

## **Summarized Study Material Class Date – 06.10.2024**

### **Topic- Enquiry before Assessment (Section 142)**

This section empowers the Assessing officer or prescribed income tax authority (As per rule 12F prescribed income tax authority means not below the rank of Income tax officer who has been authorized by the Central Board of Direct Taxes to act as such authority for the purposes of that clause) for the purpose of making an assessment under the Income tax Act, 1961

- I. to serve a notice to any person who has furnished his income tax return under section 115WD or section 139 or section 141(1);
- II. to serve a notice to any person who has not furnished his return within the time allowed under section 139(1) or before the end of the relevant assessment year under section 141(1) (i). The assessee to whom a notice has been served under this clause is required to furnish income tax return within the time as mentioned in the notice.
- III. to serve notice to produce such accounts or documents or information on such points or matters as required by the AO as he thinks fit for the assessment with the approval of Joint Commissioner under the clause (ii) & (iii) of section 141(1).
- IV. Section 142(2) empowers the AO to get full information of income or loss and make such enquiry as he deems necessary to complete the assessment and to serve a notice to the assessee.
- V. Section 142(2A) empowers the AO in case of complex and voluminous accounts or doubt in the correctness of accounts or multiplicity of transactions, to issue an order to the assessee with the prior approval of PCCIT or CCIT or PCIT or CIT to get either or both the audit done of accounts from a practicing Chartered Accountant or get Inventory valuation done from a practicing Cost Accountant as nominated by the PCCIT or CCIT or PCIT or CIT.

### **Inventory Valuation under section 142(2A)**

Section 142 is a statutory provision which empowers the AO to make an enquiry, serve a notice to the assessee whether he has filed income tax return as per the provision under section 139 or 115WD of the IT Act, 1961 or not and in case where the assessee has not filed his income tax return allow him to file income tax return under section 142(1)(i) within the time period as mentioned in the notice.

AO may direct the assessee to submit such information or full information in such format, accounts showing asset and liabilities, documents as he thinks it is necessary so as to complete the assessment under the section 143(3), 144, 147, 153A, 158BC as the case may be within the time as prescribed under section 153.

If the AO at any stage of the proceedings before him, feels it is necessary to do so and in the interest of the revenue due to following :-

- ✓ Nature and complexity of accounts of the assessee; or
- ✓ Volume of the accounts; or
- ✓ Doubts about the correctness of the accounts; or
- ✓ Multiplicity of transaction in accounts; or
- ✓ Specialized nature of business activity of the assessee.

The AO with the prior approval of the Principal Chief Commissioner of Income Tax or Chief Commissioner of Income tax or Principal Commissioner of Income Tax or Commissioner of Income Tax may take assistance of a professional.

In Finance Act, 2023 an amendment has been made in section 142(2A) which empowers the AO to take help of a practicing Cost Accountant during the scrutiny of return and assessment procedure under Income tax Act and

directs the assessee to get valuation of inventory done by a practicing Cost Accountant as nominated by the PCCIT or CCIT or PCIT or CIT.

- To get the valuation of Inventory PCCIT or CCIT or PCIT or CIT shall maintain a panel out of the persons referred to in the explanation to section 142 i.e. Cost Accountant means he is the member of the Institute of Cost Accountants of India and have valid certificate of practice issued by the ICMAI;

[Explanation.--For the purposes of this section, "cost accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of the said Act.] Quote: Section 2(1) of the Cost and Works Accountants Act, 1959 (23 of 1959). : - In this Act, unless the context otherwise requires, — (b) "cost accountant" means a person who is a member of the Institute; and Certificate of practice. 6. (1) No member of the Institute shall be entitled to practice, whether in India or elsewhere, unless he has obtained from the Council a certificate of practice.]

- The AO shall give an opportunity to the assessee before giving direction to him for inventory valuation to submit his grounds as to why valuation of inventory is not required;
- AO may direct the assessee to get inventory valuation done although his accounts have been audited under section 44AB or other provisions of IT Act, 1961 or under any other law for the time being in force like Financial Audit under section 139 and Cost audit under section 148 under Companies Act, 2013 or, Audit under Society or Trust Act etc.;`
- Cost Accountant has to submit his report in Form 6D within the period of time as specified in the AO's notice or as extended, under his seal, signature and UDIN;
- The AO may extend the period to submit report under section 142(2A) either sou moto or on the basis of an application submitted by the assessee or for any justifiable reason as he thinks fit;

- The total period to submit the report shall not exceed more than 180 days from the date on which the direction under section 142(2A) for inventory valuation is received by the assessee;
- In case where the AO directs the assessee under section 142(2A) on or after 1st April, 2023 for getting inventory valuation done by a cost accountant, the PCCIT or CCIT or PCIT or CIT shall determine the expenses and incidental expenses for inventory valuation including the remuneration of the cost accountant, qualified assistant, semi-qualified assistant and other assistant who may be engaged by the cost accountant.
- The amount shall be in between Rs. 3750/- to Rs. 7500/- per hour of the period as specified by the AO under section 142(2C);
- The cost accountant is required to maintain time sheet and is required to submit it to the CCIT or CIT along with bill;
- The AO shall give an opportunity to the assessee to submit his comments on the report of inventory valuation as submitted by the Cost Accountant before utilizing for the assessment.