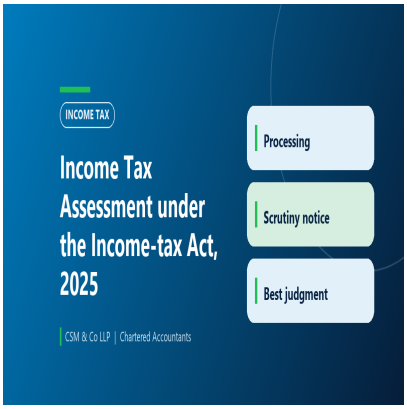

Income Tax Assessment under the Income-tax Act, 2025: Processing, Scrutiny Notice, Best Judgment and Time Limits (Tax Year 2026-27)

Description

Last updated: 01 August 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

Quick summary

- Every return is first processed under section 270(1) (old section 143(1)): arithmetical errors, apparent incorrect claims and similar adjustments are made only after a communication and thirty days to reply, and the intimation must be sent within nine months from the end of the financial year in which the return is made.
- Scrutiny starts with a notice under section 270(8) (old 143(2)), which cannot be served after three months from the end of the financial year in which the return is furnished; the order under section 270(10) follows after hearing the assessee.
- A notice under section 268(1) (old 142(1)) asks for a return, accounts, documents or information; failure to comply with it or with a section 270(8) notice, or not filing a return, leads to best judgment assessment under section 271 after a show-cause notice.
- Assessments in notified cases are faceless under section 273, and the order must be made within one year from the end of the financial year succeeding the tax year (section 286).

“Assessment” is how the department decides the income and tax of a taxpayer after the return is filed. The Income-tax Act, 2025 (from 01/04/2026) keeps the same stages as the 1961 Act, in **sections 268 to 273 and 286**.

Old and new sections

Old section	New section	Stage
142(1)	268(1)	Notice for a return, accounts, documents, information
142(2A)	268(5)	Direction for special audit

Old section	New section	Stage
142A	269	Reference to the Valuation Officer
143(1)	270(1)	Processing of the return and intimation
143(2)	270(8)	Notice for scrutiny
143(3)	270(10)	Scrutiny assessment order
144	271	Best judgment assessment
144B	273	Faceless assessment
153	286	Time limit for assessment

Stage 1: Processing of the return (section 270(1))

When a return is made under section 263 or in response to a notice under section 268(1), it is processed:

1. **Adjustments** are made to the total income for: an arithmetical error; an incorrect claim apparent from the return; an inconsistency with the return of an earlier year as prescribed; disallowance of a loss claimed where the return for the year of the loss was filed late; disallowance of expenditure or increase in income shown in the audit report but not taken into account in the return; and disallowance of a Chapter VIII-C deduction where the return is late.
2. An **incorrect claim apparent from the return** means a claim that is inconsistent with another entry, a claim for which the supporting information required by the Act has not been furnished, or a deduction above a statutory limit (section 270(5)(a)).
3. **Communication first.** Before any adjustment, the assessee must be sent a communication, in writing or electronically, the response must be considered, and if no response comes within **thirty days** the adjustment is made and the intimation sent (section 270(2)).
4. Tax, interest and fee are computed on the adjusted income, and credit is given for TDS, TCS, advance tax, reliefs, self-assessment tax and other payments. The **intimation** states the sum payable or the refund due, and the refund is granted (section 270(1)(b) to (e)).
5. **Time limit:** no intimation after **nine months from the end of the financial year** in which the return is made (section 270(4)). The acknowledgement of the return is treated as the intimation where nothing is payable or refundable and no adjustment is made (section 270(5)(b)).

Stage 2: Notice for information (section 268)

The Assessing Officer can serve a notice on a person who has filed a return, or for whom the time to file has expired, requiring a return (if none was filed in time), accounts and documents, and written information including a statement of assets and liabilities (section 268(1)). Limits and safeguards:

- The previous approval of the Joint Commissioner is needed before asking for a statement of assets and liabilities not in the accounts, and accounts of a period more than **three years** before the relevant tax year cannot be required (section 268(2)).
- The Assessing Officer can make any inquiry he considers necessary (section 268(4)).

- **Special audit** or valuation of inventory can be directed, after hearing the assessee and with the previous approval of the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner, because of the complexity or volume of accounts, doubts about their correctness, multiple transactions or specialised business. The accountant is nominated by that authority and the cost is paid by the Central Government. The report must be furnished within the period set, which with extensions cannot exceed **six months** from the end of the month of the direction (section 268(5) to (11)).
- The assessee must be given an opportunity to be heard on material gathered from an inquiry or special audit that is proposed to be used (section 268(12)).

Stage 3: Scrutiny (section 270(8) to (10))

If the Assessing Officer considers it necessary to ensure that the assessee has not understated income, computed an excessive loss or under-paid tax, a notice is served requiring the assessee to attend or produce evidence (section 270(8)).

