



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थं सत्यनिष्ठा
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Report of the Comptroller and Auditor General of India

Performance Audit Report on Exemptions and Deductions to Banks and Non-Banking Financial Companies

Union Government
Department of Revenue – Direct Taxes
Report No. 40 of 2025
(Performance Audit - Civil)

**Report of the
Comptroller and Auditor General of India**

for the year ended March 2024

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Laid on the table of Lok Sabha and Rajya Sabha on

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Preface

This Report for the year ended March 2024 has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report presents the significant results of the performance audit of exemptions and deductions claimed by Banks and Non-Banking Financial Companies (NBFCs) in assessments completed by the Income Tax Department, Department of Revenue, of the Union Government, for the financial years 2017-18 to 2021-22.

The instances mentioned in this Report are those that came to notice during the audit conducted from January 2022 to March 2022, and the responses received from the Department regarding the audit observations. Few cases relating to audit samples were also examined during November 2020 to January 2021, when the audit was deferred due to the COVID-19 pandemic. A supplementary audit of cases furnished subsequent to completion of field Audit was conducted in June 2023. A few issues noted during the regular compliance audit, in respect of the samples selected for this Performance Audit, are also included in the Report.

Audit made regular efforts both at the field level and centrally to follow up on the Ministry's response to audit findings and recommendations included in the Report. For expeditious receipt of response to the audit findings included in the Report from the CBDT, the matter was also escalated to the Secretary (Revenue), Ministry of Finance (October 2024, May 2025, October 2025 and November 2025) besides issue of reminders to the CBDT intimating status of receipt of replies from ITD at regional jurisdictional level (October 2024, November 2024, January 2025, March 2025, October 2025 and November 2025), to ensure inclusion of response of the Ministry/ ITD to the audit findings and recommendations included in the Report.

The audit was conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Executive Summary

The economic development of a country significantly relies on the financial stability and health of institutions like banks and non-banking financial companies (NBFCs). In India, the Reserve Bank of India (RBI) oversees the financial sector and periodically issues guidelines for the classification, provisioning, recognition of financial assets, and reporting of financial results. The RBI also establishes regulatory frameworks that help banks and NBFCs effectively manage stressed assets in their portfolios.

A Performance Audit (PA) on assessment of banks—including public sector, private, and foreign banks—was conducted (CAG PA Report No. 7 of 2008) for the Assessment Years (AYs) from 2002-03 to 2005-06. The report highlighted various systemic and compliance issues related to assessments conducted by Assessing Officers (AOs) and made recommendations to enhance internal controls and the quality of these assessments. In response, the CBDT issued instructions on November 26, 2008.

The Performance Audit covered the assessments completed during the financial years 2017-18 to 2020-21 of Scheduled Commercial Banks and NBFCs. A sample comprising 2,463 cases was selected for audit examination from a database containing 86,018 cases provided by DGIT (Systems), based on various parameters. Of the 2,378 cases examined during the audit, 116 cases were examined in a supplementary audit in June 2023. This audit report not only reviewed the follow-up actions taken by the Department based on earlier audit recommendations but also examined compliance with RBI norms on asset classification, income recognition, and provisioning. These guidelines directly impact the calculation of taxable income and tax liabilities. The Income Tax Act, 1961 offers various reliefs to banks and NBFCs in alignment with the RBI's requirement for adequate provisions for Non-Performing Assets (NPA). Additionally, the Performance Audit aimed to evaluate compliance with the provisions of the Income Tax Act, 1961, while adhering to RBI guidelines.

The report includes a total of 1,847 audit observations, comprising 671 systemic issues, 118 related-party observations, 525 internal control issues, and 533 compliance issues, with a probable tax implication of ₹ 74,766.39 crore.

Out of probable tax effect of ₹ 74,766.39 crore pertaining to 533 audit observations on compliance issues included in the Report, Ministry has furnished replies in 25 audit observations involving tax effect of ₹ 1,061.58 crore. Of these 25 audit observations, the Ministry has accepted

21 audit observations involving a tax effect of ₹ 799.38 crore and has partly accepted two audit observations involving a tax effect of ₹ 24.50 crore. Out of 25 audit observations, remedial action has been completed in 17 audit observations involving tax effect of ₹ 599.04 crore and remedial action has been initiated in six audit observations involving tax effect of ₹ 224.84 crore. The Ministry did not accept two audit observations involving the tax effect of ₹ 237.70 crore. At field formations level, the Income Tax Department (ITD) had furnished replies in 212 audit observations involving tax effect of ₹ 47,557.33 crore. Of these 212 audit observations, ITD has accepted 88 audit observations involving tax effect of ₹ 28,639.13 crore, completed remedial action in 79 audit observations involving tax effect of ₹ 5,056.59 crore and initiated remedial action in 64 audit observations involving tax effect of ₹ 15,324.15 crore. ITD did not accept 41 audit observations involving the tax effect of ₹ 6,900.25 crore.

Banks write off loans to meet a technical accounting requirement of the RBI that the loss of assets should not be carried in the books. These amounts have generally been provided in previous periods. Writing off cleans up the balance sheet, but the borrower is still obligated to repay the loan, and banks continue to pursue recovery. Writing off bad debts or loss of assets enables banks and NBFCs to claim tax benefits by way of deduction of bad debts under Section 36(1)(vii) of the Act. Banks and NBFCs also claim deductions under Section 36(1)(viia) for provisions for bad and doubtful debts, which are to be adjusted against write-offs of bad debts in subsequent assessment years. Further, banks and financial institutions providing long-term finance take benefit of deductions towards the creation of special reserves under Section 36(1)(viii) of the Act as well.

The audit identified persistent shortcomings, including incorrect deductions for bad-debt allowances, provisions for bad and doubtful debts, and deductions for special reserves, as well as other deductions and exemptions. Some of these issues had already been flagged in the previous performance audit report, and the CBDT issued instructions on 26 November 2008 in response to CAG's Performance Audit Report No. 7 of 2008.

Banks and NBFCs submit their Income Tax returns using Form ITR-6, as prescribed by the IT Department, along with Tax Audit Reports in Form 3CD. However, these forms lack specific columns for claiming deductions under Sections 36(1)(vii), 36(1)(viia), and 36(1)(viii), which makes it challenging for Assessing Officers to accurately calculate the allowable deductions. Consequently, the Audit identified excessive deductions related to bad debts, provisions for bad and doubtful debts, and the creation of special reserves,

resulting in probable tax implications of ₹ 33,459.08 crore, ₹ 2,971.26 crore, and ₹ 531.18 crore, respectively.

The audit noted that, under Rule 6EA of the Income Tax Rules, 1961, a loan is considered an NPA if it remains outstanding for more than six months, whereas under RBI guidelines, this period is only three months. The ambiguity has resulted in a plethora of tax disputes, in which the Department seeks to tax accrued interest on NPA if the outstanding amount is for a period of three to six months.

Section 43D of the Income Tax Act, 1961 provides that in the case of a public financial institution or a scheduled bank, the income by way of interest on NPA shall be chargeable to tax in the previous year in which it is credited to profit and loss account for that year or when it is actually received by that institution or bank, whichever is earlier. Under the Finance Act No. 23 of 2019, Section 43D was made applicable to two categories of non-banking financial companies (NBFCs) with effect from 1st April 2020, i.e., AY 2020-21. Consequently, the income from interest on non-performing assets (NPAs) for NBFCs was required to be taxed for the period up to the assessment year (AY) 2019-20. Furthermore, the Income Tax Department has not amended the provisions of Rule 6EA to comply with Section 43D. The audit observed 36 cases of NBFCs where interest on NPA has not been taxed on an accrual basis.

Section 139A of the Act mandates that individuals quote their PAN for specific transactions prescribed by the Board to enhance revenue. Rule 114B of the Income Tax Rules identifies sixteen types of transactions that require a PAN, including opening a bank account. Typically, banks require a PAN for the purpose of loan approval. The audit found 127 cases in which banks and NBFCs allowed write-offs of bad debts totalling ₹ 40,178.47 crore without the borrower's PAN. Additionally, there were 58 cases in which bad debts of ₹ 1,69,782.47 crore were allowed as a deduction without any borrower information, though not debited to the Profit and Loss account.

A 360-degree analysis of assessments of 17 banks and NBFCs for the assessment years (AYs) 2014-15 to 2019-20 was conducted in this review. It revealed several instances of systemic deficiencies, inadequate internal control, and non-compliance with the prescribed rules and regulations.

Internal Audit plays a crucial role in the internal control system, significantly aiding compliance with established rules, regulations, and guidelines while also ensuring that objectives set by the CBDT are met. In the review of 2,378 sampled cases, information on Internal Audit was available for only

1,110 cases. Of these, the Department conducted internal audits in only 290 cases, while in 253 cases, no internal audit was conducted. For the remaining 567 cases, the Department did not confirm whether an internal audit was conducted. The audit revealed deficiencies in 123 instances, amounting to ₹ 3,773.39 crore, across 290 cases in which the Department conducted internal audits.

As per sub-section 4 of Section 41 of the Income Tax Act, 1961, recovery made against bad debts written off in earlier years is required to be offered to tax in the year of recovery. As per the RBI Circular, all Scheduled Commercial Banks (SCBs) are required to furnish an Annual Report to the RBI, giving details of the total amount recovered against advances written off in a financial year. Similarly, the National Housing Bank (NHB) is the regulatory authority of the Housing Finance Companies (HFCs). Paragraph 44 of the NHB direction stipulates that HFCs should furnish various reports in the prescribed schedules to the NHB. Furthermore, as per Clause 25 of Form 3CD, the tax auditor is required to provide details of income offered to tax under Section 41(4) in the tax audit report furnished under Section 44AB. Upon comparing the data provided by the RBI with the data furnished by tax auditors in Form 3CD, the audit identified 52 instances of banks in which the assessee had offered only ₹ 2,098.35 crore in tax, compared with the actual recovery of ₹ 14,303.00 crore reported to the RBI. Furthermore, upon comparing the data provided by the NHB with that furnished by tax auditors under clause 25 of Form 3CD, the audit observed 15 instances where an amount of ₹ 137.89 crore reported as recovered to the NHB was not included in the Tax Audit Report.

The impact of the Audit is evident in the recovery actions taken by the Department, which reflect its acceptance of the audit findings. Notably, ₹ 3,141 crore was recovered from S8, ₹ 248 crore from D1, ₹ 42.36 crore from C3, ₹ 36.51 crore from T6 and ₹ 35.57 crore from T3 as a result of these observations.

The audit noted that the Department lacked an institutional mechanism to verify the genuineness of assessee's claims for rural advances reported in their Income Tax Returns. The audit observed irregularities in 21 cases in which deductions for provisions for bad and doubtful debts were allowed without verification of eligibility, due to inconsistencies in allowing deductions for rural advances based on census data for the same assessee across different assessment years (AYs). Additionally, deductions under Section 36(1)(viiia) were allowed without limiting them to the amount of provisions made in the books, and advances provided by non-eligible rural branches were irregularly allowed as deductions under Section 36(1)(viiia). The audit noted instances of short

offering of incomes by related parties involved in transactions with the main assessee, as evident from the main assessee's records, which were not communicated to the Jurisdictional Assessing Officers (JAOs). Information regarding the write-off of bad debts and loans in borrowers' financial statements was also not communicated to the JAOs of the related parties. The assessee did not disclose, nor did the Tax Auditors certify, vital information on recovery against bad debts, the deduction for bad debts, and provisions for bad and doubtful debts in the prescribed columns of the ITR and TAR, respectively. The non-disclosure by the assessee and the non-certification by the Tax Auditors of such significant details pose the risk of incorrect deductions being allowed and income escaping assessment.

CBDT needs to monitor claims of deduction towards bad debts and provision for bad and doubtful debts through ITD systems by capturing assessment year-wise information of provisions for bad and doubtful debts allowed to the assessee under the provision of Section 36(1)(vii) in the ITR-6/TAR in Form 3CD to ensure the correctness of the claim of deduction towards bad debts written off in the subsequent years. The CBDT also needs to formulate a Standard Operating Procedure (SOP) for Assessing Officers to use during the assessment of banks, to ensure consistency in allowing exemptions and deductions for Banks/NBFCs across all assessment charges and to improve the quality of assessments.

The Honorable Finance Minister in the budget speech in July 2024 stated that the purpose of the comprehensive review of the Income Tax Act, 1961, was to make the Act *"concise, lucid, easy to read and understand"* and to eliminate redundant provisions while simplifying the existing ones. As the Income Tax Act, 2025 was passed by the Parliament in August 2025 during the finalisation of this audit report, the Audit has tried to examine the Income Tax Act, 1961 vis-à-vis the provisions of the Income Tax Act, 2025. The implications of the Income Tax Act, 2025, will be examined during the subsequent compliance audit and the follow-up Performance Audit on this subject.

Summary of Recommendations

Based on the audit findings, we recommend that:

Recommendation No. 1:

CBDT may consider amending the provisions of Rule 6EA to include two categories of NBFCs: deposit-taking non-banking financial companies and systemically important non-deposit-taking non-banking financial companies, in accordance with the provisions of Section 43D of the Act and in line with the categorisation of NBFCs as per RBI, for clarity and to obviate the possibility of litigation.

(Para 4.1.1.2)

Recommendation No. 2:

CBDT may consider amending ITR-6 for the inclusion of additional columns for furnishing information related to the deductions claimed under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii) separately while computing profit and gains of business or profession. For capturing deduction under Section 36(1)(viia), two sub-columns – one column for deduction towards 10 *per cent* of rural advances and the second for deduction of 8.5 *per cent* of total income should be provided.

(Para 4.1.2)

Recommendation No. 3:

CBDT may consider amending the Tax Audit Report/ Form 3CD by providing separate columns for certification of deductions claimed under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii) to ensure the correctness of deductions allowed to the assessee so that the tax auditor can confirm and certify the correctness of deductions claimed by the assessee under these Sections for the correct assessment of the assessee company's taxable income and tax liability.

(Para 4.1.3)

Recommendation No. 4:

The Department of Revenue (DoR) may consider amending the provisions of the Income Tax Act to tax income arising out of the cessation of liability on account of the settlement of the principal portion of the loan in the hands of the borrower.

(Para 4.1.4)

Recommendation No. 5:

CBDT may consider collecting information on the principal and interest components of the loans written off by Banks/NBFCs through the Annual Information Return required to be filed under Section 285BA of the IT Act in order to ensure its taxability in the hands of the borrowers.

(Para 4.1.4)

Recommendation No. 6:

CBDT may have a suitable mechanism to ensure that write offs are allowed after bad debt is crystallised to prevent assesseees from using the provisions of Section 36(1)(vii) as a modus operandi to reduce the tax liability under the guise of bad debts.

(Para 4.1.5)

Recommendation No. 7:

CBDT may examine and issue clarification on the taxability of interest on NPA until the provisions of Section 43D were made applicable to NBFCs to avoid inconsistency in the tax treatment of interest income on NPA and possible litigation.

(Para 4.1.6)

Recommendation No. 8:

CBDT may consider bringing a suitable amendment to Section 41(4A) of the Income Tax Act, as there is no provision regarding the tax treatment of the retained money in the Special Reserve by the entity after the discontinuance of the business of long-term finance.

(Para 4.1.7)

Recommendation No. 9:

CBDT may remove ambiguity in Income Tax Rule 6EA read with Section 43D of the Income Tax Act for the outstanding period of loan to be considered as NPA for the period prior to AY 2020-21 to avoid differential tax treatment during assessment and minimise legal disputes.

(Para 4.2.1)

Recommendation No. 10:

- (i) CBDT may reconsider the allowability of deduction for bad debts written off from taxable income where PAN details of borrowers for loans above a specified threshold are not disclosed, to avoid allowance of ineligible claims to the assessee.**
- (ii) CBDT may devise a mechanism to verify the details of borrowers above a specified threshold for whom deduction for bad debts**

written off is allowed during the assessment so as to ensure the taxability of the amount of cessation of liability in the hands of such borrowers.

(Para 4.3.1)

Recommendation No. 11:

CBDT may issue necessary instructions to ensure verification of the details of cases where deduction for bad debt written off was claimed and allowed during assessment though no bad debt was debited to the profit and loss account.

(Para 4.3.2.1)

Recommendation No. 12:

CBDT may amend ITR-6 to capture details of bad debts of the borrowers, including their PAN whose loan exceeds a threshold limit to be prescribed by the CBDT and were written off, irrespective of whether the bad debts are debited to the profit and loss account or not, for verifying the correctness of deduction allowed towards bad debts in the assessment.

(Para 4.3.2.2)

Recommendation No. 13:

CBDT may make the filing of the revised Tax Audit Report mandatory when filing a revised Income Tax Return whenever the revised return seeks revision/rectification of the amounts certified in the Tax Audit Report.

(Para 4.3.3)

Recommendation No. 14:

CBDT may clarify the allowability of Broken Period Interest, amortisation of premium paid on the Held to Maturity (HTM) securities, and diminution on investments as deductions after implementation of Income Computation and Disclosure Standards (ICDS)-VIII with effect from AY 2017-18 to avoid protracted litigation. CBDT may examine reasons for significant variations in the applicability of the same law under similar conditions and issue suitable instructions to the AOs for ensuring consistency especially during scrutiny assessments.

(Para 4.4.3)

Recommendation No. 15:

CBDT may consider clarifying the allowability of CSR expenses as deduction under Section 80G or under any other Section of the Income Tax Act to ensure that the provisions are interpreted uniformly by AOs and also ensure

compliance to its instructions to minimize tax disputes and possible litigation.

(Para 4.4.4)

Recommendation No. 16:

CBDT may issue appropriate clarifications regarding the treatment of the profits/losses on the sale of assets to Securitisation Companies/Asset Reconstruction Companies to ensure uniformity in its tax treatment and avoid possible revenue leakage.

(Para 4.4.5)

Recommendation No. 17:

CBDT may allot NBFCs a separate business code for identification of eligible assesseees falling in the broad category of NBFCs, to prevent misuse of claim of deductions by ineligible assesseees.

(Para 4.5)

Recommendation No. 18:

CBDT may clarify its stance on the issue of allowing deductions for bad debts written off as adjustments while computing book profit under Section 115JB when the bad debts written off are not debited to the Profit and Loss account, considering the significant amount of revenues foregone and to avoid protracted litigation on the issue.

(Para 5.1.1.6)

Recommendation No. 19:

CBDT may reiterate its instructions to ensure the correctness of amounts allowed as deductions for bad debts written off, after adjusting the opening balance of the provision for bad and doubtful debts allowed as deductions in earlier years.

(Para 5.2.1.5)

Recommendation No. 20:

CBDT may examine and consider prescribing a standard method for computing profit from long-term finance, as the Income Tax Act currently does not prescribe this for allowing deductions under Section 36(1)(viii) of the Act. This results in discrepancies between the amounts allowed and claimed as deductions.

(Para 5.2.1.6)

Recommendation No. 21:

CBDT may issue instructions to the AOs regarding the amended provision of the Act after insertion of Explanation 2 to Section 36(1)(vii), which clearly specifies that there shall be only one PBDD account under Section 36(1)(viia) for all types of advances to prevent incorrect disallowance of deductions towards PBDD under Section 36(1)(viia).

(Para 5.2.6.6)

Recommendation No. 22:

CBDT may review the remaining related-party transactions of significant value that were not examined, as the Audit examination was limited to the records furnished by the ITD in the selected sample for a 360-degree analysis.

(Para 5.4.7.7)

Recommendation No. 23:

CBDT may reiterate its instructions periodically to sensitise AOs regarding the assessment of items of income and expenditure specific to banks and NBFCs so as to minimise compliance deviations in the assessments to avoid errors of omission and commission.

(Para 5.5.5.4)

Recommendation No. 24:

CBDT may identify non-admissible items of expenditure specific to banks and NBFCs for dissemination amongst AOs to ensure allowance of expenditure on eligible claims.

(Para 5.5.6.1)

Recommendation No. 25:

CBDT may examine the inconsistency in allowance of deduction under Section 44C to foreign banks and issue necessary instructions to the AOs to ensure uniformity in assessments of similar cases.

(Para 5.5.9)

Recommendation No. 26:

CBDT may issue instructions for sharing details of related party transactions with the jurisdictional Assessing Officers and for strengthening the cross-verification of transactions made in the records and documents of the main assessee vis-à-vis those of related parties.

(Para 5.5.12.2)

Recommendation No. 27:

CBDT may put in place a proper institutional mechanism for verification of claims of deductions based on aggregate rural advances and their eligibility under the provisions of Section 36(1)(viiia) of the Act.

(Para 6.1.1)

Recommendation No. 28:

CBDT may evolve a system of monitoring unascertained liabilities such as provision for standard assets, provision for non performing assets and provision for bad and doubtful debts as shown in the computation of income and Schedule MAT of ITR to ensure correct computation of book profit under special provisions of the Act.

(Para 6.1.2.2)

Recommendation No. 29:

CBDT may institutionalise a Standard Operating Protocol for co-ordination between the jurisdictional Assessing Officers to monitor the tax liability of borrowers on account of write-offs.

(Para 6.1.2.3)

Recommendation No. 30:

CBDT may like to issue instructions to the AOs to investigate during scrutiny assessments multiple layers of financial transactions relating to loans and advances made by the financial institutions to their related parties so as to mitigate the probable risk of such loans and advances being used as a colorable device for claim and allowance of deduction towards provision for bad and doubtful debts and subsequently as bad debts written off.

(Para 6.1.2.5)

Recommendation No. 31:

CBDT may ensure that assessments completed in earlier years of the respective banks and NBFCs may be examined while completing the assessments under faceless scheme.

(Para 6.1.3)

Recommendation No. 32:

CBDT may

- (i) streamline the functioning of Internal Audit in consonance with changes in the scope of assessment, time limit for completion of assessment and reduction in the period for reopening of assessment in recent years.**

- (ii) ensure timely completion of Internal Audit of high-risk assessment cases of Banks, Deposit taking NBFCs, systemically important non-deposit taking NBFCs, etc., so that remedial measures are taken before the cases, where irregularities or mistakes are pointed out by Internal Audit, become time-barred.

