted.
- If the proceedings culminate in a show cause notice, submit a timely and well-supported reply.

⚠ Improper handling at this stage may lead to substantial tax demand, penalty, and further legal consequences.

4. A. Demand Notice – Section 74A (Redetermined Cases)

- Section 74A applies where proceedings under Section 73 or 74 are already initiated against a primary person, and similar liability is proposed to be determined against other related persons on the same set of facts.
- The department may issue a show cause notice to such person requiring explanation as to why tax, interest, and applicable penalty should not be recovered based on the findings of the main case.
- The notice must generally be issued within 42 months from the due date of filing the annual return for the relevant financial year and order is to be passed within 1 year from the date of the notice for fraud and non- fraud cases.

B. How should you respond?

- On receiving a notice under Section 74A, first understand how your case is linked to the main proceedings under Section 73 or 74. Review the allegations, tax calculation, and the basis of proposed liability.
- Verify the limitation period and check whether the department has properly established your involvement. Gather relevant documents such as invoices, agreements, and ITC records to support your position.
- File a clear, point-wise reply within the prescribed time and attend the personal hearing, if scheduled. A timely and well-supported response helps avoid confirmation of demand and penalty.



➤ GST Basic Forms - Understanding Key Notices & Responses

1. Form ASMT-10 - Notice for Scrutiny of Returns (Section 61)

- Form ASMT-10 is issued by the GST department when discrepancies are noticed in the returns filed by a taxpayer.
- It is generally triggered due to mismatches between GSTR-1 and GSTR-3B, excess Input Tax Credit claimed compared to GSTR-2B, turnover differences with annual returns, or short payment of tax.
- The taxpayer is generally required to respond within 30 days by filing Form ASMT-11 on the GST portal.

2. Form GST REG-03 - Notice Seeking Clarification for Registration

- Form GST REG-03 is issued when the GST officer seeks clarification or additional documents regarding a GST registration application, amendment request, cancellation, or revocation application.
- The applicant must respond within seven working days by filing Form GST REG-04 on the GST portal. If the officer is satisfied, the registration is approved and the certificate is issued in Form REG-06.
- If the reply is not satisfactory or no response is filed, the application may be rejected through Form REG-05.

3. Form GST REG-17 - Show Cause Notice for Cancellation

- Form REG-17 is issued when the department proposes cancellation of GST registration due to non-filing of returns, violation of GST provisions, or suspicious transactions.
- The taxpayer must respond within seven working days through Form REG-18 explaining why the registration should not be cancelled. Failure to respond may result in cancellation through Form REG-19.

4. Form DRC-01 - Show Cause Notice for Tax Demand

- Form DRC-01 is issued under Section 74A when the department alleges short payment of tax, wrongful availment of ITC, or fraud/suppression of facts.
- This notice includes detailed computation of tax, interest, and penalty. The taxpayer must file a reply through Form DRC-06 and may also request a personal hearing.

⚠️ Do consult your advisor before making any submissions

RRCO Advisors LLP

Management Consultants

Pune | Mumbai | Thane | Hyderabad |

Bangalore

501-504, Akshay Landmark,

Opp Pu La Deshpande Garden,

Sinhagad Road, Pune-411030

Phone: +91-20-24254388

Email: info@rrco.co.in

RRCO Advisors LLP

Thank you, **Sheetal Choudhary, Bhavesh Makhani** and **Abhishek Rathi** for the compilation of this series

RRCO Corner

We held the live streaming of Union Budget 2026 at our office to hear it together as a team. All the attendees patiently listened and noted down various tax amendments and other proposals.

Immediately post the Budget speech, our Managing Partner Parag Rathi Sir had an insightful discussion with all.



Compliance Calander for the month of March 26

S.N.	Due Date	Compliance
1	07-03-2026	Payment of TDS/TCS (Monthly)
2	07-03-2026	ECB-2 Return
3	11-03-2026	GSTR-1 (Monthly)
4	13-03-2026	B2B Invoice Reporting through IFF (QRMP Scheme)
5	13-03-2026	GSTR-6 (ISD Return)
6	15-03-2026	Payment of ESIC and Return
7	15-03-2026	Payment of PF and Return
8	15-03-2026	Payment of Advance Tax
9	20-03-2026	Monthly GSTR-3B
10	20-03-2026	GSTR-5A Return by OIDAR service providers
11	22-03-2026	GSTR-3B (Quarterly - QRMP - Maharashtra, Karnataka and other states/UT specified)
12	24-03-2026	GSTR-3B (Quarterly - QRMP - Punjab, Delhi, and other states/UT specified)
13	25-03-2026	GSTR-3B (Payment under QRMP)
14	31-03-2026	Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments), 26QE (Crypto Assets) challan-cum-statements for Dec 2025
15	31-03-2026	Opt for Composition scheme for FY 2026-27. Existing ones are not required to apply again.
16	31-03-2026	Payment of advance tax by those who have opted for presumptive income.
17	31-03-2026	Pay Outstanding dues of Micro & Small Enterprises of FY 25-26 to avoid disallowance u/s 43B. No Relief of payment till due date of ITR.
18	31-03-2026	Online Application for Letter of Undertaking (LUT) for Exports & Supplies to SEZ without payment of tax in FY 2026-27.