- **Time limit:** the notice cannot be served after **three months from the end of the financial year** in which the return is furnished (section 270(9)).
- **Order:** on the day specified, or soon after, after hearing the evidence and taking relevant material into account, the Assessing Officer makes an assessment of the total income or loss by an order in writing and determines the sum payable or refundable (section 270(10)).
- Tax and interest paid on the intimation are treated as paid towards the regular assessment (section 270(15)).
- For registered non-profit organisations, specified violations lead to a reference to the Principal Commissioner or Commissioner before assessment (section 270(13)).

Best judgment assessment (section 271)

If a person (a) fails to file the return required under section 263, (b) fails to comply with all the terms of a notice under section 268(1) or a direction under section 268(5), or (c) having filed a return, fails to comply with a notice under section 270(8), the Assessing Officer, after considering the material gathered and giving an opportunity of being heard, makes the assessment to the best of his judgment and determines the sum payable. A **show-cause notice** must first be served, but it is not needed where a section 268(1) notice has already been issued (section 271(2) and (3)).

Faceless assessment (section 273)

Assessment, reassessment or recomputation under sections 270(10), 271 or 279 in the cases specified by the Board is made **in a faceless manner**. The National Faceless Assessment Centre assigns the case to an assessment unit, serves the notices under section 268(1) or 270(8) and forwards the assessee's replies. Assessment units, verification units, technical units and other units set up by the Board perform the specific functions (section 273(3)).

Time limit for completing the assessment (section 286)

Order	Time limit	Calculated from
Assessment order under section 270(10) or 271	One year	End of the financial year succeeding the relevant tax year

Order	Time limit	Calculated from
Where an updated return is furnished under section 263(6)	One year	End of the financial year in which the updated return was furnished
Assessment, reassessment or recomputation under section 279	One year	End of the financial year in which the notice under section 280 was served
Fresh assessment after an order setting aside an assessment	One year	End of the financial year in which the order is received or passed
Order giving effect to an appellate or revision order (no fresh assessment)	Six months, extendable to nine months	End of the month in which the order is received or passed

If a reference is made to the **Transfer Pricing Officer** under section 166(1), the time for the first five cases above is extended by **twelve months** (section 286(2)). Periods of stay by a court, reopening at the assessee's request and similar periods are excluded (section 286(3)).

Example. For tax year 2026-27 (income of 01/04/2026 to 31/03/2027), the financial year succeeding is 2027-28, which ends on 31/03/2028. The assessment order must be made by **31/03/2029**. A scrutiny notice for a return filed on 31/07/2027 must be served by **30/06/2028**, which is three months from the end of financial year 2027-28.

What to do on receiving a notice

1. Check the section under which the notice is issued and the date, and the time limit that applies to it.
2. Reply on the portal by the due date; ask for time in writing if you need it.
3. Keep the working papers for the period covered; accounts older than three years before the tax year cannot be demanded under section 268.
4. Do not ignore a notice: non-compliance with sections 268 and 270(8) can lead to best judgment assessment and penalties.

How CSM & Co LLP can help

We represent clients in scrutiny, reply to notices on the portal and appear before the Assessing Officer and appellate authorities. Please reach out to our team and we will be happy to assist.

Frequently asked questions

Which section of the 2025 Act replaces 143(1), 143(2), 142(1) and 144?

Section 270(1) (processing and intimation, old 143(1)), section 270(8) to (10) (scrutiny notice and order, old 143(2) and 143(3)), section 268 (inquiry before assessment and notice, old 142), and section 271 (best judgment assessment, old 144). Faceless assessment, old 144B, is section 273.

What adjustments can be made in processing a return?

Arithmetical errors; an incorrect claim apparent from the return (inconsistent entries, missing information needed to substantiate the claim, or a deduction above a statutory limit); inconsistency with the return of a preceding year as prescribed; disallowance of a loss where the earlier year's return was late; disallowance of expenditure or increase in income shown in the audit report but not taken into account; and disallowance of a Chapter VIII-C deduction where the return is late (section 270(1)(a) and (5)). A communication must be sent first, and if there is no reply within thirty days the adjustment is made (section 270(2)).

How long does the department have to send the intimation?

Nine months from the end of the financial year in which the return is made (section 270(4)).

When can a scrutiny notice be served?

Not after three months from the end of the financial year in which the return is furnished (section 270(9)). On the date in the notice the assessee attends or produces evidence, and the Assessing Officer then makes an assessment by a written order (section 270(10)).

What happens if I do not respond to a notice or do not file a return?

The Assessing Officer, after considering the material gathered and after a show-cause notice (unless a section 268(1) notice has already been issued), makes the assessment to the best of judgment (section 271).

What is the time limit for completing the assessment?

One year from the end of the financial year succeeding the relevant tax year (for tax year 2026-27, the financial year succeeding is 2027-28, so by 31/03/2029). The period is longer where a reference is made to the Transfer Pricing Officer (an extra twelve months) and in other listed cases, and certain periods are excluded (section 286).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 268 to 273, 286)

Related reading

- Advance Tax under the Income-tax Act, 2025: Who Pays, Due Dates, Calculation and Self-Assessment Tax (Tax Year 2026-27)
- Section 80C of Income Tax Act: 80C Deduction List, Limit and Examples
- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27

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Author
meetsoni