(Para 6.1.4)

Recommendation No. 33:

CBDT may examine the discrepancies in the amounts of recovery reported to the RBI compared to the Form 3CD to identify the reasons for the mismatch and take remedial action in such cases where underreporting of the taxable amount to the ITD is noticed.

(Para 6.2.1.1)

Recommendation No. 34:

CBDT may take appropriate action after examining differences in data on recovery of bad debts written off reported to RBI and in TAR to ascertain whether banks did not account for the recoveries against bad debts in their books, or if the Tax Auditor failed to report the same in Form 3CD.

(Para 6.2.2)

Recommendation No. 35:

CBDT may

- (i) obtain data annually on bad debts written off and income from recovery made against bad debts written off from RBI/NHB and share this information among Assessing Officers for utilisation during the assessment of banks and NBFCs.
- (ii) amend ITR to include disclosure of bad debts written off and income from recovery made against bad debts written off, as reported to RBI and NHB, to avoid the associated risk of incorrect allowance of deduction and income escaping assessment.

(Para 6.2.3.1)

Recommendation No. 36:

CBDT may consider monitoring of claims of deduction towards bad debts and provision for bad and doubtful debts through ITD systems by capturing assessment year-wise information of provisions for bad and doubtful debts allowed to the assessee under the provision of Section 36(1)(vii) in the ITR-6/TAR in Form 3CD to ensure the correctness of the claim of deduction towards bad debts written off in the subsequent years.

(Para 6.3.2.1)

Recommendation No. 37:

CBDT may formulate a Standard Operating Procedure (SOP) for use by Assessing Officers during the assessment of banks, to ensure consistency in allowing exemptions and deductions to banks across all assessment charges and to improve the quality of assessments.

(Para 6.4.2)

Chapter 1

Introduction

1.1 Overview of Banks and Non-Banking Financial Companies

Banks are the backbone of the entire financial system. They receive funds from the public through deposits and give loans for business and other purposes. They seek to channel savings into activities that are beneficial to individuals, businesses, and governments. The main function of banks is to act as a bridge between savers and borrowers by directing savings to those who can utilise them to make the economy productive and competitive. NBFCs address the credit requirements of the Indian financial sector, specifically in areas where banks usually don't venture, while contributing to financial inclusion, overall production capacity, and economic growth.

1.2 Definition of Banks and Non-Banking Financial Companies

The principal law that regulates the working of banks in India is the Banking Regulation Act, 1949. Section 5 (b) of the Act defines banking as “the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise”.

Section 5(c) defines a banking company as “any company which transacts the business of banking in India”. Further, as per explanation (c) below, Section 36 of the Income Tax Act, 1961, ‘banking company’ means a company to which the Banking Regulation Act, 1949, applies and includes any bank or banking institution referred to in Section 51 of the Banking Regulation Act.

The RBI Act, 1934, provides a framework under which commercial banking in India is supervised and regulated. The Act gives the RBI the power to license banks, have regulation over shareholding and voting rights of shareholders, supervise the appointment of the boards and management, regulate the operations of banks, lay down instructions for accounting, audit, control moratorium, mergers and liquidation, issue directives in the interests of public good and on banking policy, and impose penalties. The Banking Regulation Act, 1949, provides an operational framework to all banking companies in India. Broadly, banks are divided into five categories, viz. Public Sector Banks, Private Sector Banks, Foreign Banks, Regional Rural Banks, and Cooperative Banks.

As per section 45-I(f) read with section 45-I(c) of RBI Act, 1934, a Non-Banking Financial Company (NBFC) is a Financial Institution which is a company registered under the Companies Act, 2013 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

A company will be registered¹ as NBFC by RBI when the principal business of the company is financial activity and when a company's financial assets constitute more than 50 *per cent* of the total assets and income from financial assets constitute more than 50 *per cent* of the gross income. The term 'principal business' is not defined by the RBI Act. The Reserve Bank has defined it to ensure that only companies predominantly engaged in financial activity get registered with it and are regulated and supervised by it.

As per explanation (vii) below Section 36(1)(vii) of the Income Tax Act, 'Non-Banking Financial Company' shall have the meaning assigned to it in clause (f) of section 45-I of the RBI Act, 1934. As per section 45-I(f) of RBI Act, 1934, NBFC means :

- a financial institution which is a company.
- a non-banking institution which is a company, and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner, and
- such other non-banking institution or class of such institutions, as the Bank² may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.
- NBFCs lend and make investments and hence their activities are akin to that of Banks. However, there are a few differences between the two under RBI guidelines and under the provisions of Income Tax Act, 1961 (The Act).

Differences between Banks and NBFCs are given in **Annexure 1.1**.

1.3 Categories of Banks

Banks are broadly divided into two categories in India - Scheduled³ banks and Non-scheduled⁴ banks. A scheduled bank is a bank included in the second Schedule of the RBI Act. Scheduled banks can purchase, sell, and discount certain bills of exchange and promissory notes, purchase and sell off foreign exchange, and can take loans from RBI. In return for these privileges, they are subject to more stringent regulation compared to other banks. The details of banks operating in India are exhibited in the following chart:

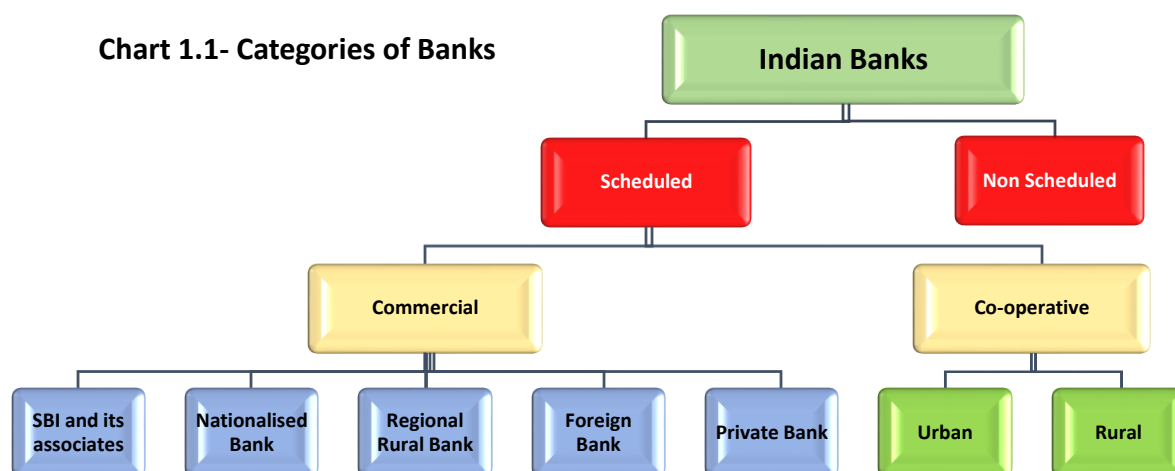
¹ RBI FAQ on NBFC "All you wanted to know about NBFCs" dated 10.01.2017.

² Reserve Bank of India.

³ As per explanation (ii) below the Section 36(1)(vii) of the Income Tax Act, "scheduled bank" means the S8 constituted under the S8 Act, 1955 (23 of 1955), a subsidiary bank as defined in the S8 (Subsidiary Banks) Act, 1959 (38 of 1959*), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934).

⁴ As per explanation (i) below the Section 36(1)(vii) of the Income Tax Act, "non-scheduled bank" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank.

Chart 1.1- Categories of Banks



1.4 Classification of assets by banks

The RBI lays down guidelines or prudential norms for classifying loans under various categories for estimating provisions for bad debts. Under the guidelines, every loan must be classified as either a standard asset or Non-Performing Assets (NPA). An asset becomes NPA when it ceases to generate income for a bank. A term loan is considered as NPA, if interest and/or principal remain unpaid for more than 90 days from the due date of payment. Return on equity, return on assets, leverage, profit margin and bad debts constitute crucial components of a bank's performance. Bad debts are a major drain on a bank's profits. NPAs are further classified as follows.

Category	Characteristics	Action
Standard Assets	Standard Asset is one which does not disclose any problems, and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.	Make provision at the rate 0.25 <i>per cent</i> to 0.40 <i>per cent</i> of outstanding amount depending upon nature of credit.
Sub-Standard asset	1. Have remained NPA for not more than 12 months.	1. Provide for 15 <i>per cent</i> for secured assets. 2. Provide additional 10 <i>per cent</i> for unsecured assets.
Doubtful assets	1. Have remained in the sub-standard category for 12 months. 2. Have weaknesses that make the collection or liquidation in full improbable or questionable	1. Provide 100 <i>per cent</i> for the unsecured portion 2. For secured portion provide 25 <i>per cent</i> up to one year, 40 <i>per cent</i> from one to three years and 100 <i>per cent</i> for more than three years in the doubtful category.
Loss assets	A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection, but the amount has not been written off wholly.	Write-off or fully provide for these assets.

Source: RBI Master Circular dated 1st July 2015

1.5 Analysis of quality of different classes of assets of Scheduled Commercial Banks (SCBs)

RBI has been providing regulatory frameworks to banks for efficient handling of stressed assets in their books. The RBI has been issuing guidelines from time to time for classification, provisioning, recognition, reporting and time bound resolution of stressed assets. As per RBI report on Trend and Progress of Banking in India for the years 2017-18 to 2020-21, the classification of loan assets by Public Sector Banks (PSBs), Private Sector Banks (PVBs) and Foreign Banks (FBs) during the period are given in Table 1.1 below.

Table 1.1: Classification of loan assets by banks (₹ in crore)									
Category of Bank	End March	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets	
		Amount	In per cent*	Amount	In per cent*	Amount	In per cent*	Amount	In per cent*
PSBs	2017	45,01,200	87.5	1,64,100	3.2	4,60,300	9.0	16,700	0.3
	2018	46,02,125	84.5	2,05,340	3.8	5,93,615	10.9	46,521	0.9
	2019	50,86,874	87.8	1,37,377	2.4	5,06,492	8.7	66,239	1.1
	2020	53,27,903	89.2	1,32,530	2.2	4,04,724	6.8	1,07,163	1.8
	2021	55,87,450	90.6	1,03,744	1.7	3,51,014	5.7	1,22,217	2.0
PVBs	2017	20,31,000	96.5	24,400	1.2	42,900	2.0	6,500	0.3
	2018	24,50,552	96.0	27,203	1.1	69,978	2.7	5,243	0.2
	2019	31,03,581	95.2	42,440	1.3	1,04,696	3.2	9,576	0.3
	2020	34,14,554	94.9	56,588	1.6	92,396	2.6	34,986	1.0
	2021	37,57,240	95.3	65,363	1.7	90,228	2.3	31,350	0.8
FBs	2017	3,30,200	96.0	4,000	1.2	8,200	2.4	1,400	0.4
	2018	3,49,475	96.2	3,831	1.1	8,364	2.3	1,635	0.5
	2019	3,94,638	97	3,190	0.8	8,019	2.0	1,034	0.3
	2020	4,25,857	97.7	3,273	0.8	5,775	1.3	1,161	0.3
	2021	4,10,418	97.6	3,648	0.9	5,566	1.3	986	0.2
SFBS**	2017								
	2018								
	2019	61,652	98.2	719	1.1	360	0.6	44	0.1
	2020	89,800	98.1	1,023	1.1	648	0.7	39	0.0
	2021	1,05,619	94.6	4,965	4.4	841	0.8	165	0.1
All SCBs	2017	68,62,400	90.4	1,92,500	2.5	5,11,400	6.7	24,700	0.3
	2018	74,02,152	88.1	2,36,374	2.8	6,71,957	8.0	53,398	0.6
	2019	86,46,745	90.8	1,83,726	1.9	6,19,567	6.5	76,894	0.8
	2020	92,58,114	91.7	1,93,413	1.9	5,03,543	5.0	1,43,349	1.4
	2021	98,60,726	92.7	1,77,720	1.7	4,47,648	4.2	1,54,717	1.5

Source: Chapter IV of RBI report on Trends and Progress of Banking in India for F.Y. 2017-18 to 2020-21

1) *: Refers to as per cent of gross advances
2) **: Refers to scheduled Small Finance Banks (SFBS)

It can be observed from the above table that the percentage of standard assets to gross advances in the case of public sector banks ranged from 84.5 per cent to 90.6 per cent during FY 2016-17 to 2020-21. In the case of private sector banks, it was comparatively better, ranging from 94.9 per cent to 96.5 per cent in the same period. For foreign banks, it was relatively better, ranging from 96 per cent to 97.6 per cent.

1.6 Structure of NBFCs under the Reserve Banks Regulations

NBFCs can be broadly categorised as per the asset liability structure as Deposit-taking NBFCs (NBFCs-D), Non-deposit-taking NBFCs (NBFCs-ND), Asset Reconstruction Companies and Housing Finance Companies (HFCs). Further, Non-deposit taking NBFCs comprise two categories, 'Systematically Important NBFC-ND' whose asset size is of ₹ 500 crore or more as per the last audited balance sheet, whereas the remaining are categorised as 'Other NBFC-ND'.

Although merchant banking companies, stock exchanges, companies engaged in the business of stock-broking/sub-broking, venture capital fund companies, Nidhi companies, insurance companies and chit fund companies are NBFCs, they have been exempted⁵ from the requirement of registration with the Reserve Bank under Section 45-IA of the RBI Act, 1934.

The Finance (No.2) Act, 2019 (23 of 2019) has amended the National Housing Bank Act, 1987, conferring certain powers for the regulation of housing finance companies (HFCs) with the RBI. HFCs are henceforth treated as a category of NBFCs.

1.7 Legal Framework for Banks and NBFCs

Banks and NBFCs in India are mainly governed and regulated through the RBI Act, 1934, the Banking Regulation Act, 1949 and regulations/guidelines/ master directions⁶ issued by the RBI from time to time. The provisions of the Income Tax Act, 1961, which are generally applicable to companies, are also applicable to Banks and NBFCs with certain exceptions. However there are some specific provisions under the Income Tax Act, 1961 where banks and NBFCs get special exemptions and deductions.

Deductions provided for under Section 36(1)(vii) provide for a benefit to the specified assessee to claim a deduction on any bad debts or part thereof written off as irrecoverable in the books of account of the assessee for the previous year. Further, where the amount of such debts or part thereof has been taken into account in computing the income of the assessee in which the said amount becomes irrecoverable on the basis of Income Computation and Disclosure Standards (ICDS) notified under Section 145(2) without recording the same in the accounts then such debts or part thereof should be allowed in the previous year in which such debts or part thereof becomes irrecoverable. As per explanation 1, introduced by the Finance Act 2001, it specifically excluded any provision for bad and doubtful debts made in the accounts of the assessee from the ambit and scope of 'any bad debt or part thereof' written off as irrecoverable in the accounts of the assessee. Further, as per explanation 2⁷, inserted by Finance Act 2013, the account referred to therein shall be only one account under clause

⁵ RBI Master Circular on "Exemption from provisions of RBI Act, 1934" RBI /2005-2006/139 DNBS.PD. CC.No.56/02.04/2005-06 dated 24 August 2005.

⁶ Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, Master Direction – Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio) which are issued at regular intervals.

⁷ With effect from 01.04.2014

(viiia) and such account shall relate to all types of advances, including advances made by rural branches. This explanation was inserted in view of the judgment of the Honourable Supreme Court in the case of Catholic Syrian Bank (2012)(206 Taxman 182), which made the distinction between the two types of provisions account allowed under Section 36(1)(viiia), i.e. rural and non-rural. As the amendment of the Income Tax Act was brought into effect from AY 2014-15, Audit has considered the amended provision under Section 36(1)(vii).

Deduction under Section 36(1)(viiia)(a) provides a deduction in respect of any provision for bad and doubtful debts made by a scheduled bank or a non-scheduled bank in the books of account for an amount not exceeding 8.5 *per cent* of the **total income** computed before making any deductions under this clause and Chapter VIA and amount not exceeding 10 *per cent* of the aggregate **rural advances** made by the rural branches of such banks. Further, clause (d)⁸ under Section 36(1)(viiia) provides for a deduction in respect of any provision for bad and doubtful debts made by a Non-Banking financial Company in the books of account for an amount not exceeding 5 *per cent* of the total income computed before making any deductions under this clause and Chapter VIA.

Deduction under Section 36(1)(viii) provides a deduction for any special reserve created and maintained by a specified entity⁹ for an amount not exceeding 20 *per cent* of the profits derived from the eligible business under the head Profits and Gains of Business and Profession and carried to such reserve, subject to the condition that the aggregate of such amounts carried to reserve shall not exceed twice the amount of paid-up share capital and general reserve of the specified entity.

Besides, banks and NBFCs also claim exemption under different sections of the Income Tax Act, 1961, including sub-sections of Section 10, Section 80LA, etc. Banks and NBFCs are also claiming concessional tax rates or relief under Double Taxation Avoidance Agreements (DTAAs) with foreign countries. Details of specific provisions under the Act relevant to banks and NBFCs are included in **Annexure 1.2**.

1.8 Legal provisions under the Income Tax Act 2025

The Income-Tax (No.2) Bill, 2025, was introduced in the Lok Sabha on August 11, 2025. It seeks to replace the Income-Tax Act, 1961. This Bill has been brought in place of the Income-Tax Bill, 2025 introduced in February 2025. The Hon'ble Finance Minister in the budget speech in July 2024 stated that the purpose of the comprehensive review of the Income Tax Act, 1961 was to make the Act "*concise, lucid, easy to read and understand*" and to eliminate redundant provisions while simplifying the existing ones. The Act retains most of the provisions of the 1961 Act. The Income Tax Act, 2025 will come into force from April 1, 2026.

⁸ Inserted by Finance Act 2016 with effect from 01.04.2017

⁹ Financial Corporation, Banking Company, Housing Finance company etc.

As the Income Tax Act, 2025 has been passed by the Parliament in August 2025 during the finalisation of this audit report, the Audit examined the Income Tax Act, 1961 vis-à-vis the provisions of the Income Tax Act, 2025 and the details of the provisions specific to Banks and NBFCs under both the acts are provided in **Annexure 1.3**. Implications of the 2025 Act will be examined during the subsequent compliance audit and follow-up performance audit on this subject.

Chapter 2

Audit Approach

Complete database of returns in respect of the assessees of Banks and Non-Banking Financial Companies were called for from DGIT (Systems) for the period FY 2016-17 to FY 2020-21 (September 2020). DGIT (Systems) provided assessee-wise data of ITR processed/assessed/rectified during the period FY 2016-17 to FY 2021-22 (up to June 2022) with respect to Banks and Non-Banking Financial Companies in August 2021. The audit sample was selected from this database based on several parameters and was provided to Field Audit Offices (FAOs) for detailed examination in Audit.

2.1 Why we chose the topic

- The Government of India provides benefits to banks and NBFCs in the form of deductions and exemptions towards bad debts written off as irrecoverable, provision for bad and doubtful debts and amount transferred to special reserve account, etc. As a result, significant revenue is foregone.
- The present study examines the extent of compliance with the norms of asset classification, income recognition and provisioning laid down by the RBI, as this has a direct bearing on the computation of taxable income and tax liability.
- A Performance Audit of assessment of banks, including public sector, private sector and foreign banks, was conducted, covering scrutiny assessments for the assessment years (AYs) 2002-03 to 2005-06 for assessing adequacy of rules, regulations, and provisions of Income Tax Act, 1961, as well as their compliance. The Performance Audit Report No.7 of 2008 including Chapter I on “Review on Assessment of Banks” was presented to Parliament on 11 March 2008. The report highlighted several systemic and compliance issues in assessment and made certain recommendations to strengthen the internal controls and quality of assessment. Based on the recommendations made in this report, CBDT issued Instruction No.17 of 2008 on 26 November 2008. The present study was also conducted to ascertain the follow-up on the earlier recommendations and the observance of CBDT instructions by Assessing Officers (AOs) during assessments of banks and NBFCs.

2.2 Audit Objectives

The audit objectives (AO) of the performance audit were to examine:

- Whether existing rules, regulations, notifications, circulars, etc. in relation to assessment of assessees pertaining to Banks and NBFCs are followed by assessees and adequate for ensuring compliance (AO-1);
- Whether the internal control system, monitoring and coordination mechanism within the Department and with external Departments were adequate (AO-2); and

- Whether the existing systems and process controls are adequate to promote compliance of provisions specific to Banks and NBFCs under the Income Tax Act, 1961 (the Act) as well as compliance to general provisions of the Act (AO-3).

2.3 Audit Scope and Coverage

The Performance Audit covered the assessments completed during financial years 2017-18 to 2020-21 (including the extended period up to 30 September 2021) in respect of selected Scheduled Commercial Banks and NBFCs. In addition, 123 cases observed during the compliance audit pertaining to the subject of study were included in the report. Complete details of the procedure adopted in selecting the samples and samples audited in respect of banks and NBFCs are discussed in the following paras of this Chapter.

2.4 Audit Methodology

The audit methodology included scrutiny of assessment records, collection of information through audit requisitions, analysis of data with reference to audit criteria and issue of audit observations. An Entry Conference was held on 17 December 2020 with the CBDT, wherein the audit scope, objectives and methodology were explained. This Report includes audit observations in respect of cases examined during the performance audit, besides 123 audit observations noticed during the compliance audit. Field audit was conducted from January 2022 to August 2022, and a supplementary audit of cases that were not furnished to the audit earlier was taken up in June 2023. Besides, Audit also sought statistical information on exemptions and deductions claimed and allowed to banks and NBFCs from the ITD, information relating to bad debts written off and total amounts recovered against the loans and advances written off from the Reserve Bank of India (January 2022) and the National Housing Bank (April 2022). The Draft Performance Audit Report was first issued to the Ministry on 25 July 2024 for their comments. Post receipt of the Ministry's responses in September 2024 and November 2024, an Exit Conference was held with the CBDT on 06 November 2024 to discuss audit findings and audit recommendations vis-à-vis their replies/comments. The results of the discussion during the Exit Conference, the comments of the Ministry furnished in their replies and the Audit comments thereupon are duly incorporated in the Performance Audit Report.

The significance of the audit findings noticed during this Performance Audit, along with the tax leakage, which required immediate attention and action by the Department, were brought to the notice of the Revenue Secretary, Ministry of Finance, in October 2024, post issue of the report in July 2024. Audit made regular efforts at the field level as well as centrally to follow up on the Ministry's response to audit findings and recommendations included in the Report. Issue regarding expeditious receipt of response to the audit findings included in the Report from the CBDT was also escalated to the Secretary (Revenue), Ministry of Finance (October 2024, May 2025, October 2025 and November 2025) besides issue of reminders to the CBDT intimating status of receipt of replies from ITD at regional jurisdictional level (October 2024, November 2024, January 2025, March 2025, October 2025 and

November 2025), to ensure inclusion of response of the Ministry/ ITD to the audit findings and recommendations included in the Report.

2.5 Audit Constraints and production of records

Due to the non-availability of detailed data on assessments regarding NBFCs and difficulties faced by Field Offices due to the Covid pandemic, the review was postponed in January 2021, and the field audit was resumed in January 2022. Further, consequent upon the introduction of the faceless assessment scheme in the Department, the availability of records relating to assessment was limited to the records called for and furnished by the assesseees at the time of scrutiny assessment. In the case of returns not selected for scrutiny, the records available were limited to only mandatory records to be furnished along with the return of income. Consequently, Audit had to limit its observations to the information available to it. Out of 2,463 cases selected as a sample for PA, the Department has produced 2,378 records, and 75 cases were not produced to Audit. Ten cases were not called for as the samples were outside the scope of PA (as referred in Table 2.3 of para 2.8 of this report). Besides, the Audit of records in 116 cases furnished subsequently was examined during the supplementary audit in June 2023.

2.6 Sample Selection Methodology

The audit sample was derived from the database of returns received from DGIT (Systems) of assesseees of the financial service sector for the period FY 2016-17 to FY 2021-22, based on different parameters, and was provided to Field Audit Offices (FAOs) for this performance audit. The database contained 86,018 cases, including assessment cases processed under summary, scrutiny, re-assessment, rectification, and appeal. Corporate cases were selected from the data based on the ITR-6 Form, after excluding non-corporate cases, resulting in 38,660 cases, of which 38,099 and 561 pertained to NBFCs and Banks, respectively. Further, after excluding duplicate cases and those pertaining to FY 2016-17, the sample population was derived at 25,100. After the application of parameters for selecting high-value cases, the sample of 2,463 cases was derived as detailed in Table 2.1 below and requisitioned from the Department.

Sl. No.	Description	Number of cases
1	Data on Banks and NBFCs relating to FY 2016-17 to 2021-22 received from the DGIT(Systems), ITD	86,018
2	Data on Banking Companies and NBFCs, viz., corporate cases having filed ITR-6 forms applicable for Companies, excluding non-corporate cases	38,660

Sl. No.	Description	Number of cases		
		S.No	Category	Number
3	Breakup of cases utilised for sampling as per the CBDT data	1	Bank based on business codes	561
		2	NBFCs based on business codes	38,099
		Total (1) +(2)		38,660
4	Cases of Banks & NBFCs pertaining to FY 2016-17 and duplicate cases excluded from sample	S.No	Category	Number
		1	Banks	159
		2	NBFC	13,401
		Total (1) +(2)		13,560
5	Population used for sampling	S.No	Category	Number
		1	Banks	402
		2	NBFC	24,698
		Total (1) +(2)		25,100
6	Sample selected	S.No	Category	Number
		1	Banks	355
		2	NBFC	2,108
		Total (1) +(2)		2,463

Analysis of the sample vis-à-vis the population with respect to Public Sector Banks, Private Banks, Foreign Banks and NBFCs for the deductions and exemptions claimed and allowed is given in subsequent paras of this chapter. Region-wise distribution of the audit sample and records not furnished by the Department is also given below.

2.7 Region-wise distribution of Audit Sample

The audit sample comprised assessment cases from all the Region/State jurisdictions of the Income Tax Department across the country. Major States/Regions represented in the sample were Maharashtra, West Bengal & Sikkim, Delhi and Tamil Nadu, constituting 27.57 per cent, 25.05 per cent, 15.71 per cent and 8.08 per cent of the sample, respectively. Other States/Regions accounted for 23.59 per cent of the sample, ranging from 0.89 per cent to 3.41 per cent, as depicted in Table 2.2.

Region/State	Population	Selection	NBFCs	Public Bank	Private Banks	Foreign Banks
Gujarat	632	69	62	0	7	0
Rajasthan	492	38	38	0	0	0
Karnataka & Goa	466	75	63	7	5	0
Tamilnadu	1,514	199	150	17	25	7
Kerala	577	84	54	0	30	0

Region/State	Population	Selection	NBFCs	Public Bank	Private Banks	Foreign Banks
New Delhi	4,099	387	340	23	0	24
West Bengal & Sikkim	10,466	617	592	8	5	12
North Eastern Region	292	17	17	0	0	0
Andhra Pradesh & Telangana	502	68	68	0	0	0
Odisha	64	22	22	0	0	0
Uttar Pradesh	772	62	57	0	5	12
Madhya Pradesh	330	32	32	0	0	0
Bihar & Jharkhand	180	39	39	0	0	0
North Western Region ¹⁰	868	75	71	0	4	0
Maharashtra	3,846	679	503	38	48	90
Total	25,100	2,463	2,108	93	129	133

Source: Data furnished by DGIT (Systems)

2.8 Non-production of cases

Out of the sample selected of 2,463 cases for examination, 75 cases (3.04 per cent) were not produced to Audit in Maharashtra, West Bengal, Tamilnadu and Delhi, as mentioned in Table 2.3 below, despite continuous follow-up:

Region/State	Sample selected	Total	Not produced	Local sample
Gujarat	69	107		
Rajasthan	38		0	
Karnataka & Goa	75	75	0	
Tamilnadu	199	283	15	5
Kerala	84			
Delhi	387	419	1	17
Madhya Pradesh	17			
Chhattishgarh	15			
West Bengal & Sikkim	617	634	27	
North Eastern Region ¹¹	17			
Maharashtra	679	679	32	2
Andhra Pradesh & Telangana	68	90		4
Odisha	22		0	
Uttar Pradesh	55	101	*	
Uttarakhand	7			
Bihar	11			
Jharkhand	28			
North Western Region	75	75	0	
Total	2,463	2,463	75	28

*Note: Ten cases of the Uttar Pradesh region were not examined as they did not fall under the category of Banks & NBFCs as decided for the sample.

¹⁰ Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir and Punjab

¹¹ Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura

The Department has not cited any reason for the non-production of these records. Besides 2,463 cases selected centrally, 28 cases were selected locally at field office level. Due to non-production, Audit could not derive assurance regarding the correctness of assessments made in these cases.

2.9 Analysis of Audit Sample vis-à-vis Population

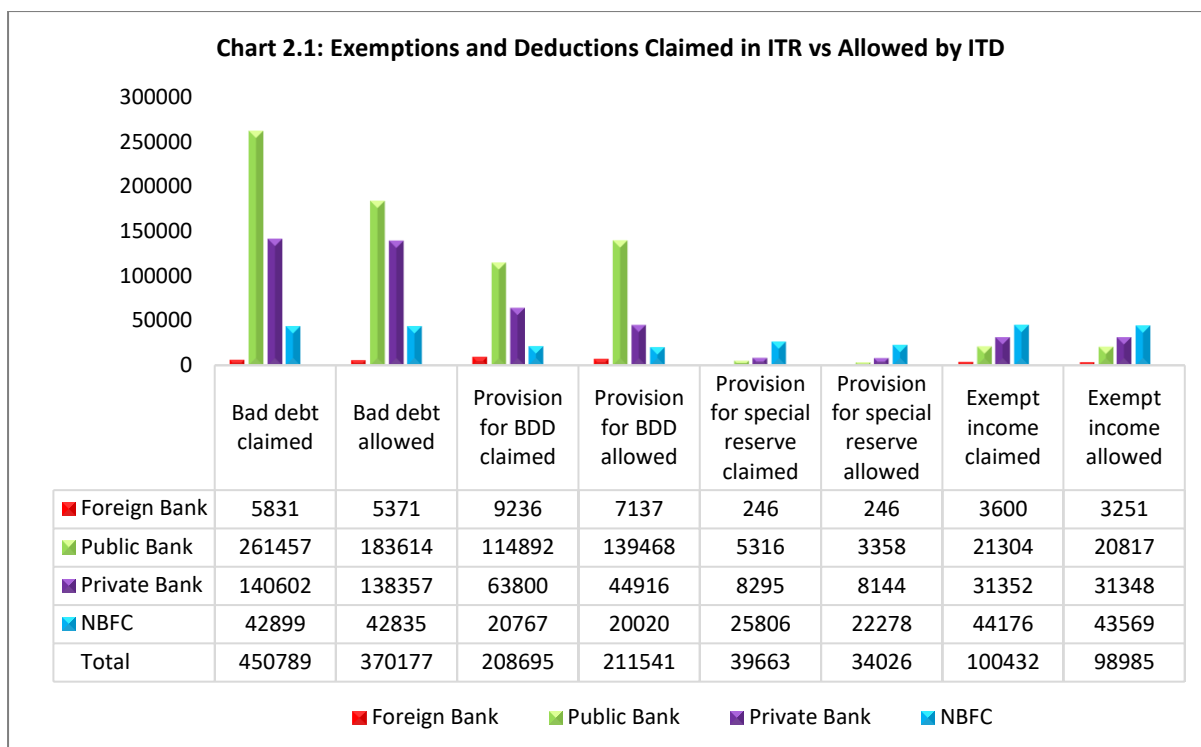
Although the sample constituted only 10 per cent of the total population, the sample covered 94.92 per cent of returned income, 98.71 per cent of bad debt, 86.26 per cent of provision for bad and doubtful debt, 94.13 per cent of other provisions, and 95.62 per cent of Chapter VIA deductions of the entire population of 25,100 cases. Thus, all the high-risk cases have been covered in the sample as detailed below:

Parameter		Assessment made in FY 2017-18	Assessment made in FY 2018-19	Assessment made in FY 2019-20	Assessment made in FY 2020-21	Assessment made in FY 2021-22	TOTAL	Percentage Coverage
No. of cases	Population	8,935	6,449	8,044	1,453	219	25,100	9.81
	Sample	737	605	748	285	88	2,463	
Returned Income	Population	1,67,977	2,75,276	2,48,499	2,28,786	45,131	9,65,669	94.92
	Sample	1,54,333	2,63,277	2,35,062	2,21,357	42,561	9,16,590	
Bad Debts	Population	11,723	37,195	51,096	83,187	4,361	1,87,562	98.71
	Sample	11,304	36,792	50,172	82,661	4,214	1,85,143	
Provision for Bad and Doubtful Debts	Population	1,21,910	1,73,036	2,22,938	2,51,268	1,02,880	8,72,033	86.26
	Sample	90,644	1,46,726	2,08,695	2,13,482	92,685	7,52,232	
Provision – Others	Population	23,459	25,910	38,825	33,944	10,103	1,32,241	94.13
	Sample	21,681	24,321	38,220	30,952	9,306	1,24,480	
Total Deduction under Chapter VIA	Population	306	815	2,557	2,365	421	6,464	95.62
	Sample	258	783	2,468	2,300	373	6,182	
Total Exempt Income	Population	27,628	29,901	22,767	25,000	1,331	1,06,626	88.02
	Sample	22,301	27,277	18,539	24,476	1,256	93,849	

Source: Data furnished by DGIT (Systems) and Assessment records of ITD

2.10 Section-wise details of deduction

Chart 2.1 below shows exemptions and deductions claimed by the Banks and NBFCs category-wise. It can be observed that bad debts claimed by public sector banks were 58 per cent of total bad debts, while foreign banks and private sector banks claimed bad debts of 1.29 per cent and 31.19 per cent respectively. Deduction allowed to banks for provisions made for bad and doubtful debts under section 36(1)(vii) was 90.54 per cent, as compared to only 9.46 per cent for NBFCs. This was attributable to the fact that the deduction for provision for bad and doubtful debt was extended to NBFCs with effect from AY 2017-18. In the case of provision made for special reserve under section 36(1)(viii), NBFCs claimed a deduction of ₹ 25,806 crore compared to ₹ 13,857 crore claimed by banks.



Source: Data furnished by DGIT (Systems) and Assessment records of ITD

From the above chart, it can also be seen that bad debts constitute one of the major items of deduction claimed and allowed in the entire financial sector. Analysis also shows that public sector banks and private sector banks claimed the maximum amount of bad debts.

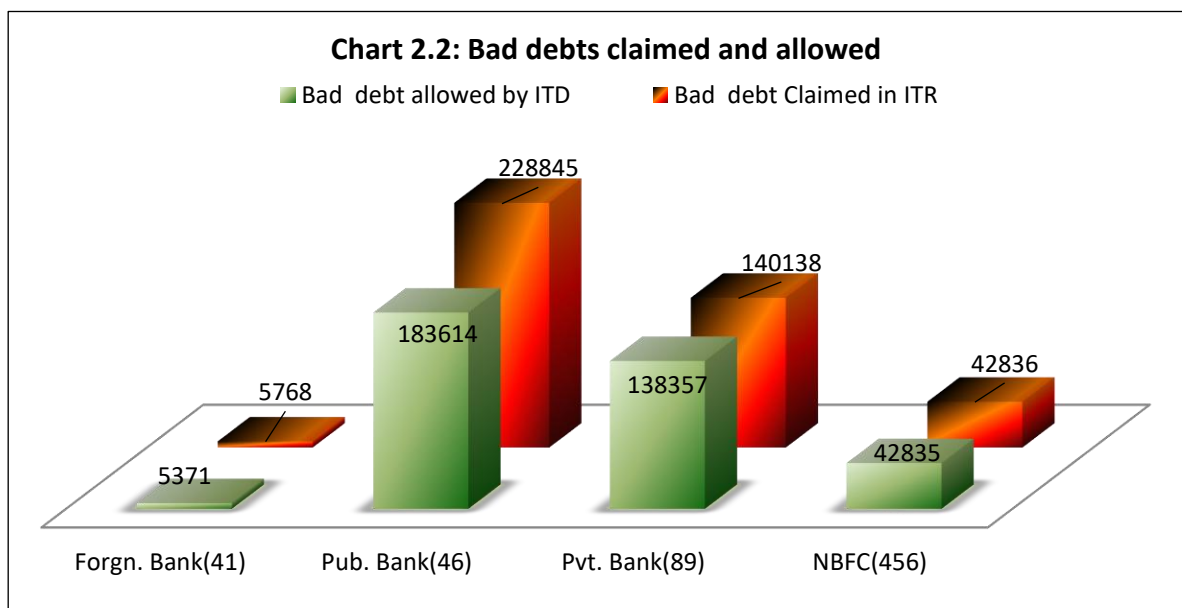
2.11 Analysis of Deduction claimed for bad debts under Section 36(1)(vii)

Deduction for bad debts under Section 36(1)(vii) was allowed in 628 cases out of a total number of 2,378 cases examined in audit, as detailed below in Table 2.5:

Category	No. of cases where deduction towards bad debts were allowed	Returned Income	Bad debts debited in Profit and Loss Account	Bad debts Claimed in ITR	Bad debts allowed by ITD [As per assessment records]
Foreign Bank	39	43,286	1,684	5,768	5,371
Public Bank	44	28,323	1,419	2,28,845	1,83,614
Private Bank	89	3,60,375	1,28,586	1,40,138	1,38,357
Bank Total	172	4,31,984	1,31,689	3,74,751	3,27,342
NBFC	456	1,34,169	47,475	42,836	42,835
Grand Total	628	5,66,153	1,79,164	4,17,587	3,70,177

Source: Data furnished by DGIT (Systems) and Assessment records of ITD

Audit noted that only ₹ 1,79,164 crore was debited to the profit and loss account, and assessee claimed deduction of ₹ 4,17,587 crore in the ITR, and ₹ 3,70,177 crore was allowed in the assessment. Audit observed that in the existing format, ITR-6 does not distinctly capture the actual claim made by the assessee and captures only the amount debited to the Profit and Loss account to the extent disallowable under Section 36(1)(vii) due to non-fulfilment of conditions specified therein. This issue has been discussed in para 4.1.2 of Chapter 4, and audit findings are discussed in detail in Chapter 5 of this report. Deduction claimed in ITR and allowed in the assessment is presented in Chart 2.2 below.



Source: Data furnished by DGIT (Systems) and Assessment records of ITD

2.12 Analysis of Deduction claimed for Provision for Bad & Doubtful Debts (PBDD) under Section 36(1)(viiia)

Table 2.6 shows details of deduction claimed and allowed under section 36(1)(viiia) towards Provision for Bad and Doubtful Debts.

Category	No. of Cases	Returned Income	Provision for Bad and Doubtful Debts debited in Profit & Loss account	Provision for BDD claimed in ITR	Provision for BDD allowed By ITD [As per assessment records]
Foreign Bank	50	81,035	8,567	7,198	7,137
Public Bank	63	80,610	4,17,962	1,10,110	1,39,468
Private Bank	78	2,91,086	71,300	55,211	44,917
Bank Total	191	4,52,731	4,97,829	1,72,519	1,91,522
NBFC	287	1,33,291	17,809	20,079	20,020
Grand Total	478	5,86,022	5,15,638	1,92,598	2,11,542

Source: Data furnished by DGIT (Systems) and Assessment records of ITD

From the above Table, it can be observed that although banks and NBFCs debited ₹ 5,15,638 crore towards provisions for bad and doubtful debts in their books, only ₹ 2,11,542 crore was allowed as a deduction under Section 36(1)(vii) of the Income Tax Act. The existing format of ITR-6 does not distinctly capture the actual claim made by the assessee for deduction under Section 36(1)(vii) for monitoring the extent of claim and allowance thereon. This issue is discussed in para 4.1.2 of Chapter 4, and the audit findings are detailed in Chapter 5 of this report. Further, deduction for provision for bad and doubtful debts was allowed in respect of 478 cases out of 2,378 cases examined in the Audit.

2.13 Analysis of Deduction claimed for transfer to special reserve under Section 36(1)(viii)

Table 2.7 shows details of deduction claimed under section 36(1)(viii) towards transfer to the special reserve created out of profits derived from long-term financing.

Category	No. of Cases	Returned Income	Deduction Claimed in ITR	Deduction allowed by ITD (As per assessment records)
Foreign Bank	10	45,507	246	246
Public Bank	21	33,920	4,215	3,358
Private Bank	51	1,07,310	8,117	8,144
Bank Total	82	1,86,737	12,578	11,748
NBFC	120	1,37,378	25,749	22,278
Grand Total	202	3,24,115	38,327	34,026

Source: Data furnished by DGIT (Systems) and Assessment records of ITD

Out of 2,378 cases examined in Audit, deduction for transfer to special reserve was allowed in 202 cases. The total amount of deduction claimed in the return was ₹ 38,327 crore, against which a deduction of ₹ 34,026 crore was allowed by the ITD.

2.14 Analysis of exempt income claimed under various provisions

Table 2.8 shows the amount of exemption claimed and that allowed by the Department under various provisions of the Act.

Category	No. of Cases	Returned Income	Exempt Income	Exempt Income Claimed in ITR	Exempt Income Allowed
Foreign Bank	47	99,915	3,236	3,583	3,251
Public Bank	84	71,374	13,523	21,304	20,817
Private Bank	100	3,72,760	31,152	31,352	31,348
Bank Total	231	5,44,049	47,911	56,239	55,416
NBFC	867	2,18,811	44,181	44,156	43,569
Grand Total	1,098	7,62,860	92,092	1,00,395	98,985

Source: Data furnished by DGIT (Systems) and Assessment records of ITD

It can be observed from Table 2.8 above that against the claim of ₹ 1,00,395 crore, exemption of ₹ 98,985 crore was allowed in the assessments of banks and NBFCs.

2.15 Acknowledgement

Audit acknowledges the cooperation of the ITD in providing necessary data/ records/ information and facilitating the conduct of this performance audit. Audit also acknowledges the support given by the Reserve Bank of India and the National Housing Bank by sharing data relating to write off of NPA and recovery against bad debts written off by the Scheduled Commercial Banks and certain NBFCs as reported to the RBI.

Chapter 3

Follow up on Recommendations made in C&AG's Audit Report No. 7 of 2008

A performance audit on assessment of public sector, private sector and foreign banks was conducted in FY 2006-07 covering 89 banks for Ays 2002-03 to 2005-06. The audit observations featured in Chapter I of the Performance Audit Report No.7 of 2008 on "Review on Assessment of Banks," which was presented to Parliament on 11 March 2008.

This report highlighted several systemic and compliance issues in the assessments completed during the review period, for which the Audit made recommendations to strengthen the internal control and quality of assessment.

The CBDT issued instruction No. 17/2008 on 26 November 2008 based on the recommendations made in this report. Referring to the performance review report of the Assessment of Banks carried out by CAG, the CBDT stated that *it had observed that while computing the income of banks under the head 'Profit and Gains of Business & Profession', deductions of large amounts under different sections were being allowed by the AOs without proper verification, leading to substantial loss of revenue.* The CBDT directed that *assessment cases of banks should be completed with due care and after proper verification.* It was also emphasised that *deductions under the provisions referred to in the instructions should be allowed only after a thorough examination of the claim on facts and on the law as per the provisions of the IT Act, 1961.*

3.1 Compliance Report with reference to directions issued vide instruction No.17/2008 dated 26 November 2008

The present study aimed to make a follow-up study to examine the extent of compliance with instruction No.17/2008, dated 26 November 2008, issued by the CBDT. The results of the present study in this regard are given in Table 3.1 below:

The clause under the instruction	Gist of instruction	Comments on compliance with the instruction
(i)	Under Section 36(1)(vii) of the Act, deduction on account of bad debts written off as irrecoverable in the accounts of the assessee is admissible. However, this should be allowed only if the assessee had debited the amount of such debts to the provision for bad and doubtful debts account under Section 36(1)(viiia) of the Act, as required by section 36(2)(v) of the Act.	This instruction is not being followed. Audit noticed that the Income Tax Department (ITD) does not have any institutional mechanism to monitor the amount of provision for bad and doubtful debts allowed in the earlier Ays under the provisions of section 36(1)(viiia). Out of 172 cases of banks and 456 cases of NBFCs, which availed bad debts, Audit noticed that in 80 cases an excess deduction of ₹ 68,127.50 crore and a short deduction of ₹ 5,846.20 crore was allowed towards bad debts due to improper adjustment of the opening balance

Table 3.1: Compliance to directions issued vide instruction No.17/2008 dated 26 November 2008		
The clause under the instruction	Gist of instruction	Comments on compliance with the instruction
		available in the provision for bad and doubtful debts. Instances of non-compliance have been discussed in detail in para 5.5.1.1 and para 6.3.1 of this report. Suggestions and recommendations in this regard are also highlighted in the respective paras.
(v)	In the cases of foreign banks or bank branches assessable in India, the AO should carefully examine the claim for Head office expenses under Section 44C in the light of the provisions contained therein and the relevant clause(s) of the applicable Double Taxation Avoidance Agreement (DTAA), before allowing such claims.	Audit noticed in eight cases that a deduction for the Head Office expenses amounting to ₹ 1,470.35 crore was allowed, although there was no sufficient evidence on record to claim such expenditure, and the Department was not adopting a uniform stand on the issue. Audit noticed that assesseees were allowed a deduction under Section 44C of the Act, although the expenses were not debited to the Profit and Loss Account for Head Office expenses. Cases of incorrect allowance under Section 44C to the foreign banks are discussed in para 5.5.9 of this report.
(vi)	In cases where an assessee bank purchases securities under a capital account at a price inclusive of any accrued interest, the entire purchase consideration is in the nature of capital outlay. Therefore, any interest element included in the purchase consideration is not allowable as expenditure against income accruing on those securities. (Vijaya Bank v/s CIT 187 ITR 541 Supreme Court).	The CBDT notified ten Income Computation and Disclosure Standards (ICDS) under Section 145(2) of the Act, which is applicable from AY 2017-18, which included ICDS VIII relating to Securities. Part B of ICDS VIII on 'Securities' deals with securities held by scheduled banks. Para 3 of Part B of ICDS VIII states that securities shall be classified, recognised, and measured by the extant guidelines issued by the Reserve Bank of India (RBI) in this regard and no claim for deduction more than said guidelines shall be considered. Inconsistent legal statute for allowance of broken period interest paid on purchase of securities as expenditure as deduction with the implementation of Income Computation and Disclosure Standards (ICDS)-VIII on securities, with effect from AY 2017-18 vis a vis the Honourable Supreme Court ruling in the case of Citi Bank NA ¹² , wherein it was held that broken period interest paid on the purchase of securities is allowable as a deduction. Audit noticed 24 ¹³ cases where the Department had disallowed broken period interest in AY 2017-18 and 2018-19 whereas in two cases of a private bank the deduction for broken period interest was allowed as discussed in para 4.4.1.

¹² Citi Bank NA in civil appeal No.1549 of 2006 dated 12.8.2008

¹³ 14 cases of Private Sector Banks and 10 cases of Public Sector Banks

Table 3.1: Compliance to directions issued vide instruction No.17/2008 dated 26 November 2008		
The clause under the instruction	Gist of instruction	Comments on compliance with the instruction
		The CBDT may review the inconsistent stand of AOs for the treatment of broken period interest during assessment.
(vii)	As per RBI guidelines dated 1 July 2015, the investment portfolio of the banks is required to be classified under three categories viz. Held to Maturity (HTM), Held for Trading (HFT) and Available for Sale (AFS). Investments classified under the HTM category need not be marked to market and are carried at acquisition cost unless these are more than the face value, in which case the premium should be amortised over the period remaining to maturity. In the case of HFT and AFS securities forming stock in trade of the bank, the depreciation/appreciation is to be aggregated scrip-wise and only net depreciation, if any, is required to be provided for in the accounts. The latest guidelines of the RBI may be referred to for allowing such claims.	<p>The CBDT notified ten Income Computation and Disclosure Standards (ICDS) under Section 145(2) of the Act applicable from AY 2017-18, which included ICDS VIII relating to Securities. Part B of ICDS VIII on 'Securities' deals with securities held by scheduled banks. Para 3 of Part B¹⁴ of ICDS VIII states that securities shall be classified, recognised, and measured in accordance with the extant guidelines issued by the Reserve Bank of India (RBI).</p> <p>The audit observation from the assessment orders of different banks for assessment years 2017-18 and 2018-19 is that while amortisation of premium paid on securities held under HTM categories is disallowed by the Department in some cases, it is also allowed as a deduction in a few other cases. It is worth noting that every scheduled commercial bank is allowed to invest up to 25 <i>per cent</i> of its investments in the HTM category. Thus, the issue of taxability of amortisation of investment in the HTM category is uniform for all scheduled banks. Cases of inconsistent stand adopted by ITD regarding the allowability of deduction for amortisation of premium paid on securities held under HTM categories are discussed in para 4.4.2.</p> <p>The CBDT may review the inconsistent stand of AOs for the treatment of amortisation of premiums paid on securities held under HTM categories during assessment.</p>
(viii)	Section 14A of the Act, read with rule 8D of the Income Tax Rules, 1962, provides that for the purpose of computing total income under the Act, no deduction shall be allowed in respect of expenditure incurred by the assessee in relation to income, which does not form part of the total income. Therefore, expenditure with respect to exempted incomes should not be allowed as a deduction.	<p>Audit noticed 36 instances out of 1,098 cases where a deduction for exempt income was wrongly allowed without properly adjusting the expenditure incurred for earning such exempt income. This resulted in under-assessment of income to the tune of ₹ 785.46 crore, involving a tax effect of ₹ 293.59 crore.</p> <p>Cases of incorrect allowance of expenditure incurred to earn exempt income under Section 14A are discussed in para 5.5.4.2.</p>

¹⁴ Para 8.1 on Classification, Recognition and Measurement of Securities of ICDS VIII

Table 3.1: Compliance to directions issued vide instruction No.17/2008 dated 26 November 2008		
The clause under the instruction	Gist of instruction	Comments on compliance with the instruction
(xi)	As per Section 37 of the Act, any provision with respect to any unascertained liability or liability that has not accrued does not qualify for the deduction. However, it has been found that Banks are claiming provisions on different accounts, probably under the RBI guidelines [e.g., Provisions for wage arrears for which negotiations are yet to be finalised, provisions for standard assets, etc.]. A contingent liability cannot constitute a deductible expenditure for the purposes of the Income Tax Act. Thus, putting aside money which may become expenditure on the happening of an event would normally not constitute an allowable expenditure under the Income Tax Act. The AOs should verify such claims to determine whether they are admissible as per the Income Tax Act.	In 79 instances out of 2,378 cases examined in Audit, deduction of ₹ 15,646.01 crore was wrongly allowed due to irregular deductions allowed for inadmissible expenditure, provision made for unascertained liability, etc. The tax effect involved was ₹ 2,766.55 crore. Cases of incorrect allowance of deduction for provisions and expenditure are discussed in para 5.5.6.
(xii)	Under section 145 of the Act, income under the heads 'profits and gains of business' or 'income from other sources' is required to be computed in accordance with either the cash or the mercantile system of accounting regularly employed by the assessee. Under the RBI guidelines and the Indian Companies Act 1956, the banks have to follow the mercantile system of accounting and prepare accounts on an accrual basis. The Assessing Officers should ensure that this system is strictly followed by the Banks (in respect of all sources of income).	In respect of 63 out of 2025 cases examined in Audit, NBFCs did not offer interest accrued on NPA to tax, though the provisions of section 43D were not applicable to NBFCs for the period up to AY 2019-20. Cases of tax treatment of interest on NPA under Section 43D in respect of NBFCs are discussed in Para 4.1.6.

Chapter 4

Systemic Issues

Audit examined the adequacy of the existing rules, regulations, procedures, instructions, notifications, circulars, etc., in order to identify any loopholes or ambiguity in the existing rules, regulations, and procedures pertaining to the assessments of the assesseees of the financial sector. It sought to ascertain the existing regulatory law and procedure under the Income Tax Act, specific to the assesseees of the financial service sector.

Audit found deficiencies in Form ITR-6 and Tax Audit Report (TAR), as the information regarding deduction claimed towards provision for bad and doubtful debts, deduction for bad debts written off as irrecoverable and deduction for special reserve created out of profit from long-term financing, as well as authentication of the claims made by Banks and NBFCs were not available in the extant format of TAR. Audit also observed instances where assesseees were allowed significant amounts of bad debts written off exceeding rupees one lakh without disclosure of PAN details of the borrowers. Even during the scrutiny assessments, the Department had not called for details of such bad debts. Audit also noted inconsistent positions taken by different AOs on the tax treatment of specific issues identified in the assessment of banks and NBFCs.

Some of the ambiguities between the Income Tax Act provisions and Rules made thereunder and procedural inadequacies noticed during the Performance Audit are tabulated in Table 4.1.

Para No.	Gist of issues	Total cases examined	Number of cases where issues were noticed
4.1	Lacunae in the Income Tax Act/Rules		
4.1.1	Non-revision of Rule 6EA in line with the amendment made in Section 43D for NBFCs	--	--
4.1.2	Modifications proposed in Income Tax Return Form of Companies (ITR-6)	--	--
4.1.3	Insufficient information in Tax Audit Report under Sections 44AB to verify claim of deductions under Sections 36(1)(vii), 36(1)(viiia) and 36(1)(viii)	--	--
4.1.4	Treatment of cessation of liability due to write off of bad debts	--	34
4.1.5	Allowance of claim of bad debts though bad debts not crystallised	628 (only bad debt claimed cases)	49
4.1.6	Tax treatment of interest on NPA under Section 43D in respect of NBFCs	2,025 (only NBFCs)	63
4.1.7	Absence of provision under the Act to tax deemed withdrawal from the Special Reserve created under Section 36(1)(viii)	--	1
4.2	Ambiguities noticed under the Income Tax Act/Rules made thereunder		

Table 4.1: Systemic issues noticed in Audit			
Para No.	Gist of issues	Total cases examined	Number of cases where issues were noticed
4.2.1	Ambiguity in Income Tax Rule 6EA with provisions of Section 43D resulting in an avoidable legal dispute	220 (Public and Private Banks cases)	36
4.3	Procedural inadequacies		
4.3.1	Bad debts claim and allowance without disclosure of borrowers' PAN	628 (only bad debt claimed cases)	127
4.3.2	Bad debts allowed without verification of borrowers' details	628 (only bad debt claimed cases)	181
4.3.3	Absence of provision in the Act to file the revised Tax Audit Report at the time of filing a revised return.	--	2
4.4	Inconsistencies noticed in the allowability of claims/ deductions		
4.4.1	Inconsistent stand adopted by ITD regarding the allowance of Broken Period Interest	220 (Public and Private Banks)	24
4.4.2	Inconsistent stand adopted by ITD regarding the allowability of deduction of amortisation of premium paid on securities held under the HTM category	220 (Public and Private Banks)	51
4.4.3	Inconsistent stand adopted by ITD regarding the allowability of deduction of diminution in value of investment	353 (only Banks)	15
4.4.4	Incorrect allowance of deduction towards CSR expenses	2,378	66
4.4.5	Inconsistent stand adopted by ITD regarding taxation of profits on the sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC)	--	22
4.5	Business Code-wise analysis of Sample	--	--
4.6	Mismatch between the Centralised data of the CBDT and the data of their field formations due to the wrong capturing of the business code	--	--
	Total		671
Note: Gaps and deficiencies in the Income Tax Act/Rules have been depicted under systemic issues. Further, deficiencies in Forms and Reports are also included in this chapter			

4.1 Lacunae in the Income Tax Act/Rules made thereunder

4.1.1 Non-revision of Rule 6EA in line with the amendment made in Section 43D for NBFCs

Section 43D of the Income Tax Act, 1961 provides that in the case of a public financial institution or a scheduled bank, the income by way of interest on NPA shall be chargeable to tax in the previous year in which it is credited to the profit and loss account for that year or when it is actually received by that institution or bank whichever is earlier. Rule 6EA of the

Income Tax Rules, 1962, issued to comply with the provisions of Section 43D, relates to the taxability of interest on Non-Performing Assets.

4.1.1.1 Non-revision of Rule 6EA in line with the amendment made in Section 43D for NBFCs vis-a-vis RBI guidelines

As per Rule 6EA, a loan is considered NPA if it is outstanding for more than **six months**, whereas, as per RBI guidelines¹⁵, the period of outstanding considered is only **three months** to consider any loan or interest as NPA.

Thus, Section 43D refers to guidelines issued by the RBI (NPA when the outstanding amount is more than three months), whereas Rule 6EA prescribes a period of six months to attract the provisions of Section 43D. This ambiguity has led to many tax disputes over the taxation of accrued interest on non-viable or sticky advances when the loan is outstanding for three to six months.

As Rule 6EA has not been amended in line with RBI guidelines, a dichotomy exists between Section 43D and Rule 6EA. Although there is a well-settled principle of law that statutory provisions prevail over rules, this ambiguity has led to avoidable disputes. Thus, there is a need to amend the provisions of Rule 6EA in conformity with RBI guidelines, so that the Department can adopt a uniform approach to dealing with interest accrued on NPA. Audit findings in this regard are discussed in para 4.2.1 of this report.

4.1.1.2 Non-revision of Rule 6EA in line with the amendment made in Section 43D for NBFCs as per the Finance Act

The Finance Act No. 23 of 2019, amended Section 43D to apply to the two categories of NBFCs, viz. (i) a deposit-taking non-banking financial company and (ii) a systemically important non-deposit-taking non-banking financial company, with effect from AY 2020-21. These categories of NBFCs are required to offer interest accrued on NPA to tax as income in the Previous Year (PY) or when it is actually received by that NBFC, whichever is earlier.

Audit observed that Rule 6EA¹⁶, of the Income Tax Rules, 1962 had not been amended in line with the amended provisions of Section 43D to include these two categories of NBFCs. Audit communicated this to the Department (Mumbai Charge) in March 2022. Reply of the Department is awaited (November 2025).

Recommendation:

CBDT may consider amending the provisions of Rule 6EA to include two categories of NBFCs: deposit-taking non-banking financial companies and systemically important non-deposit-taking non-banking financial companies, in accordance with the provisions of Section 43D

¹⁵ Para 2.1.2 of the *Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks* dated 1st July 2015 issued by the RBI.

¹⁶ As per Rule 6EA of the Income Tax Rules, the provisions of section 43D shall apply in the case of every public financial institution, scheduled bank, State financial corporation and State industrial investment corporation where its income by way of interest of the categories of bad and doubtful debts as specified in the Rules.

of the Act and in line with the categorisation of NBFCs as per RBI, for clarity and to obviate the possibility of litigation.

In response, the Ministry stated (September 2024) that, “Vide Finance Act, 2023, Section 43D of the Act has been amended and now refers to categories of non-banking financial companies as may be notified by the Central Government in the Official Gazette in this behalf. These categories have then been notified vide CBDT notification no. 79/2023 dated 22.9.2023 as the following -

- (a) all NBFCs classified in the Top Layer;
- (b) all NBFCs classified in the Upper Layer;
- (c) all NBFCs classified in the Middle Layer.”

Reply of the Ministry is not tenable as it refers to the amendment in Section 43D regarding inclusion of various categories of NBFCs, whereas the Audit observed (March 2022) non-revision of Rule 6EA to include two categories of NBFCs: deposit-taking NBFCs and systemically important non-deposit-taking NBFCs, in accordance with the amended provisions of Section 43D of the Act by Finance Act 2019. Further, as Section 43D has been amended further to include several categories of NBFCs, the Ministry may reconsider amending the provisions of Rule 6EA to include these categories of NBFCs. Further this issue may be examined and considered under the new Income Tax Rules corresponding to Special provision in case of interest income of specified financial institutions under Section 56 under the new Income Tax Act 2025 proposed to be effective from 1 April 2026.

4.1.2 Modifications proposed in Income Tax Return Form of Companies (ITR-6)

Section 139 of the Income Tax Act, 1961 prescribes that every company must furnish a return of income in Form ITR-6. Further, as per sub-rule (2) of Rule 12, ITR is not required to be accompanied by a statement showing the computation of tax payable based on the return.

Deductions towards bad debts written off and amounts transferred to special reserve under Section 36(1)(vii) and Section 36(1)(viii), respectively are claimed only in the computation of taxable income under the head ‘profits and gains from business or profession’.

The processes such as e-filing, e-payment of taxes, e-proceedings and faceless assessments workflow in the ITD have been digitised for efficient tax administration. The Department furnished assessment records in digital format for assessments completed from FY 2018-19 onwards to the Audit.

Audit observed that claims of deductions made under Section 36(1)(vii) and 36(1)(viii) were not captured or disclosed in the ITR-6 Schedule BP. In the case of bad debts written off claimed under Section 36(1)(vii), the amount debited in the profit and loss account and claimed in the ITR differed as in most cases of banks the bad debts written off as irrecoverable are adjusted with the provision for bad and doubtful debts account in the balance sheet. Assessee typically disclosed this deduction under the miscellaneous head, item Serial No. A(33) of Schedule BP of ITR-6- ‘any other amount allowable as deduction’, clubbing all the

deduction items together, making it difficult for AOs to determine the actual amount of deduction.

Audit noted that the latest income tax form, ITR-6 of AY 2023-24, also does not provide separate columns for capturing the actual claim of deductions made under the above-mentioned Sections.

As banks and NBFCs claim a significant amount of deductions under the above-mentioned three Sections, the AO must know the exact amount of deduction claimed by the assessee under these sections while finalising the assessments to examine its allowability under the respective provisions. The details of deductions claimed and allowed under Sections 36(1)(vii), 36(1)(viia) and Section 36(1)(viii) for assessments completed during FY 2017-18 to 2021-22 are shown in Table 4.2 below:

Status	No. of cases	Bad debts claimed	Bad debts allowed	Provision for BDD claimed	Provision for BDD allowed	Provision for special reserve claimed	Provision for special reserve allowed
Foreign Bank	133	5,831	5,371	9,236	7,137	246	246
Public Bank	93	2,61,457	1,83,614	1,14,892	1,39,468	5,316	3,358
Private Bank	127	1,40,602	1,38,357	63,800	44,916	8,295	8,144
Total Banks	353	4,07,889	3,27,342	1,87,928	1,91,522	13,857	11,748
NBFC	2,025	42,899	42,835	20,767	20,019	25,807	22,278
Grand Total	2,378	4,50,788	3,70,177	2,08,695	2,11,541	39,664	34,026

Source: Assessment Records of ITD

The audit observation was brought to the notice of the Department in December 2020. PCIT-2, Mumbai, while accepting the audit observation (June 2021 and March 2022), replied that suggestions of the audit were carefully considered, and it was decided to refer these suggestions to higher authorities and also to the Tax Policy and Legislative Unit (TPL) for required amendment.

Recommendation:

CBDT may consider amending ITR-6 for the inclusion of additional columns for furnishing information related to the deductions claimed under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii) separately while computing profit and gains of business or profession. For capturing deduction under Section 36(1)(viia), two sub-columns – one column for deduction towards 10 per cent of rural advances and the second for deduction of 8.5 per cent of total income should be provided.

In response, the Ministry stated (September 2024) that “the ITR Form 6 is required to be filed by companies other than companies claiming exemption under Section 11. PART A-OI of ITR-6 containing Other Information is mandatorily to be filled if the company is liable for audit under section 44AB, and other companies are to fill this, if the same is applicable to them. Row 6 of the said schedule seeks details of the amounts debited to the profit and loss account, to the extent disallowable under Section 36 due to non-fulfilment of the condition specified in the relevant clauses. With regard to the suggestion to include additional columns in the ITR-6 for furnishing information related to the deduction claimed under Sections 36(1)(vii), 36(1)(viiia) and 36(1)(viii), it is submitted that the ITR Form 6 presently captures the said details in Row l, m and n of PART A-OI, and therefore, no further modification in this regard is required in the Form.

Further, with regard to the suggestion that for capturing deduction under Section 36(1)(viiia), two sub-columns, one column for deduction towards 10 *per cent* of rural advances and the second for deduction of 8.5 *per cent* of total income should be provided, it is submitted that the details of the amount of deduction claimed under Section 36(1)(viiia) is already being captured in the ITR Form-6. Since the ITR Form-6 in its present state itself is fairly detailed and complex, in light of the stated policy of the Government to reduce compliance burden and simplify taxation regime, it is not warranted to further complicate the ITR Form-6 by seeking similar details in duplicate rows.”

The Ministry's response is not acceptable as the existing ITR-6 format does not capture actual deductions under Sections 36(1)(vii), 36(1)(viiia), and 36(1)(viii) separately in the computation of income from profit and gains of business and profession. In view of a significant amount of deductions claimed and allowed under these Sections and irregular allowance of these deductions, as noticed by the Audit and brought out under para 5.5.1, 5.5.2 and 5.5.3 of this report, the Ministry may reconsider amending the form ITR-6 to include additional columns for these deductions. The Ministry may also reconsider capturing distinct figures of claim of deduction on total income and rural advances under Section 36(1)(viiia) in ITR-6 to monitor the extent of claim and compliance thereupon.

4.1.3 Insufficient information in Tax Audit Report under Section 44AB to verify claim of deductions under Sections 36(1)(vii), 36(1) (viiia) and 36(1)(viii)

Section 44AB of the Income Tax Act, 1961 provides for verification and certification of a taxpayer's accounts by a qualified chartered accountant in the form of a Tax Audit Report (TAR). It validates the taxpayer's income tax computation and ensures compliance with Income Tax laws. The report, in Forms 3CA, 3CB and 3CD, provides significant information for tax authorities, facilitating the accurate calculation of tax liability and the taxable income returned by the company.

As a Tax Auditor is not mandated to distinctly certify the details of deductions for bad debts written off by Banks and NBFCs in the Tax Audit Report (Form 3CD), the Department cannot secure assurance for significant deductions for bad debts being written off by Banks and

NBFCs from the TAR. Further, the Audit noted that the assessees were adjusting bad debts written off against provisions for bad debts already created in the books, without providing the details of borrowers against whom the bad debts were written off in the TAR or ITR, as discussed in para 4.1.4 and para 5.5.1 of this report.

Audit observed that information available in the existing proforma of TAR does not include the amount of deduction under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii) of the Income Tax Act distinctly. Further, these deductions are clubbed together and shown under the head "Other deductions" in the ITR under Schedule BP. Admissibility criteria and information required with respect to the deduction allowable under Sections 36(1)(vii), 36(1)(viia), 36(1)(viii) are given in **Annexure 4.1A**.

Audit observations relating to allowance of bad debts written off to the assessee without disclosure of the borrower details in TAR were brought to the notice of the Department in February 2022. PCIT-2, Mumbai (June 2022) and PCIT-3, Mumbai (May 2022) stated that the suggestion of Audit, if implemented, would enable AOs to verify deductions during assessment based on certified information. PCIT-2, Mumbai also opined that certified information would also enable the Department to automatically pick cases for scrutiny under CASS in the case of a mismatch of claims as per ITR *vis-a-vis* TAR.

Recommendation:

CBDT may consider amending the Tax Audit Report/ Form 3CD by providing separate columns for certification of deductions claimed under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii) to ensure the correctness of deductions allowed to the assessee so that the tax auditor can confirm and certify the correctness of deductions claimed by the assessee under these Sections for the correct assessment of the assessee company's taxable income and tax liability.

In response, the Ministry stated (September 2024), "In clause 19 of Form 3CD, a residual category for "any other relevant section" is provided, which may be customised according to the nature of business of the assessee. Further, adding more clauses makes compliance for taxpayers burdensome and is against the stated policy of the Government, to simplify tax law and associated rules."

Reply of the Ministry is not tenable as Clause 19 of Form 3CD captures amounts admissible under Sections 32AC to 35E in respect of which amount is debited to Profit and Loss account and amounts admissible as per provisions of the Income Tax Act, 1961 have to be mentioned. Further, amounts not debited to the Profit and Loss account but admissible under any Section mentioned in the clause need to be stated. Thus, the residuary category for "any other relevant section" provided is not sufficient for the purpose of confirmation and certification of the correctness of deductions claimed by the taxpayer under the provisions of Section 36. Also, as banks and NBFCs are claiming the significant amount of deductions under Sections 36(1)(vii), 36(1)(viia) and 36(1)(viii), CBDT may reconsider amending the Tax Audit Report/Form 3CD for capturing the claims under each Section mentioned above distinctly.

4.1.4 Treatment of cessation of liability due to write-off of bad debts

Audit examination disclosed that the Income Tax Act had no provision to tax the cessation of liability in the hands of a borrower when the borrower is not required to pay the lender the principal portion of the loan amount till the Finance Act 2023.

In the case of banks and NBFCs, the bad debts include both principal and interest components. When a lender recovers any amount, it is taxable as recovery of bad debts under Section 41(4). If the lender writes off the interest, the borrower must declare it as cessation of liability under Section 41(1). However, there is no clarity on whether the borrower is liable to offer the principal portion of the loan written off by the lender when the recipient is no longer liable to repay the loan. Before the Finance Act 2023, no provision existed to tax cessation of liability to repay the principal portion of the loan. However, it was allowed as a deduction to the lender.

Audit noticed 34 instances pertaining to AYs 2013-14 to 2019-20 for banks and NBFCs where, after cessation of liability, neither income was offered to tax nor was it examined during assessment, as detailed below in Table 4.3 and **Annexure 4.1** to this report:

S.No	Region	Banks/ NBFC	No. of Cases	Bad Debt allowed (₹ in crore)	Cessation of liability to be considered in the borrower's hands (₹ in crore)
1	Chennai	Public Bank	11	19,440.46	19,440.46
		Private Bank	14	3,723.32	3,723.32
		NBFC	5	1,260.92	1,260.92
2	Kolkata	NBFC	1	115.00	115.00
3	Ahmedabad	NBFC	3	140.72	140.72
Total			34	24,680.42	24,680.42

Source: Assessment records of ITD (Refer to Annexure 4.1)

Three illustrative cases are discussed below:

Box 4.1: Illustrative cases for not offering of cessation of liability to tax

(a) Charge: PCIT-1 Vadodara

Assessee: N2

AYs: 2017-18 & 2018-19

Returns filed by the assessee for AY 2017-18 (October 2017) and for AY 2018-19 (September 2018) were assessed under Section 143(3), read with Sections 143(3A) and 143(3B) in November 2019 and April 2021 at income of ₹ 19.69 crore and ₹ 21.38 crore respectively under special provisions of the Act. Audit noticed that the assessee had written off bad debts of ₹ 15.20 crore in AY 2017-18 and ₹ 33.91 crore in AY 2018-19, respectively, under One Time Settlement (OTS), out of which ₹ 15.15 crore and ₹ 7.70 crore pertained to the principal portion of the loan amount. The Department allowed the deduction for bad debts written off without cross-verifying the details from the assessment records of borrowers.

The observation was communicated to the DCIT Circle Anand in March 2022. *The Department replied during the Exit Meeting held at the regional level (January 2023) that for the borrower, the principal portion of the loan written off is a part of the capital receipt. Hence, the amount of the principal cannot be taxed. However, the Ministry in its reply (March 2025) while not accepting the audit observation stated that, the objection of the Audit in the present case does not relate to any mistake in the illustrative case but is in the nature of a recommendation (refer recommendation below para 4.1.4(ii)).*

Reply of the Ministry is silent on the taxability of the loan amount in the borrower's hands, where the principal portion of the loan amount is written off in the books of accounts of the lenders for which deduction has been allowed under Section 36(1)(vii). The Ministry may reconsider its reply (November 2025).

(b) Charge: PCIT-3, Ahmedabad

Assessee: G4

AY: 2018-19

Return filed by the assessee for AY 2018-19 (March 2019) was assessed under Section 143(3) read with Section 144B in September 2021, at an income of ₹ 11.42 crore. Audit noted from assessee's submission (February 2021) that bad debts of ₹ 91.61 crore were written off, out of which the principal portion was ₹ 0.73 crore and the interest portion was ₹ 91.54 crore. The interest portion written off by the lender was taxable under Section 41(1) of the Act in the hands of the borrower. However, the Department did not cross-verify from the assessment records of borrowers whether they had offered interest of ₹ 91.54 crore to tax.

The observation was communicated to the DCIT Circle Gandhinagar in March 2022. *The Department replied during the Exit Meeting held at the regional level (January 2023) that for the borrower, the principal portion of the loan written off is a part of the capital receipt. Hence, the principal amount cannot be taxed.* Reply of the DCIT is awaited (November 2025) despite the issue of reminder (November 2024, January 2025).

Reply of the Ministry to the observation is awaited (November 2025).

(c) Charge: CIT (IT & TP), Kolkata;

Assessee: N6

AY:2019-20

The assessee had filed a return for AY 2019-20 in November 2019, declaring income of ₹ 26.08 crore and claiming a deduction towards a write-off of ₹ 114.74 crore. Scrutiny of the ITR revealed that the bad debt was written off for the single assessee, B17, under the jurisdiction of the DCIT, Circle-4, Nagpur.

Scrutiny of the return of B17 for AY 2019-20 revealed that the operational income of ₹ 1,059.05 crore and the income from other sources of ₹ 35.08 crore did not include the

write-off amount. Thus, it was evident that this assessee did not consider the amount of ₹ 114.74 crore written off by N6 as their income.

The observation was communicated to the DCIT(IT) Circle 1(2) Kolkata (June 2022). Reply of the DCIT is awaited (November 2025) despite the issue of a reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

Audit noted that section 194R was introduced in the Finance Act 2022 on 1 July 2022 to allow tax deduction at source for benefits or perquisites given to a resident person. CBDT clarified in FAQ No. 3 of Circular No. 12 of 2022 that the amount of a principal loan waived by a bank under a one-time settlement scheme counts as income under Section 28(iv), relying on the Madras High Court judgement in the case of CIT vs Ramaniyam Homes (P) Ltd¹⁷. Audit noted that the Finance Act, 2023 has amended clause (iv) of the Section 28 with effect from AY 2024-25 to clarify that benefits or perquisites arising from business or exercise of a profession includes those in cash or kind or partly in cash and partly in kind and were therefore taxable as income from profits and gains of business and profession.

Recommendation:

- (i) The Department of Revenue (DoR) may consider amending the provisions of the Income Tax Act to tax income arising out of the cessation of liability on account of the settlement of the principal portion of the loan in the hands of the borrower.**
- (ii) CBDT may consider collecting information on the principal and interest components of the loans written off by Banks/NBFCs through the Annual Information Return required to be filed under Section 285BA¹⁸ of the IT Act in order to ensure its taxability in the hands of the borrowers.**

The Ministry in its response stated (September 2024) that, "Clause (iv) of Section 28 of the Act has been amended vide Finance Act, 2023 to clarify that benefits or perquisites arising from business or exercise of a profession include those in cash or in kind or partly in cash and partly in kind and thus, the same are taxable as income from business and profession.

For removal of difficulty, vide CBDT Circular no. 18 of 2022, it has been clarified that for certain specified lenders, specified therein, deduction of tax under Section 194R of the Act would put extra cost on such bank, as this would require payment of tax by the deductor in addition to taking a haircut already and thus such waiver would not be subjected to tax deduction at source under section 194R of the Act.

However, the taxability of the same in the hands of the borrower still exists and does not require any separate amendment. The information can be obtained in the 26Q return filed by the Banks. A slight modification to the same can be considered."

¹⁷ (2016) 68 taxmann.com 289 (Madras)

¹⁸ Section 285BA of the Act read with rule 114E of the Income Tax Rules requires specified reporting persons to furnish Statements of Financial Transaction (SFT) for depository transactions.

Reply of the Ministry regarding Clause (iv) of Section 28 of the Act, having been amended vide Finance Act, 2023, with effect from AY 2024-25, after the issue was pointed out by the Audit in February 2022, is noted. As regards the collection of information through AIR, the Ministry has agreed to bring about a modification in Form 26Q¹⁹. Details of the action taken in this regard are awaited in the Audit (November 2025).

4.1.5 Allowance of claim of bad debts though bad debts not crystallised

As per the provisions of Sections 36(1)(vii) and 36(2)(v) of the Income Tax Act, 1961, banks are eligible to claim a deduction for any bad debts or part thereof which is written off as irrecoverable in the books of the accounts of the assessee for the previous year.

Although bad debts constitute a significant item of expenditure and deduction, assessee are not able to prove on record whether the loan or receivable has become irrecoverable. The Hon'ble Supreme Court, in the case of Vijaya Bank, also held that the deduction should be allowed once it is claimed as bad debts written off in the books either in the form of a debit to profit and loss account or as a deduction from advances.

Audit examined 628 cases and noticed 49 cases entailing bad debts of ₹ 39,592.10 crore in Ahmedabad, Chennai, Kerala, and Kolkata charges where deduction towards bad debts was allowed although there was no evidence on record to show that the debts had become bad (refer **Annexure 4.2 of this report**). Region-wise details allowance of claims of bad debts, though bad debts had not crystallised in the absence of evidence, are shown in Table 4.4 below.

Sr. No.	Region	Bank/NBFC	No. of Cases	AY	Amount of Bad debts
1	Chennai	NBFC	22	2014-15 & 2016-17 to 2019-20	16,374.58
		Private Bank	12	2013-14 & 2015-16 to 2019-20	3,599.80
		Public Bank	8	2014-15 to 2018-19	19,049.86
2	Kerala	Private Bank	3	2015-16 to 2017-18	473.18
		NBFC	1	2018-19	31.99
3	Ahmedabad	NBFC	2	2016-17 & 2018-19	58.19
4	Kolkata	NBFC	1	2017-18	4.50
Total			49		39,592.10

Source: Assessment records of ITD *(Refer Annexure 4.2)*

¹⁹ Form 26Q is a TDS return form prescribed to collect information on TDS on various types of payments excluding salaries.

An illustrative case is discussed below:

Box 4.2: Illustrative case for the allowance of claim of bad debts though bad debts not crystallised

Charge: PCIT-1, Chennai

Assessee: M/s H12

AYs: 2014-15 and 2016-17 to 2019-20

Reassessment for AY 2014-15 and scrutiny assessments for AY 2016-17 to AY 2019-20 were completed under Section 147 read with Section 144B and 143(3) in March 2022, December 2018, December 2019, April 2021 and September 2021, respectively. Audit observed that bad debt claims aggregating to ₹ 1,161.40 crore²⁰ for AYs 2014-15 and 2016-17 to 2019-20 was debited in the Profit and Loss Account towards bad debts under Section 36(1)(vii) and claimed in ITR without PAN details. The claims were allowed without verification of details during scrutiny/re-assessments, as no evidence was found available on the record.

The Department allowed the deduction of bad debt written off without verifying their correctness, on the basis that they were written off in the books. Audit could not ascertain from the assessment records whether such bad debt claims were examined by the AOs and found to be crystallised before allowing such deductions.

This Audit observation was communicated to the DCIT Corporate Circle 1(1), Chennai in May 2022. Reply of the DCIT is awaited despite issue of reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

Audit sought the information (January 2022) from PCIT-2, Mumbai and PCIT-3, Mumbai, where 38 public sector and 48 private sector sample banks cases were assessed during period of Performance Audit, about details of correspondence made with the Registrar of Companies (RoC), National Company Law Tribunal (NCLT) and Debt Recovery Tribunal (DRT) during the FYs 2017-18 to 2020-21 regarding the issues arising during assessment of banks under their respective jurisdictions. In reply, PCIT-3, Mumbai stated (May 2022) that no such correspondence was made with RoC/NCLT/DRT during the Financial Years 2017-18 to 2020-21. Reply from PCIT-2 Mumbai is awaited (November 2025).

The Department needs to examine the status of cases pending with NCLT/DRT/RoC at the time of assessment to judge the crystallization of bad debts claimed and its recovery status before taking a call on the admissibility of the deduction for bad debts claimed by the assessee.

Recommendation:

CBDT may have a suitable mechanism to ensure that write-offs are allowed after bad debt is crystallised to prevent assesseees from using the provisions of Section 36(1)(vii) as a modus operandi to reduce the tax liability under the guise of bad debts.

²⁰ ₹ 66.01 crore (AY 2014-15) + ₹ 118.48 crore (AY 2016-17) + ₹ 108.96 crore (AY 2017-18) + ₹ 387.41 crore (AY 2018-19) + ₹ 480.54 crore (AY 2019-20)

In response, the Ministry stated (September 2024), “It is seen that the report mentions that this provision has been misused in 49 out of 628 examined, to the extent that there was no evidence on record to show that the debts had become bad, which is a minuscule number. Thus, the intent of the legislature, being to enable banking institutions to claim irrecoverable bad debts, is being enforced by the assessees in 98% and more cases. This can be further improved with better enforcement of available provisions instead of an amendment in the already complex statute.”

As Ministry has agreed to further improve the enforcement of available provisions, details of the action taken in this regard will be awaited in Audit.

4.1.6 Tax treatment of interest on NPA under Section 43D in respect of NBFCs

CBDT notified the Income Computation and Disclosure Standards (ICDS) on 29.09.2016, effective from AY 2017-18. As per ICDS-IV on Revenue Recognition, interest income is to be recognised on an accrual basis. This was clarified by the CBDT in its FAQs issued via Question 2 in Circular No. 10/2017 dated 23.03.2017. Section 43D of the Income Tax Act allows an assessee to recognise interest on an NPA as income only when it is received or credited to the profit and loss account. Section 43D was made applicable to two categories of NBFCs (a deposit-taking non-banking financial company and a systemically important non-deposit taking non-banking financial company) by the Finance Act No.23 of 2019, with effect from 1st April 2020, i.e. for AY 2020-21. Income in respect of interest on NPAs was required to be taxed on an accrual basis for the period up to AY 2019-20.

Audit examination of 2,025 NBFC cases assessed during the period from F.Y. 2017-18 to F.Y. 2020-21 revealed that in 63 cases, as detailed in **Annexure 4.3** of this Report, NBFCs did not offer interest accrued on NPA to tax. Region-wise details of cases where interest on NPA was not offered to tax are given in Table 4.5 below:

Table 4.5: Details of NBFCs that have not offered interest on NPA on the accrual basis			
S. No.	Region	Total Cases Examined	No. of Cases where interest was not offered to tax
1	Delhi	371	19
2	Mumbai	471	13
3	Bengaluru	63	10
4	Ahmedabad	62	7
5	Jaipur	38	7
6	Chennai	191	7
7	Kolkata	582	0
8	Hyderabad	90	0
9	Lucknow	86	0
10	Chandigarh	71	0
Total		2,025	63
<i>Source: Assessment Records of ITD</i>		<i>(Refer Annexure 4.3)</i>	

As per the information made available to audit, AOs had not called for any explanation for not offering interest income on NPA on accrual basis to tax while completing the assessments for AYs prior to amendment brought in Finance Act 2019. Two cases are discussed below:

Box 4.3: Illustrative cases on Tax treatment of interest on NPA under Section 43D in respect of NBFCs

(a) Charge: PCIT-1 Mumbai
Assessee: M/s I29
AY: 2017-18

Scrutiny assessment of the assessee for AY 2017-18 was completed in July 2021 at income of ₹ 321.13 crore. Audit noticed that interest accrued on NPA amounting to ₹ 5.67 crore on account of additions to gross NPA of ₹ 62.73 crore during the year was neither offered to tax by the assessee nor added-back by the Department while completing the assessment.

This was brought to the notice of the DCIT CC 2(1), Mumbai in March 2022. Ministry did not accept the audit observation (November 2025) stating that ICDS has been prescribed by the CBDT by virtue of the powers conferred under Section 145(2) of the Act, 1961 and that Section 145 of the Act is a machinery section and is not a charging section to determine the taxability of the income of a taxpayer. The scope of the total income of an assessee is governed by Section 5 of the Act. Further, it is imperative to note that the preamble of ICDS-IV provides that in case of conflict between the ICDS and the provisions of the Act, the provisions of the Act shall prevail. Accordingly, the provisions of the Section 5 of the Act shall override the ICDS provisions. Furthermore, as per Section 5(1) of the Act, the total income of a person resident in India includes income which is received or deemed to have been received in India or accrues or arises or is deemed to accrue or arise to him in India during the year. Accordingly, an income shall be chargeable to tax in the hands of a resident only where such income is inter-alia received or is accrued to the assessee. It is imperative to note that an NPA is where the recovery of the loan amount is doubtful and uncertain. In this regard, it is a well settled principle that interest on NPA can be said to have accrued only at the time of receipt as tax can be levied only on real income and not hypothetical income.

Reply of the Ministry is not tenable as the provisions of Sections 5 and Section 145 are not mutually exclusive, but they are complementary to each other as Section 5 of the Act provides for the scope of the total income of an assessee from all sources whereas, Section 145 provides for a method of accounting for the income chargeable under the heads "Profits and Gains of Business or Profession" and "Income from Other Sources". Further, all the case laws relied upon pertain to the AYs prior to 2017-18, and as per the answer to question 2 of the FAQs²¹, the CBDT clarified that provisions of ICDS shall prevail over past judicial precedents. In view of the same Ministry may reconsider its reply.

²¹ CBDT Circular No. 10 of 2017 on Clarifications on Income Computation and Disclosure Standards (ICDS) notified under section 145(2) of the Income-tax Act, 1961.

(b) Charge: PCIT-1 Mumbai
Assessee: M/s S26
AY: 2018-19

The assessment was completed after complete scrutiny under Section 143(3) read with Sections 143(3A) and 143(3B) in April 2021 at an income of ₹ 270.59 crore. During the assessment, the Department made an addition for interest accrued on NPA amounting to ₹ 5.15 crore in respect of NPA for the period more than 90 days but less than six months. As per the provisions of ICDS-IV, an addition towards interest income accrued in respect of NPA was required to be made for the whole year. This resulted in an underassessment of income of ₹ 10.29 crore and a short levy of tax of ₹ 3.56 crore.

This was brought to the notice of the DCIT 1(3)(1), Mumbai in March 2022. *The Department, in its reply, stated (May 2024) that remedial action under Section 148 of the Act had been initiated.* Further details were awaited (November 2025) despite issue of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

Out of 63 cases pointed out in Audit, the Department had accepted audit observation in two cases²² in Mumbai region, one case each of Jaipur²³ and Gwalior²⁴ region and took remedial action at the instance of Audit. Further, in Ahmedabad region, the Department stated during the Exit Meeting (January 2023) that such cases need further examination.

ITD may re-examine similar cases pertaining to AYs 2017-18 to 2019-20 regarding the taxability of interest on NPA where interest income was not offered to tax as per ICDS-IV on Revenue Recognition.

Recommendation:

CBDT may examine and issue clarification on the taxability of interest on NPA until the provisions of Section 43D were made applicable to NBFCs to avoid inconsistency in the tax treatment of interest income on NPA and possible litigation.

Ministry in its reply (November 2024) stated that by the Finance Act 2023, Section 43D has been made applicable to Non-Banking Financial Companies with effect from 01.04.2024.

Reply of the Ministry is not tenable as Audit sought clarification on the taxability of interest on NPA for the period before the provision of Section 43D was made applicable to the NBFCs in view of the inconsistencies noticed in the Audit. Further details are awaited (November 2025).

²² S26 (AY 2017-18 and AY 2018-19)-December 2023

²³ A5 (AY 2017-18)- May 2024

²⁴ C7 (AY 2017-18)-February 2024

4.1.7 Absence of provision under the Act to tax deemed withdrawal from Special Reserve created under Section 36(1)(viii)

Section 36(1)(viii) allows deduction for any special reserve created and maintained by a specified entity upto twenty *per cent* of the profits derived from eligible business.

Further, Section 41(4A) stipulates that any amount subsequently withdrawn from such special reserve will be treated as profit and gains of business or profession and taxed as the income of the previous year in which such amount is withdrawn. As per the explanation under Section 41(4A), where any amount is withdrawn from the special reserve in a previous year in which the business is no longer in existence, the provisions of this sub-section shall apply. However, no clarity existed in case there is an accumulated balance of special reserve, and the business is no longer in existence, and no amount is withdrawn from the special reserve account.

One such case is illustrated below:

Box 4.3A: Illustrative case on Absence of provision under the Act to tax deemed withdrawal from Special Reserve created under Section 36(1)(viii)

Charge: PCIT-1 Chennai

Assessee: M/s I10

AY: 2016-17

The assessee, an Infrastructure Finance Company (NBFC), received in-principle approval from the RBI to set up a new private sector bank (I38) in April 2014 and thereafter continued operating as an NBFC-Investment Company. Pursuant to the demerger, the financial undertaking of the company was transferred to the newly formed I38, and M/s I10 Company discontinued its operation of the financial undertaking with effect from 01.10.2015.

Audit scrutiny of the assessment records revealed that up to AY 2016-17, the assessee company claimed and was allowed a deduction amounting to ₹ 452.10 crore and ₹ 170.05 crore under Section 36(1)(viii) for AY 2015-16 and 2016-17, respectively. As per the assessment records of AY 2017-18, the assessee did not claim any deduction under Section 36(1)(viii).

As per the Annual Report for FY 2020-21, the Company retained an amount of ₹ 2,644.23 crore in a Special Reserve as of 31.03.2016, despite discontinuing the long-term finance business. The issue of taxing the retained amount of ₹ 2,644.23 crore in the special reserve under Section 36(1)(viii) even after discontinuance of the said business under the provisions of section 41(4A) in the AY 2017-18 needs to be addressed, as the existing explanation only relates to "withdrawal from the special reserve". It was also not clear for how long the special reserve under Section 36(1)(viii) would be carried by the NBFC-Investment's accounts before offering it to tax as per the provisions of Section 41(4A).

This was brought to the notice of the DCIT CC-1(1), Chennai in May 2022. The reply of the Department is awaited (November 2025) despite issue of reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may consider bringing a suitable amendment to Section 41(4A) of the Income Tax Act, as there is no provision regarding tax treatment of the retained money in the Special Reserve by the entity after the discontinuance of business of long-term finance.

In response, the Ministry stated (September 2024) that the amendment suggested is required to tax the balance on the special reserve when the business becomes non-existent, and it is apparent that the amount is being carried on books to prevent taxability under Section 41(4A), which may be examined.

As the amendment suggested by the Audit in Section 41(4A) of the Income Tax Act is under examination, details of action taken in this regard will be awaited (November 2025).

4.2 Ambiguities noticed under the Income Tax Act/Rules made thereunder.

4.2.1 Ambiguity in Income Tax Rule 6EA with provisions of Section 43D resulting in avoidable legal dispute

Section 43D of the Income Tax Act, 1961 provides that in the case of a public financial institution or a scheduled bank, the income by way of interest on NPA shall be chargeable to tax in the PY in which it is credited to the profit and loss account for that year or when it is actually received by that institution or bank, whichever is earlier. Rule 6EA of the Income Tax Rules, 1962, issued to comply with the provisions of Section 43D, relates to the taxability of interest on Non-Performing Assets. As per Rule 6EA, a loan is considered NPA if it is outstanding for more than six months, whereas, as per RBI guidelines,²⁵ to consider any loan or interest outstanding, the period considered is only three months.

Thus, Section 43D refers to guidelines issued by the RBI (NPA when the outstanding amount is more than three months), whereas Rule 6EA prescribes a period of six months to attract the provisions of Section 43D. This ambiguity has resulted in a plethora of tax disputes over the taxation of accrued interest on non-viable or sticky advances when the loan is outstanding for a period of three to six months.

Audit observed in 36 out of 218 Public Sector and Private Sector banks examined that the Department had added back accrued interest on NPAs amounting to ₹ 3,642.92 crore, where the outstanding period of NPA was between 3 and 6 months, as per details in Table 4.6 below and **Annexure 4.4**. No such case was noticed in the assessment of any foreign bank.

²⁵ Para 2.1.2 of the *Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks* dated 1st July 2015 issued by RBI.

S. No.	Category	Region	No. of Cases	AY	Amount disallowed (₹ in crore)
1	Private Bank	Mumbai	17	2015-16 to 2018-19	2,257.75
2		Gujarat	4	2011-12, 2012-13, 2015-16 & 2016-17	143.53
3	Public Bank	Mumbai	15	2016-17 to 2018-19	1,241.64
Total			36		3,642.92

Source: Assessment Records of ITD *(Refer Annexure 4.4)*

As Rule 6EA has not been amended in line with RBI guidelines, a dichotomy exists between Section 43D and Rule 6EA. Although there is a well-settled principle of law that statutory provisions prevail over rules, this ambiguity has led to avoidable disputes.

In the Mumbai region, the audit observations were brought to the notice of the Department (December 2020) and subsequently revised in February 2022. *The PCIT-2, Mumbai, while accepting (June 2021) the audit observations stated (March 2021), that the suggestions of the Audit were carefully considered and the Department had decided to refer these suggestions to higher authorities and also to the Tax Policy and Legislative Unit (TPL) for the required amendment. Further details are awaited (November 2025).*

In Ahmedabad region, the Department, during the exit meeting (January 2023), accepted the audit observations and stated that there is a need to remove ambiguity in Rule 6EA in conformity with the extant RBI Guidelines.

Recommendation:

CBDT may remove ambiguity in Income Tax Rule 6EA read with Section 43D of the Income Tax Act for the outstanding period of loan to be considered as NPA for the period prior to AY 2020-21 to avoid differential tax treatment during assessment and to minimise legal disputes.

4.3 Procedural Inadequacies

4.3.1 Bad debts claim and allowance without disclosure of borrowers' PAN

Section 139A of the Act provides that every person shall quote PAN for certain transactions, as specified by the Board, in the interest of revenue. Rule 114B of the Income Tax Rules lists sixteen types of transactions requiring quoting of PAN, including opening an account in any bank to which the Banking Regulation Act, 1949 applies. Banks generally insist on opening an account while sanctioning any loan to any person or entity.

In the case of banks and NBFCs, bad debts are primarily loans or interests payable on loans that are not recovered and written off by the lender. Audit observed in 172 cases of banks and 456 cases of NBFCs, as provided in their income tax return (ITR-6) filed that out of total bad debts of ₹ 1,37,320.93 crore claimed by 28 cases of Banks and 99 cases of NBFCs, bad debts of ₹ 64,696.62 crore was written off in respect of loans given to persons whose PAN details were not disclosed by the assesseees in their returns of income. Region-wise details of these cases are given in Table 4.7 below, and assessee-wise details are given in **Annexure 4.5** to this report.

Table 4.7: Details of bad debts written off without disclosure of borrowers' PAN							(₹ in crore)
S.No	Region	Banks/NBFC	No. of Cases	AY	Total Bad debts claimed during the year	Amount of bad debts claimed where PAN is not available	Amount of bad debts allowed where PAN is not available
1	Ahmedabad	Private Bank	1	2015-16	1,193.17	376.68	376.68
		NBFCs	8	2015-16 to 2019-20	825.13	825.13	825.13
2	Bengaluru	Public Bank	6	2015-16 to 2019-20	24,518.15	24,518.15	0
		NBFCs	12	2014-15 to 2019-20	579.29	578.71	578.71
3	Delhi	NBFCs	24	2015-16 to 2018-19	3,326.03	3,243.19	3,243.19
4	Guwahati	NBFCs	1	2018-19	25.36	25.36	25.36
5	Hyderabad	NBFCs	15	2015-16 to 2019-20	524.14	524.14	524.14
6	Jaipur	NBFCs	5	2017-18 to 2019-20	27.83	21.78	21.78
7	Kolkata	Public Bank	4	2010-11 to 2012-13 & 2018-19	8,574.04	8,574.04	8,574.04
8	Mumbai	Private Bank	15	2017-18 to 2019-20	78,844.96	7,688.11	7,688.11
		NBFCs	17	2016-17 to 2019-20	3,125.85	2,583.19	2,583.19
9	Chennai	NBFC	17	2014-15 & 2016-17 to 2019-20	15,688.29	15,669.45	15,669.45
		Private Bank	2	2016-17 & 2018-19	68.69	68.69	68.69
Total			127		1,37,320.93	64,696.62	40,178.47
Source: Assessment records of ITD							(Refer Annexure 4.5)

Two illustrative cases are discussed below:

Box 4.4: Illustrative cases on Bad debts claim and allowance without disclosure of borrowers' PAN

(a) Charge: PCIT-Guwahati
Assessee: N1
AY: 2018-19

Scrutiny assessment of the assessee for AY 2018-19 was completed in March 2021 at an income of ₹ 75.27 crore. The assessee claimed bad debts of ₹ 25.36 crore in the ITR, and the same was allowed during the scrutiny assessment. Audit observed that the assessee, without disclosing PAN details of borrowers whose bad debts written off exceeded rupees one lakh, claimed and was allowed a deduction for bad debts written off.

The matter was reported to the DCIT Circle 2, Guwahati, in March 2022. The DCIT in the reply stated (April 2022) that the AO was not required to cross-verify if the debt had indeed become bad and if it had been written off by the assessee from its books of accounts, the same is allowable as a deduction. The reply was untenable as it was incumbent upon the assessee to provide all required information in the ITR for the correctness of disclosure for verification and allowance of claims during the assessment.

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT 6 Mumbai
Assessee: R5
AY: 2018-19

Scrutiny assessment of the assessee was completed in April 2021 at the income of ₹ NIL under normal provision and ₹ 257.41 crore under Section 115JB of the Act. The assessee had claimed and was allowed bad debts of ₹ 115.61 crore for the person with PAN AAAAA9999A. Audit verified the PAN details from the ITBA system and noted that PAN AAAAA9999A did not exist.

The matter was reported to the DCIT 14(1)(2) Mumbai in March 2022.

Ministry accepted (November 2025) the audit observation and stated that remedial action has been initiated under section 148A(d) of the Income tax Act (August 2024). Details regarding remedial action are awaited (November 2025).

From the assessment records made available to Audit, it was observed in the sampled bank cases checked in Audit that neither the PAN details of the borrowers nor any evidence to substantiate the verification made by the AO were available on the record to verify the correctness of these claims.

In reply (February 2022), PCIT-2 Mumbai, while accepting audit observations, stated (June 2022) that it was highly improbable that banks do not ask their clients for their PAN when a loan is disbursed. PCIT suggested that this reporting be made part of the Tax Audit

Report, so that its authenticity is certified by a tax auditor. The Department also suggested that CBDT may consider a legal provision to disallow such bad debt in the case of borrowers where bad debt was more than ₹ 2,50,000 per client and where PAN is not available.

Reply of the Ministry is awaited (November 2025).

Recommendation:

- (i) CBDT may reconsider the allowability of deduction for bad debts written off from taxable income where PAN details of borrowers for loans above a specified threshold are not disclosed, to avoid allowance of ineligible claims to the assessee.**
- (ii) CBDT may devise a mechanism to verify the details of borrowers above a specified threshold for whom deduction for bad debts written off is allowed during the assessment, so as to ensure the taxability of the amount of cessation of liability in the hands of such borrowers.**

In response, the Ministry stated (September 2024) that, “PART A- P and L of ITR-6 containing Profit and Loss account is mandatory to be filled. Row 47 of the said schedule seeks details of the bad debts along with the PAN/Aadhaar number of the person for whom bad debt for an amount of ₹ 1 lakh or more is claimed. Further, where PAN/ Aadhaar number is not available, and the bad debt claimed is more than ₹ 1 lakh or more, the ITR Form-6 seeks details like name and complete address. While the said data is already being captured in the ITR Form, in light of the stated policy of the Government to reduce compliance burden and simplify taxation regime, no further legislation change is required.”

As per the Ministry’s reply, it is mandatory to disclose the PAN of the borrowers in the return while claiming a deduction towards bad debts written off. However, the Audit noticed instances where assesseees were allowed significant amounts of bad debts written off without disclosure of the PAN details of the borrowers. Ministry may, therefore, consider issuing instructions to ensure compliance to their instructions to verify the correctness of claims for deduction of bad debts written off as irrecoverable above a specified threshold for mandatory verification of collected PAN details of such borrowers and communicating the same to the jurisdictional assessing officers and uploading the same on the Insights portal²⁶ of the Department for utilisation during faceless assessment to ensure taxability of the amount to the extent relating to cessation of liability.

²⁶ Income tax Department implemented Project Insight to focus on three goals namely (i) To promote voluntary compliance and deter noncompliance; (ii) To impart confidence that all eligible persons pay appropriate tax; and (iii) To promote fair and judicious tax administration. Under this project, an integrated data warehousing and business intelligence platform is to be rolled out in a phased manner. The project also operationalizes two new centres namely Income Tax Transaction Analysis Centre (INTRAC) and Compliance Management Centralized Processing Centre (CMCPC).

4.3.2 Bad debts allowed without verification of borrowers' details

As per para 8.4 of the RBI Master Circular dated 1st July 2015²⁷ Banks may write off advances at the Head Office level, despite relative advances being outstanding in the branch books. The Circular further states, in para 9, that banks' IT and MIS systems should be robust and provide reliable asset-quality information for effective decision-making. Further, there should be no inconsistencies between information furnished under regulatory/ statutory reporting and the banks' MIS reporting. Banks should also have system-generated segment-wise information on non-performing assets and restructured assets, which may include data on the opening balances, additions, reductions (upgradations, actual recoveries, write-offs, etc.), closing balances, provisions held, technical write-offs, etc.

Further, para 6.2.2 of RBI Master Circular²⁸ dated 1st October 2021 provides that banks should exhaust all available means of recovery before writing off any account wholly or partly. RBI observed that some banks were resorting to technical write-offs of accounts, which reduces incentives to recover. To bring in more transparency, banks were asked to disclose full details of write-offs, including details about technical write-offs, in their annual financial statements as per the format prescribed in Annex-4 of the said Master Circular.

Despite having robust IT and MIS systems in place for monitoring NPA and its write-offs by the banks and RBI, Audit observed that banks have claimed large amounts of bad debts as a reduction from taxable income without furnishing any information about the borrowers whose loans were written off. These claims are discussed in two parts: (i) banks claiming a deduction for bad debts in the computation of taxable income in ITR without debiting the same in the profit and loss account and without providing any details of borrowers to the ITD and (ii) banks claiming bad debts by debiting the profit and loss account but not providing complete details of borrowers to the ITD. Audit noted significant variations in reporting bad debt written off claimed by lenders and allowed by ITD, as discussed in subsequent paras.

4.3.2.1 Bad debts allowed when no amount was debited in the profit and loss account, and ITD did not have any information on bad debts

The extant proforma of ITR-6 requires disclosure of bad debts debited to the profit and loss account. Banks do not charge these bad debts to the profit and loss account but instead reduce them against provisions made for bad and doubtful debts in the books. Despite this, these banks claim bad debts as a deduction from taxable income in the computation of taxable income while filing ITR-6. ITD does not capture details of deductions claimed for bad debts in the computation of income, as evident from the data furnished to Audit by the DGIT (Systems) on the deduction claimed for bad debts, which did not include bad debts claimed in the computation of income.

²⁷ RBI/2015-16/101 DBR.No.BP.BC.2/21.04.048/2015-16 dated 1st July 2015 on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

²⁸ RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/2021-22 1st October 2021

Audit observed that banks were claiming a significant amount of bad debts without debiting them to the profit and loss account. Bad debts were adjusted against the provision for Non-Performing Assets in the Balance Sheet, and details of such bad debts were not disclosed in the ITR. Audit noted that, despite non-disclosure of borrowers' PAN details, banks claimed and ITD allowed deductions for bad debts written off without verifying the borrowers' details in the ITR. Further, these details were not called for during the scrutiny assessment, as observed from the assessment records produced to Audit.

Audit noticed 44 cases of Public Sector Banks in four states²⁹, 10 private sector banks in Chennai and four Foreign Banks in Delhi, where, although no bad debts were debited to the profit and loss account, bad debts of ₹ 2,60,466.27 crore were claimed, and ₹ 1,69,782.47 crore were allowed in the assessments completed during FY 2017-18 to FY 2020-21 as per details in **Annexure 4.6** of this Report. Region-wise details of cases where bad debts were not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers are shown in Table 4.8 below.

Table 4.8: Details of cases where bad debts were not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region	Banks/ NBFC	No. of Cases	Assessment Year	Bad debt, as reported in the data furnished by DG (System)	Amount of bad debt debited in the profit and loss account and shown in ITR	Amount of bad debt claimed in the return (₹ in crore)	Amount of bad debt allowed in the assessment (₹ in crore)
1	Chennai	Public Bank	15	2014-15 to 2019-20	0	0	49,692.92	19,049.86
		Private Bank	10	2014-15 to 2019-20	0	0	2,792.84	2,541.48
2	Delhi	Public Bank	10	2010-11 to 2018-19	0	0	13,916.30	13,916.30
		Foreign Bank	4	2016-17 to 2018-19	0	0	280.84	280.84
3	Mumbai	Public Bank	12	2016-17 to 2019-20	0	0	1,72,658.97	1,12,869.59
4	Kolkata	Public Bank	7	2010-11 to 2012-13, 2015-16 to 2018-19	0	0	21,124.4	21,124.4
Total			58		0	0	2,60,466.27	1,69,782.47
<i>Source: Assessment records of ITD</i>							<i>(Refer Annexure 4.6)</i>	

As per the records made available to Audit, AO did not call for any details of borrowers while accepting the assessee's claim and allowed the deductions claimed for bad debts written off. Audit could not ascertain the status of borrowers whose debts were written off and the tax treatment of debts written off in the hands of borrowers in the absence of borrowers' details. No information was available with the Department to check whether bad debts arose due to

²⁹ Chennai, Maharashtra, Kolkata, and Delhi

direct write-off, restructuring of debts by the bank, assignment of the loan to any ARC, fraud, or any other reason.

Further, in the absence of certification of the authenticity of the bad debts claimed by a tax auditor, the Department would not be able to verify the correctness of the allowance of the deduction of ₹ 2,60,466.27 crore claimed by these banks and NBFCs towards bad debts written off. ITD's allowance of deduction for bad debts written off without seeking details of the borrowers, if not disclosed by the assessee while filing ITR or by the tax auditor through certification in TAR, has a potential risk of a leakage of a significant amount of revenue.

Two illustrative cases are given below:

Box 4.5: Illustrative cases on Bad debts claimed and allowed without giving any details of the borrowers

a) Charge: PCIT-2, Mumbai

Assessee: S8

AYs: 2017-18, 2018-19 & 2019-20

The assessee's assessments for AYs 2017-18, 2018-19, and 2019-20 were completed after complete scrutiny in March 2019, March 2020, and September 2021, respectively. During these three years, the assessee claimed a deduction for bad debts amounting to ₹ 1,58,974.19 crore without providing any details of borrowers.

The deduction allowed by the Department was ₹ 99,184.81 crore for these three years, as detailed in Table 4.9 below.

S. No.	AY	Assessed under Section and Date of assessment	Returned Income	Assessed Income	Bad debts, as reported in the data furnished by DG(System)	Bad debts claimed in the return filed	Bad debts allowed in the assessment
1	2017-18	143(3) dated 16.3.2019	10,865.89	33,126.08	0	32,905.63	19,764.74
2	2018-19	143(3) dated 20.3.2020	(-) 28,209.29	15,425.61	0	71,374.23	24,725.74
3	2019-20	143(3) dated 29.9.2021	0	3,479.85	0	54,694.33	54,694.33
Total				52,031.54	0	1,58,974.19	99,184.81

As can be seen from the Table above, the assessee claimed deduction for bad debts aggregating to ₹ 1,58,974.19 crore for AYs 2017-18 to 2019-20 in the computation of income without providing any details of borrowers. The Department allowed a deduction of ₹ 99,184.81 crore to the assessee without seeking the details of the borrowers against whom these bad debts were written off. Audit also noted that data collected from the DG (Systems) reflected that bad debts were written off as NIL, even though ₹ 99,184.81 crore was allowed to the assessee.

Audit observations relating to non-collection of borrowers' details were issued to the PCIT-2, Mumbai, in January 2022 and February 2022. PCIT-2, Mumbai, replied (June 2022) that bad debts were allowed when they were written off in the books of accounts. He further stated that since the number of borrowers whose debts were written off was high, it would be difficult for the AO to verify each borrower's ledger. PCIT-2 Mumbai suggested that the verification of write-offs of debts should be included in the tax audit report submitted along with the return of income. Further details of remedial action taken are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

b) Charge: PCIT-1, Chennai

Assessee: M/s A13

AYs: 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19

Assessments of the assessee bank for AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 were completed after scrutiny in November 2017, December 2018, December 2018, December 2019 and April 2021, respectively. During these five years, the assessee did not disclose any bad debt in the respective ITRs. The assessee had claimed deductions for bad debts in the respective computation of income submitted separately by the assessee during the scrutiny assessment, aggregating to ₹ 21,488.25 crore. For the AYs 2014-15 and 2015-16, the bad-debt write-offs were allowed as such in the scrutiny assessments. For the AYs 2016-17 and 2018-19, the bad debts claim was restricted to the provision accounts under Section 36(1)(viiia), while it was restricted to non-rural write-off in the AY 2017-18. However, the bad debt claims aggregating to ₹ 14,537.55 crore for AYs 2014-15 to 2018-19 were allowed without verification of the borrower's details.

Audit observation was communicated to the DCIT CC 1(1), Chennai, in May 2022. Reply of the DCIT is awaited despite the issue of a reminder (November 2025).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may issue necessary instructions to ensure verification of the details of cases where deduction for bad debt written off was claimed and allowed during assessment, though no bad debt was debited to the profit and loss account.

Reply of the Ministry is awaited (November 2025).

4.3.2.2 Bad debt debited to profit and loss account and non-disclosure/ verification of details of borrowers

In respect of 15 cases of private banks and 108 NBFCs out of the sampled cases examined in audit in seven states³⁰, the Department allowed bad debt amounting to ₹ 32,063.46 crore,

³⁰ Chennai, Kerala, Kolkata, Ahmedabad, Jaipur, Chandigarh, and Lucknow

although assessees did not give any details of borrowers whose bad debts were written off. Even in the cases where PAN details were provided, the Department did not make any enquiry at the borrower's end to ascertain the tax treatment given to such written-off advances by the borrowers. The details are given in **Annexure 4.7** and Table 4.10 as under.

Table 4.10: Details of bad debts claimed without verification of PAN							(₹ in crore)	
S. No.	Region	Banks/ NBFC	No. of Cases	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return	Amount of bad debts allowed in the assessment	
1	Chennai	NBFC	23	2014-15, 2016-17 to 2019-20	16,285.62	16,282.76	16,285.62	
		Private Bank	4	2016-17 to 2018-19	1,060.68	2,340.21	2,032.56	
2	Chandigarh	Private Bank	4	2012-13 & 2015-16 to 2017-18	2,787.93	2,787.93	2,787.93	
		NBFC	14	2015-16 to 2017-18 & 2019-20	530.19	528.65	528.65	
3	Ahmedabad	Private Bank	4	2011-12 to 2012-13 & 2015-16 to 2016-17	5,781.99	5,781.99	5,781.99	
		NBFC	9	2015-16 to 2019-20	1,329.14	1,329.14	1,329.14	
4	Jaipur	NBFC	6	2016-17 to 2019-20	149.23	149.23	149.23	
5	Lucknow	NBFC	1	2017-18	32.91	32.91	32.91	
6	Guwahati	NBFC	2	2017-18 to 2018-19	Not available	25.47	25.47	
7	Kolkata	Private Bank	3	2017-18 to 2019-20	359.68	359.68	359.68	
		NBFC	43	2011-12, 2012-13, 2014-15 to 2019-20	2,601.80	2,601.80	2,173.38	
8	Kerala	NBFC	10	2016-17 to 2019-20	578.23	578.23	576.90	
Total			123		31,497.4	32,798	32,063.46	

Source: Assessment Records of ITD *(Refer Annexure 4.7)*

As per the records made available to Audit, the AOs, without verifying the details of borrowers, accepted and allowed the assessee's claim, though the assessee had not given any details of borrowers against whom these bad debts were written off in the ITR-6.

Two illustrative cases are discussed below:

Box 4.6: Illustrative cases on bad debts allowed without verification of PAN details of borrowers

**(a) Charge: PCIT-3, Chennai
Assessee: M/s S6 and S7
AYs: 2017-18 and 2018-19**

The assessments of the assessee NBFCs for AY 2017-18 and AY 2018-19 were completed after scrutiny in December 2019 and August 2021, at an income of ₹ 2,168.70 crore and ₹ 2,726.71 crore, respectively. The audit noted that bad debt claims of ₹ 9,020.51 crore and ₹ 3,017.29 crore for AY 2017-18 and AY 2018-19, made by the assessee, were also allowed as such in the scrutiny assessments.

The assessee maintained two sets of accounts – one for statutory purposes under the Companies Act and another for Income Tax purposes. While the bad debts were disclosed as "written off" as debits in the Profit and Loss Account in the accounts maintained for IT purposes, they were disclosed as "Provisions for NPAs" in the statutory books of account, as under:

Name of Assessee	AY	Bad Debts written off as per accounts maintained under Companies Act (₹ in crore)	Bad Debts written off as per accounts maintained for IT purposes (₹ in crore)	Amount of bad debt debited in the profit and loss account and shown in ITR-6 (₹ in crore)	Amount of bad debt allowed in the assessment (₹ in crore)	Revenue Impact (₹ in crore)
S6	2017-18	1,241.05	3,627.59	1,241.05	3,627.59	1,255.44
	2018-19	1,474.60	5,392.92	1,474.60	5,392.92	1,966.38
S7	2017-18	446.26	1,236.19	446.26	1,236.19	427.82
	2018-19	629.87	1,781.12	629.87	1,781.12	616.41
	Total	3,791.78	12,037.82	3,791.78	12,037.82	4,266.05

Audit observed that the above-assessee, being NBFCs regulated by the RBI, though duly complying with the RBI guidelines/instructions for creating/maintaining provisions for NPAs, etc., had camouflaged the same as "actual write off" in the P&L Account for IT purposes, which was not in order.

Audit further observed that, with respect to the claim of bad debt recorded as a debit to the P&L Account in ITR-6, the PAN details were not disclosed in the ITR-6 by the above-assessee. Audit could not find any proceedings and records regarding the collection of the PAN details, and confirmatory responses, even on a test/random basis. Thus, a large number of bad-debt claims involving substantial amounts were allowed in the scrutiny assessments. As the provisions of Section 36(1)(vii) read with section 36(1)(viia) read with section 36(2)(v) were not complied with by the assessee NBFCs, the claim of bad debts was required to be disallowed.

The audit observation was communicated to the DCIT, Corporate Circle 3(1), Chennai, in May 2022. Ministry in its reply stated (June 2025) that the assessee has not created any provisions till the FY 2017-18 and has not claimed any deduction under Section 36(1)(viia)(d) towards such provision and also that the assessee's practice of maintaining

two separate books of accounts, one as per the provision of section 145 of the IT Act for the computation of total income chargeable under sections 28 and 56 and other as per provisions of Companies Act for the purpose of determination of book profits under Section 115JB, which has been upheld by the Jurisdictional High Court in the assessee's own case and accepted by the Department. *The Ministry's reply is not tenable, as the Audit observation pertains to provision under Section 36(1)(viii)(d), which was inserted by the Finance Act, 2016, with effect from 01-04-2017, applicable from AY 2017-18. From AY 2017-18 onwards, Income Computation and Disclosures Standards (ICDS) were notified under Section 145 and are in force. The CBDT Circular has clarified that the ICDS are notified after taking into account all past judicial precedents and rulings. Therefore, the above Judgement is not applicable to the audit observation.*

(b) Charge: PCIT, Ahmedabad

Assessee: M/s A6

AYs: 2011-12, 2012-13, 2015-16 and 2016-17

Assessments of the assessee bank were completed for AYs 2011-12, 2012-13, 2015-16 and 2016-17 in the months of November 2018, November 2018, February 2018 and January 2020, respectively.

Audit noticed in four cases out of seven cases that the assessee claimed a deduction on account of bad debts written off under Section 36(1)(vii) of ₹ 5,757.35 crore. During AYs 2011-12, 2012-13, 2015-16, and 2016-17, the assessee submitted a list of the top 20 bad debt cases with PAN details. Audit noted that assessment cases of borrower's viz. W4 and N8 were verified at PCIT-Central Surat and PCIT-1 Surat, wherein the borrowers had not offered the amount written off as bad debts by the lender A6. However, the Department neither cross verified the bad debts written off for the borrowers nor did it intimate the jurisdictional Assessing Officers of the borrowers for cross verification of the treatment of bad debts in the books of these borrowers and to ascertain whether the amounts of bad debts written off by the lender bank were offered as income by the borrowers under Section 41(1) of the Income Tax Act.

The audit observation was communicated to the DCIT Circle 1(1)(1) in January–March 2022. While accepting the audit observation in the Exit meeting held in the Ahmedabad region on 23 January 2023, the Department stated that the borrowers' details need to be called for and verified during the assessment on a test-check basis.

Reply of the Ministry is awaited (November 2025).

In the absence of details of the borrowers against whom bad debts were written off and non-certification of the authenticity of these claims by the tax auditor, the Department would not be able to verify the correctness of the bad debts written off claimed by these banks. Audit could not ascertain whether RBI's instructions to protect the value of their assets and exhaust all available means of recovery before writing off any account fully or partly were followed.

Thus, the Department had allowed deductions towards bad debts without verifying their genuineness, based on write-offs made in the books of account of the assessee. Audit observed that deductions for bad debts were allowed without proper verification of the claims, including those adjusted against provisions for bad and doubtful debts or advances in the books of account.

The observations relating to non-collection and non-verification of borrower details were communicated to the Department from April 2022 to May 2022. Department in Kerala region (PCIT Thiruvananthapuram, PCIT Kozhikode charges) stated that under the current provisions of the Act and in view of the decision of the Supreme Court in the case of Vijaya Bank, there is no scope for further enquiry into the books of the borrowing entity. *The reply of the Department is not tenable as PAN, a unique identifier, facilitates identification and effective monitoring and tracing of assessee's financial transactions. ITD may utilise the PAN-related information at the time of assessment to scrutinise the deductions claimed by the assesseees to tax the amount in the hands of the borrowers.*

Recommendation:

CBDT may amend ITR-6 to capture details of bad debts of the borrowers, including their PAN, whose loan exceeds a threshold limit to be prescribed by the CBDT and were written off, irrespective of whether the bad debts are debited to the profit and loss account or not, for verifying the correctness of deduction allowed towards bad debts in the assessment.

In response, the Ministry stated (September 2024), "ITR Form 6 is required to be filed by companies other than companies claiming exemption under section 11. PART A- P and L of ITR-6 containing Profit and Loss account is mandatory to be filled. Row 47 of the said schedule seeks details of the bad debts along with the PAN/ Aadhaar number of the person, for whom bad debts for amount of ₹ 1 lakh or more is claimed. Further, where PAN/ Aadhaar number is not available, and the bad debts claimed is more than ₹ 1 lakh or more, the ITR Form-6 seeks details like name and complete address. Hence, no further modification in this regard is required in the Form."

As per the Ministry's reply, it is mandatory to disclose the PAN of the borrowers in the return while claiming a deduction towards bad debts written off. However, the Audit noticed cases where deductions for bad debts were allowed without disclosure of the borrower's details in the ITRs. Thus, the Ministry may reconsider devising a mechanism to mandatorily collect and verify the details of borrowers for whom deduction for bad debts written off is allowed during the assessment.

4.3.3 Absence of provision in the Act to file the revised Tax Audit Report at the time of filing a revised return

Section 44AB deals with the conditions under which tax audits become mandatory for some taxpayers. Tax audit is a cross-examination of the books of accounts of the taxpayer by a practising Chartered Accountant (CA) under the Income Tax Act 1961 to verify the accuracy of the financial records and avoid fraud or tax evasion. Any change in the revised ITR of any

item earlier certified by the CA in the TAR needs to be certified again, and a revised TAR should accompany the revised ITR. However, there is no clear provision in the Act that a revised ITR should be filed along with a revised TAR. However, according to the Explanation below in section 139(9) of the Income Tax Act, 1961, an ITR is to be treated as defective unless accompanied by the TAR as per Section 44AB. If a defect in the return is not rectified, the same is treated as invalid, the original return prevails, and any new claim is to be rejected. Non-revision of TAR when ITR is revised has resulted in incorrect allowance of deductions to the assessee.

In the Gujarat region, the Audit observed that in two cases out of 66 cases audited, the amounts certified by the auditor in the original return were revised by filing a revised return. However, the Form 3CD report was not revised as given in Table 4.11 below.

Sr. No.	PCIT Charge	Name of Bank/ NBFC	AY	Nature of claim	Disallowable expenditure certified in the original return and Form 3CD report	Disallowable expenditure in Revised ITR	Amount Disallowable as per Audit
1.	PCIT-1, Ahmedabad	A6	2015-16	Disallowance under Section 14A	3.51	1.16	2.35
2.	PCIT-1, Ahmedabad	H10	2017-18	Deduction under Section 80JJAA	NIL	32.75	32.75
Total							35.10

As seen from the above table, an additional claim of ₹ 35.10 crore was required to be disallowed; the omission to disallow resulted in a short levy of tax of ₹ 12.13 crore.

An illustrative case is discussed below.

Box 4.7: Illustrative case on Non-existence of provision in the Act to file a revised Tax Audit Report while filing a revised return

Charge: PCIT-1 Ahmedabad

Assessee: H10

AY: 2017-18

The assessment was finalised under Section 143(3) in December 2019 at an income of ₹ 1,063.53 crore. Audit observed that the assessee claimed a deduction under Section 80JJAA³¹ of ₹ 32.75 crore by filing the revised return in March 2019. However, the assessee did not revise the Tax Audit Report to certify the eligibility for the revised claim of deduction under Section 80JJAA. Thus, the revised return was defective and was required to be treated as invalid under Section 139(9), and the claim of assessee under Section 80JJAA was to be disallowed.

³¹ Section 80JJAA of the Income Tax Act provides deduction of an amount of 30 per cent of additional employee cost incurred in the cost of such business in the previous year for three assessment years with effect from 01.04.2017 inserted by Finance Act, 2016.

The audit observation was communicated to the DCIT Circle 2(1)(1) Ahmedabad in February 2022. Initially, the ITD accepted the audit observation during the Exit Meeting (January 2023), stating that Form 3CD needs to be revised in respect of cases where any claim of exemptions and deductions that were certified in the original Form 3CD were subsequently changed in the revised return. Ministry has not accepted (July 2025) the audit observation stating that the audit objection has been raised on the ground that no revised Tax Audit Report was filed by the assessee for making claim under section 80 JAA of the IT Act 1961 in the revised ITR. Further, there is no provision in 139(9) of the Act that requires an assessee to file a revised Tax Audit Report on filing of a revised ITR. This fact also becomes clear from the recommendation made by the Audit, viz, CBDT may make filing the revised Tax Audit Report mandatory when filing a revised Income Tax Return whenever the revised return seeks revision/rectification of the amounts certified in the Tax Audit Report. *The Ministry's reply is not tenable, as the assessee has revised the claim for deduction under Section 80JAA in the revised income tax return, which needs to be certified again, and the revised Tax Audit Report needs to be filed for the revised claim. Further details of the action taken by the Ministry to make filing of revised Tax Audit Report mandatory when filing a revised ITR would be awaited in Audit (November 2025).*

Recommendation:

CBDT may make the filing of the revised Tax Audit Report mandatory when filing a revised Income Tax Return whenever the revised return seeks revision/rectification of the amounts certified in the Tax Audit Report.

In response, the Ministry stated (September 2024) that this suggestion is under consideration as it requires an analysis of the change that can be sought in the revised return. *Details of action taken in this regard will be awaited in the Audit (November 2025).*

4.4 Inconsistencies noticed in the allowability of claims/ deductions

4.4.1 Inconsistent stand adopted by ITD regarding allowance of Broken Period Interest

Debt instruments such as Government securities, including bonds issued by public sector undertakings, carry periodic interest payments, mostly half-yearly. These securities are bought and sold at any time during the year as they are freely tradable. Interest is payable only to the holder of the security as of the date of interest payment. Broken Period Interest (BPI) is the interest received or paid by a bank at the time of the sale or purchase of securities, respectively. When a security is traded in between, the interest accrued up to the date of purchase is a definite amount to be reimbursed to the seller. The interest amount is fixed and is not affected by market conditions. While the purchaser of government securities would pay the broken period interest, the seller would receive it.

Hon'ble Bombay High Court, while allowing the claim of deduction for broken period interest in the case of American Express International Banking Corporation [2002]³², observed that the assessee's method of accounting did not result in a loss of tax revenue for the Department. The Court also held that, having assessed the broken period income under Section 28 of the IT Act, the Department ought to have allowed a deduction for broken period interest paid. Mumbai High Court has given a similar decision in the case of HDFC Bank Ltd vs CIT-2 Mumbai vide its order dated 23rd July 2014 in Income Tax appeal No. 330 of 2012³³.

Honourable Supreme Court, in the case of Citi Bank NA³⁴ (August 2008) agreed with the decision of the Mumbai High Court in the case of American Express Banking Corporation vs CIT (258 ITR-601) (2002) and dismissed the Department's appeal.

The CBDT notified 10 Income Computation and Disclosure Standards (ICDS) under Section 145(2) of the Act, which are applicable from AY 2017-18. Para 3 of Part B of ICDS VIII states that securities shall be classified, recognised, and measured in accordance with the extant guidelines issued by the RBI. As per RBI guidelines, investments held by banks are classified into 'Held to Maturity'(HTM), 'Available for Sale' (AFS), and 'Held for Trading' (HFT). In the Banks' case, Government securities, whether held as HTM, AFS, or HFT, are treated as stock-in-trade by the bank. The RBI guidelines provide that broken-period interest paid on the purchase of securities is required to be debited to the profit and loss account, and broken-period interest received on the sale of securities is required to be credited to the Profit and loss account.

Audit noted 22 instances where the Department had disallowed Broken Period Interest in the AYs 2017-18 and AY 2018-19, as detailed in Table 4.12 below and **Annexure 4.8** of this report.

Table 4.12: Details of Broken Period Interest disallowed in the assessment					(₹ in crore)
S. No.	Region	Banks	No. of Cases	AY	Amount of Broken Period Interest disallowed /allowed
1	Mumbai	Private Banks/Public Banks	22	2017-18 to 2018-19	10,515.83 (disallowed)
2	Mumbai	Private Bank*	2	2017-18 to 2018-19	Data not available ³⁵ (allowed)
Total			24		10,515.83
(*Note: In respect of two cases of a private bank as depicted at S.No. 2 of above Table, deduction was allowed for the broken period interest during assessment).					(Refer Annexure 4.8)

³² American Express International Banking Corporation vs CIT (258 ITR-601) [2002]

³³ Source: H4 assessment folder for AY 2018-19

³⁴ Citi Bank NA in civil appeal No.1549 of 2006 dated 12.8.2008

³⁵ As the details of the amount of broken period interest were not sought by the AO while allowing claims in the assessments for AYs 2017-18 and 2018-19, the actual amount of claim made towards broken period interest (BPI), debited under the item 'Interest expended' of Profit and Loss Account as a clubbed amount (interest on deposits, interest on Reserve Bank/ Inter-Bank and Others) and not claimed distinctly as BPI, could not be ascertained from the available records.

From the table above, it can be observed that in 22 out of 220 sample cases of public and private sector banks examined in audit, the Department had made the addition and disallowed an amount of ₹ 10,515.83 crore on the issue of Broken Period Interest in AY 2017-18 and AY 2018-19. Some of these cases are pending in the appellate stages. However, Audit noticed that the deduction for broken period interest was allowed in two cases of a private Bank.

Two illustrative cases are discussed below:

Box 4.8: Inconsistent stand adopted by ITD regarding allowance of Broken Period Interest

(a) Charge: PCIT-2, Mumbai

Assessee: M/s I4

AYs: 2017-18 and 2018-19

Scrutiny assessments of the assessee were completed in November 2021 for AYs 2017-18 and 2018-19 at an income of ₹ 7,400.07 crore and ₹ 10,184.37 crore, respectively. Audit observed that no addition was made by the AO towards Broken Period Interest, accepting assessee's claim for AYs 2016-17, 2017-18 and 2018-19. The ITAT had allowed broken period interest to the bank for AYs 1995-96 to 2000-01 following the Bombay High Court decision in the American Express International Banking Corporation³⁶[2002]. In the assessee's case for AY 1996-97, the Hon'ble Supreme Court on 18th October, 2019, rejected SLP(C) 19414/2018 filed by the Department³⁷ on this issue.

Audit observation regarding allowance of broken period interest was communicated to the PCIT-2, Mumbai in February 2022. The PCIT-2, Mumbai, while accepting (March 2022) the audit observation, stated that the allowability of deduction for broken period interest is settled in favour of the assessee banks through judicial precedence.

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT-2, Mumbai

Assessee: M/s S8

AYs: 2017-18 and 2018-19

Scrutiny assessments of the assessee for AYs 2017-18 and 2018-19 were completed in March 2019 and March 2020 at an income of ₹ 33,126.08 crore and ₹ 15,425.61 crore, respectively. Audit noted that the Bombay High Court decided the issue of allowance of broken period interest in favour of the assessee for AY 1996-97, following the decision of American Express International Banking Corporation. Audit observed³⁸ from the assessment orders for AY 2017-18 (March 2019) and AY 2018-19 (March 2020) that AO had disallowed broken period interest to the assessee despite the matter already being settled

³⁶ American Express International Banking Corporation vs CIT (258 ITR-601) [2002]

³⁷ Source: assessment order of I4 for the AY 2016-17.

³⁸ Source: assessment order based on the assessee's submission dated 12th February 2019.

in favour of the assessee. Audit observation regarding allowance of broken period interest was communicated to the PCIT-2, Mumbai in February 2022. The PCIT-2, Mumbai while accepting (March 2022) the audit observation, stated that the allowability of deduction for broken period interest is settled in favour of the assessee banks through judicial precedence.

Reply of the Ministry is awaited (November 2025).

Audit noted that with the implementation of Income Computation and Disclosure Standards (ICDS)-VIII on securities, with effect from AY 2017-18, and in view of the Honourable Supreme Court ruling in the case of Citi Bank NA³⁹, it was held that broken-period interest paid on the purchase of securities is allowable as a deduction.

The issue of inconsistent stand for the allowability of broken period interest was brought to the notice of the Department in December 2020. PCIT-2, Mumbai, while accepting the audit observation, stated (June 2021 and March 2022) that broken period interest was a settled issue in favour of banks after the Hon'ble Supreme Court dismissed the Department's appeal in October 2019 in the case of a private bank. The Department also stated that since the matter is now settled, a uniform stand will be taken in all the bank cases in the future to avoid further litigation. Reply of the Ministry is awaited (November 2025).

4.4.2 Inconsistent stand adopted by ITD regarding allowability of deduction of amortisation of premium paid on securities held under HTM category

Para 2.1 of RBI guidelines⁴⁰ prescribes that the securities acquired by the banks with the intention to hold them up to maturity will be classified under 'Held to Maturity (HTM)'. Banks are allowed to include investments under the HTM category up to 25 *per cent* of their total investments, and the premiums paid on the investments under this category are required to be amortised over the period of maturity in the books of accounts of the bank. Further, the Honourable Bombay High Court⁴¹ held that amortisation of the premium paid on the HTM category of securities is an allowable deduction.

Audit examination of the assessment orders of different banks for AY 2017-18 and AY 2018-19 revealed that Department has adopted inconsistent stand on taxability of amortisation of premium paid on securities held under HTM category whereas in some cases the Department had disallowed the said claim of deduction, while in other cases the deduction was allowed.

Audit further observed that in 51 cases out of 220 cases of Public Sector and Private Sector banks, the Department had disallowed amortisation of premium paid on securities held under the HTM category for 33 cases amounting to ₹ 4,624.73 crore during AYs 2017-18 to

³⁹ Citi Bank NA in civil appeal No.1549 of 2006 dated 12.8.2008

⁴⁰ RBI Master Circular – Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated 01.07.2014

⁴¹ In the case of CIT v. HDFC Bank Ltd. [2014] 49 taxmann.com 335 (Bombay)

2019-20, while in 18 cases of banks, the deduction of ₹ 802.33 crore was allowed during the assessment as shown in **Annexure 4.9** and Table 4.13 below.

Table 4.13: Details of premium paid on securities held under HTM category allowed/ disallowed					
S.No	Region	Banks/NBFC	No. of Cases	AY	Amount of amortisation of premium (Allowed/ Disallowed) (₹ in crore)
1	Mumbai	Private Bank	12	2017-18 to 2018-19	756.72 (disallowed)
		Public Bank	10	2017-18 to 2018-19	3,535.37 (disallowed)
2	Chennai	Private Bank	13	2017-18 to 2019-20	385.18 (allowed)
		Public Bank	5	2017-18 to 2019-20	417.15 (allowed)
3	Delhi	Public Bank	9	2017-18 to 2019-20	175.52 (disallowed)
4	Kolkata	Public Bank	2	2017-18 to 2018-19	157.12 (disallowed)
<i>Source: Assessment records of ITD</i>					<i>(Refer Annexure 4.9)</i>

Out of 15 cases listed in **Annexure 4.9** and Table 4.14 below pertaining to AYs 2013-14 to 2016-17, the Department disallowed the deduction amounting to ₹ 608.89 crore in six cases of the Delhi region and allowed the deduction in nine cases of the Chennai and Kolkata regions.

Table 4.14: Details of cases pertaining to AYs prior to AY 2017-18					
S.No	Region	Banks/NBFCs	No. of Cases	AYs	Amount of amortisation of premium allowed/ disallowed (₹ in crore)
1	Delhi	Public Bank	6	2013-14 to 2016-17	608.89 (disallowed)
2	Chennai	Public Bank	4	2015-16 to 2016-17	328.09 (allowed)
		Private Bank	3	2015-16 to 2016-17	39.83 (allowed)
3	Kolkata	Public Bank	2	2015-16 to 2016-17	312.28 (allowed)
<i>Source: Assessment records of ITD</i>					<i>(Refer Annexure 4.9)</i>

In reply, PCIT-2, Mumbai, stated (June 2022) that this issue was applicable to all commercial banks and the calculation of the amount of amortisation generally spread over various AYs. PCIT suggested that to have correct and true disclosure from banks on this issue, information and calculations related to these investments must be made part of Tax Audit Reports as well as income tax returns of banks.

In the Exit Conference held at the regional level in Tamil Nadu (January 2023), the Department stated that the premium on HTM investment is capital in nature and cannot be amortised.

Reply of the Ministry is awaited (November 2025).

4.4.3 Inconsistent stand adopted by ITD regarding allowability of deduction for diminution in value of investment

CBDT's Circular dated 24.04.1991 clarified that securities held by banks must be regarded as their stock-in-trade, and the claim of loss if debited in the books of account will be allowed accordingly. This Circular was withdrawn in July 1991, and the CBDT clarified in a subsequent Circular dated 05.10.1993 that the AO should determine based on the facts and circumstances of each case to assess whether any particular security constitutes stock-in-trade or investment considering the guidelines issued by the RBI in this regard from time to time. CBDT, vide its Circular No.17/2008 dated 16.10.2008, *inter alia* directed that the latest guidelines of the RBI may be referred to for allowing any claim towards diminution in investment value by banks. Further, with the applicability of ICDS with effect from AY 2017-18, ICDS-VIII on "Securities" states that securities shall be classified, recognized, and measured in accordance with the extant guidelines issued by the Reserve Bank of India in this regard and no claim for deduction more than the said guidelines shall be considered.

As per the extant RBI guidelines⁴², the individual scrips in the Held for Trading and Available for Sale categories shall be marked to market at quarterly or at more frequent intervals. These shall be valued scrip-wise, and depreciation/ appreciation will be aggregated for each classification to arrive at the net depreciation/appreciation of investments. Net depreciation shall be provided for, and net appreciation, if any, should be ignored.

The matter regarding the allowability of deduction towards depreciation on investments has been the subject matter of litigation across India. The Honourable High Court of Karnataka, in the case of Karnataka Bank Ltd.⁴³ ruled that the assessee had maintained the accounts in terms of the RBI Regulations, and the same was shown as an investment in the books of account as stock-in-trade for more than two decades and depreciation was allowed as claimed. The Court held that while valuing the assets at the end of the financial year, the bank has to take into consideration the market value of the shares, and if the market value is less than the cost price, the bank is entitled to deductions which tax authorities cannot deny. The above ruling was also followed in the case of M/s HDFC Bank⁴⁴ by the Bombay High Court.

In Tamil Nadu, Audit noticed that out of the 75 selected assesses (12 banks and 63 NBFCs, involving 199 assessment cases), claims of depreciation in value of investments of six assessee-banks involving 15 assessment cases were disallowed during the assessments on two major grounds viz. (i) RBI guidelines cannot override the mandatory provisions of IT Act 1961 and (ii) failure on the part of the assessee in establishing that the claims of depreciation has been computed after netting off classification wise depreciation and appreciation computed aggregated scrip-wise. The details are given in **Annexure 4.10** and Table 4.15 below.

⁴² Master Circular – Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated 01.07.2014

⁴³ The Karnataka Bank Ltd. vs. Asstt. CIT Mangalore (2013) 356 ITR 549 (Karnataka):

⁴⁴ [2014] 49 taxmann.com 335 (Bombay)

Table 4.15: Inconsistent stand adopted by ITD regarding the allowability of deduction of depreciation in the value of investment (₹ in crore)

S. No.	Region	Banks/ NBFC	No of cases	AYs	Depreciation on investments claimed	Depreciation on investments allowed	Depreciation on investments disallowed
1	Chennai	Private Bank	9	2016-17 to 2019-20	481.87	356.92	124.95
2		Public Bank	6	2017-18 to 2019-20	3,422.14	1,978.67	1,443.47
Total			15		3,904.01	2,335.59	1,568.42

Source: Assessment records of ITD (Refer Annexure 4.10)

The Department's non-adherence to the RBI guidelines regarding the valuation of Investments and the consequent disallowances may result in protracted and avoidable appeal litigation.

An illustrated case is discussed below:

Box 4.8a: Illustrative case on the allowability of the deduction of depreciation in the value of the investment

Charge: PCIT-1, Chennai

Assessee: M/s I9

AYs: 2017-18, 2018-19 and 2019-20

The assessee had claimed deductions of ₹102.06 crore, ₹314.88 crore and ₹1,128.59 crore towards reduction/depreciation of investment for AY 2017-18, 2018-19 and 2019-20, respectively. The amount representing a diminution in investment value was allowed during the assessment for AY 2017-18. The claim was disallowed during scrutiny for AY 2018-19, relying on the decision of the Madras High Court in the case of M/s TN Power Finance Infrastructure Development Corporation Ltd. [2006]⁴⁵ wherein it was held that RBI instructions cannot override the mandatory provisions of the Act. For AY 2019-20, the entire deduction claimed by the assessee was also disallowed in the scrutiny assessment on the grounds that the assessee did not furnish any satisfactory documentary evidence or explanations.

Audit observed that the ruling cited above for disallowing the claim in AY 2018-19 pertained to the issue of whether provisions for non-performing assets debited to the profit and loss account, being capital in nature, were eligible for deductions as per the explanation under Section 36(i)(vii). The above ruling does not relate to the issue of allowance of deduction towards depreciation on investments. ICDS-VIII on Securities introduced from AY 2017-18 onwards prescribes that depreciation provided as per RBI Guidelines is an eligible deduction. Hence, the above claim was required to be examined to determine whether the RBI guidelines are followed.

⁴⁵ TN Power Finance and Infrastructure Development Ltd 2006-TIOL-112-HC-MAD-IT[2006]

Further, CBDT *vide* Circular No.10/2017, in its FAQ-2, stated that ICDS had been introduced after considering past judicial rulings and precedents. Hence, reliance on past judicial rulings is not in consonance with the CBDT Circular.

The audit observation was communicated to the DCIT Corporate Circle 1(1) Chennai in September 2019. *Regarding AY 2017-18, the DCIT replied (May 2022) that the Audit point was considered, and the assessment under Section 147 was completed (March 2022), but no disallowance was made in the reassessment order. Reply of the DCIT in respect of the AYS 2018-19 and 2019-20 is awaited (November 2025) despite the issue of a reminder (December 2024).*

Reply of the Ministry is awaited (November 2025).

In the Exit Conference held at the regional level (January 2023), the Departmental Officers of ITD, Tamil Nadu, stated that the issue of allowability of deductions towards depreciation on investment is a settled one, and there is no inconsistency in the provisions under the Income Tax Act. Audit clarified that different stands in regulating such claims have been taken by the Assessing Officers - the claims in some assessment years were allowed while disallowed in other assessment years.

Recommendation:

CBDT may clarify the allowability of Broken Period Interest, amortisation of premium paid on the Held to Maturity (HTM) securities, and diminution on investments as deductions after implementation of Income Computation and Disclosure Standards (ICDS)-VIII with effect from AY 2017-18 to avoid protracted litigation. CBDT may examine reasons for significant variations in the applicability of the same law under similar conditions and issue suitable instructions to the AOs for ensuring consistency especially during scrutiny assessments.

The Ministry in its reply (November 2024) stated that the recommendation is under examination.

Further action initiated/ taken by the Ministry in this regard will be awaited in Audit.

4.4.4 Incorrect allowance of deduction towards CSR expenses

As per explanation 2 under Section 37(1) inserted with effect from AY 2015-16, any expenditure incurred by an assessee on the activities relating to Corporate Social Responsibility (CSR) referred to in Section 135 of the Companies Act 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of business or profession.

As per the explanatory memorandum to Finance Act (No.2) 2014, CSR's objective was to share the Government's burden of providing social services by companies with net worth/turnover/profit above a threshold. If such expenses are treated as donations and the benefit of Section 80G or under any other Section of the Income Tax Act applicable for donations or any other benefits for tax purposes is allowed, it would result in subsidizing the

CSR expenses to the extent of tax impact by the Government. Hence, allowing deduction under Section 80G to CSR expenditure would defeat the intention of the legislature for not allowing it as business expenditure.

The Income Tax Act, 1961, does not contain any provision to allow such deductions for CSR expenses as donations and allowing deduction under Section 80G. Audit examination revealed that deductions were claimed under Section 80G in lieu of CSR expenses disallowed under the provisions of Section 37. Further, CBDT has also not provided any clarification in this regard.

Audit observed 66 instances out of 2,378 cases where deductions were claimed alternatively under Section 80G for CSR expenses disallowed under Section 37, though the Income Tax Act, 1961, does not provide for the allowance of such deductions as donations, as shown in **Annexure 4.11** and Table 4.16 below.

S. No.	Region	Banks/NBFC	No. of Cases	Amount of deduction allowed	Tax effect
1	Mumbai	NBFCs	26	131.26	45.29
		Private Bank	7	155.72	53.85
2	Delhi	NBFCs	14	97.34	34.34
3	Chennai	Public Bank	1	5.25	1.81
4	Ahmedabad	Private Bank	2	67.98	23.33
5	Kolkata	NBFCs	2	6.71	2.09
		Foreign Bank	2	21.03	9.10
6	Chandigarh	NBFCs	2	0.30	0.14
7	Kerala	NBFCs	6	31.44	12.59
		Private Bank	4	14.56	5.90
Total			66	531.59	188.44
<i>Source: Assessment records of ITD</i>				<i>(Refer Annexure 4.11)</i>	

Two illustrated cases are discussed below:

Box 4.9: Illustrative case on details of cases where CSR expenditure was claimed as a donation under Section 80G

(a) Charge: PCIT, Kolkata-1

Assessee: C13

AY: 2017-18

Assessee filed a return of income for AY 2017-18 on 30 October 2017 with Nil income, assessed on 27 December 2019 under Section 143(3) at a loss of ₹ 9.35 crore.

The assessee debited CSR expenditure of ₹ 6.22 crore in the profit and loss account, which was to be added back to the taxable income at the time of computation of income. Audit observed that the said amount was claimed as a deduction under Section 35AC⁴⁶ of the Act,

⁴⁶ Section 35AC of the Income Tax Act allows deduction on expenditure by way of payment of any sum to a public sector company or a local authority or to an association and institution approved by the national committee for carrying out any eligible project or scheme subject to the fulfilment of conditions specified in the Act.

which was allowed by the Department. This resulted in an under-assessment of income of ₹ 6.22 crore with a consequent potential tax effect of ₹ 1.92 crore.

The audit observation was brought to the notice of the DCIT Circle 7(1) Kolkata in February 2022. The DCIT in its reply (February 2022), stated that CSR expenses were allowed under Section 35AC as per the Explanatory Memorandum to the Finance Act 2014, according to which although CSR expenses were disallowed under Section 37(1) of the Income Tax Act but such CSR expenses which were of nature described in Section 30 to 36 shall be eligible for deduction under these Sections, subject to fulfilment of the condition specified therein. Thus, as per the Department, the amended provisions of Section 37(1) did not prohibit the assessee company from claiming such expenses under Section 35AC.

A rejoinder was issued to the Department (March 2022) stating that the reply was not tenable as the legislature's intention was to ensure that certain specified companies share the burden of the Government in providing social services and to treat such expenses as the application of income was not allowable as a deduction for computing taxable income. Further, this will result in the government subsidizing around one-third of such expenses by way of tax expenditure. Therefore, allowing the CSR expenses under any other head or Section of the Income Tax Act would defeat the legislative intent for inserting Explanation No.2 to Section 37(1) of the Act. Further reply is awaited despite issue of reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT, Central Kochi

Assessee: M/s M8

AY: 2016-17

Scrutiny assessment of the assessee for AY 2016-17 was completed in December 2018, determining income at ₹ 1,878.03 crore. In this case, CSR expenses amounting to ₹ 14.62 crore debited to the P&L account were disallowed and added back under Section 37(1) in the computation of Income from Business. However, while computing the taxable income, an amount of ₹ 7.31 crore, constituting 50 *per cent* of CSR expenses, was claimed and allowed as a deduction under Section 80G towards donation paid to M/s M21. As per the records, the assessee had constituted a CSR committee to achieve the CSR objectives, and its activities were undertaken through M21, a charity foundation for CSR activities of the company. Since the assessee did not make any voluntary contribution as stipulated in Section 80G to the M21, the deduction of ₹ 7.31 crore allowed under Section 80G was not in order. This resulted in an excess allowance of deduction of ₹ 7.31 crore, involving a tax effect of ₹ 3.36 crore.

The audit observation was brought to the notice of the ACIT Central Circle (1) Kochi from February 2022. Ministry has not accepted (April 2025) the audit observation stating that as per sub-sections (iiihk) and (iiihl) of Section 80G(2), contributions made towards the Swachh Bharat Kosh and Clean Ganga Fund as part of CSR activities are ineligible for deduction under Section 80G. However, this restriction applies only to these two specified

funds and there is no such restriction for other funds. Therefore, the contributions made as CSR expenses to a charitable trust registered under Section 12A/ 12AA, apart from the above two funds, remain eligible for deduction under Section 80G. If the intent of legislature was to disallow CSR contributions made to other charitable trusts also, it would be explicitly stated so in Section 80G. If the intent of the legislature was to disallow CSR contributions made to other charitable trusts also, it would have been explicitly stated so in Section 80G. However, the section does not contain such a stipulation. Further, the Cochin Bench of the Hon'ble ITAT has decided this issue in favour of the assessee in its order dated 27 October 2022 in the case of Cochin International Airport Ltd. in ITA No. 55/Coch/2021, citing its earlier decision dated 05 January 2021 in the case of FNF India Pvt. Ltd. *The Ministry's reply is not tenable as by virtue of Section 135 of the Companies Act, 2013, the CSR expenses are mandatory and not voluntary for certain specified corporates and further as per Explanation 2 to Section 37(1) [vide Finance (No 2) Act, 2014; applicable form AY 2015-16], such CSR expenses are not allowable as business expenses. Thus, allowing CSR expenses as a deduction under Section 80G is not in conformity with the legislature's intent as laid down under clause 13.2 of Circular 1 of 2015 – Explanatory Notes to the Provisions of the Finance (No.2) Act, 2014.*

In view of the same, the Ministry/CBDT may consider amending the provisions of section 80G to restrict the deduction in respect of all donations made from CSR expenditure.

The Department has accepted audit observations in respect of nine cases out of 62 cases, while not accepting 12 cases, initiated/completed remedial action in 11 cases and replies are awaited in the remaining cases. Audit noted that CBDT in its reply (March 2024) to Para 5.5(iv) of Performance Audit Report no. 12 of 2022⁴⁷ had stated that the issue of eligibility of CSR contribution for deduction under Section 80G has been noted for examination for the purpose of the budget exercise. However, further details of action taken in this regard are awaited (November 2025).

Recommendation:

CBDT may consider clarifying the allowability of CSR expenses as deduction under Section 80G or under any other Section of the Income Tax Act to ensure that the provisions are interpreted uniformly by AOs and also ensure compliance to its instructions to minimize tax disputes and possible litigation.

Reply of the Ministry is awaited (November 2025).

4.4.5 Inconsistent stand adopted by ITD regarding taxation of profits on the sale of assets to Securitisation Companies (SC)/ Asset Reconstruction Companies (ARC)

RBI has issued Guidelines⁴⁸ regarding the sale of stressed assets by banks, and also Master Directions⁴⁹ with regard to the securitisation of Standard Assets. To avoid asset liability

⁴⁷ Performance Audit Report on Exemptions to Charitable Trusts and Institutions

⁴⁸ RBI Guidelines on Stressed Assets by Banks DBR.No.BP.BC.9/21.04.048/2016-17, dated 01.09.2016

⁴⁹ RBI Master Direction (Securitisation of Standard Assets) 2021, dated 24.09.2021

mismatch on stressed loan assets, banks generally sell the loans (assets) to ARCs, who, in turn take steps to recover stressed loan asset. ARCs specialise in the early realisation of securities and help lenders reduce their non-performing assets.

In the sale of Assets to SC/ARC can happen in two ways: (i) on a true sale basis wherein all the associated risks are transferred by the seller to the buyer (ii) on an assignment basis wherein all the risks associated with the said loan assets continue to be with the assignee, i.e., the assessee bank.

The sale of stressed assets by banks to ARC on an assignment basis, the banks get part consideration as cash and the balance by way of security receipts, which are shown as investments. If the sale consideration is below the book balance of the loan accounts, the loss is incurred on the sale, and if the sale consideration is above the book balance, it is a profit on the sale of assets. All losses arising from the sale of non-performing assets are booked immediately in the books of account in the year of the sale. This method of accounting was stated to be followed based on the RBI Guidelines.

Although RBI guidelines were followed in the method of recognition of revenue in books, there is no provision under the Income Tax Act for the taxation of income arising from the sale of stressed assets. The Madras High Court judicially held [2006]⁵⁰ that the guidelines issued by the Reserve Bank of India cannot override the statutory provisions of the Income Tax Act. It was also held by the Madras High Court [2002]⁵¹ that income from interest could not be spread over to the following years when the assessee chose to receive the interest for all the years in the year of account. Hence, the consideration pertaining to the Security Receipts received is also required to be offered as income in full, as the sale value is received in full at the time of assignment of such loans.

Audit noted an inconsistency in the tax treatment of profit on the sale of assets to SC/ARC. Audit observed cases where profits on the sale of assets were not offered as income, whereas in some cases, the entire loss on the sale of assets to SC/ARC was claimed and allowed as a deduction.

Audit noticed in 22 cases that security receipts received were not offered as income in some cases, while in other cases, the entire loss on the sale of assets to SC/ARC was claimed as a deduction and was allowed. In one case, the assessee bank itself had added back the loss on the sale of assets in the computation of income for one AY, while it adopted a different treatment for the other AYs as illustrated in Box 4.10. The details are given in **Annexure 4.12** and Table 4.17 below.

⁵⁰ *TN Power Finance and Infrastructure Development Ltd 2006-TIOL-112-HC-MAD-IT[2006]*

⁵¹ *in the case of CIT Vs A.R.Santhanakrishnan (2002) 252 ITR 18 (Madras) - the Madras High Court held that the discounted interest received for the whole period could not be spread over to the following years when the assessee has chosen to receive the interest for all the years in the year of account. Apart from the amount received as interest, the assessee was not going to receive any other amount by way of interest at a later point in time, so as to consider the same as deferred interest. Hence, the amount not recognized as revenue at the year's end may be brought to tax.*

Table 4.17: Inconsistent stand adopted by ITD regarding taxation of profits/losses on the sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC)						
(₹ in crore)						
Sl. No.	Region	Banks/ NBFC	No. of cases	AYs	Profit on sale to ARC not brought to tax	Loss on sale to ARC allowed as a Deduction
1	Chennai	Public Bank	8	2013-14 to 2019-20	5,457.71	0.00
		Private Bank	8	2015-16 to 2019-20	178.55	1,279.30
		NBFC	3	2014-15, 2016-17 to 2017-18	85.40	0.00
2	Hyderabad	NBFC	1	2017-18	13.60	4.50
3	Kolkata	Public Bank	2	2011-12 & 2015-16	192.00	0.00
Total			22		5,927.26	1,283.80
<i>(Refer Annexure 4.12)</i>						

Two illustrative cases are discussed below.

Box 4.10: Illustrative cases on Inconsistent stand adopted by ITD regarding taxation of profits on the sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC)

- a) **Charge: PCIT-2, Kolkata**
Assessee: U2
AYs: 2011-12 and 2015-16

Scrutiny assessments for AYs 2011-12 and 2015-16 were completed in February 2014 and December 2017, respectively, determining income at ₹ 388.44 crore and ₹ 1,580.37 crore. During AY 2011-12, the assessee earned ₹ 11.26 crore by way of "gain on sale of financial assets to Securitisation/Reconstruction companies for assets reconstruction," as seen from Note 4.3 of the Balance Sheet. However, the said amount was not credited to the Profit and Loss Account.

The assessee, in its submission during scrutiny of the case for AY 2011-12, stated that in terms of regulations of RBI, the gain on Securitisation of assets was to be withheld by way of reserves to specifically meet its future loss/provisioning on Securitisation and therefore the same was neither credited to the Profit and Loss Account nor offered to Tax. As there were no such provisions in the Income Tax Act to exclude any such income from taxable income, the AO added back these gains to the taxable income of the assessee and taxed them accordingly.

During AY 2015-16, the assessee earned ₹ 191.57 crore (Note-4.3 of Balance Sheet) by way of "gain on sale of financial assets to Securitization/Reconstruction companies for assets reconstruction", but this was neither credited to the Profit and Loss account nor added back to the taxable income of the assessee for the year, as was done in the AY 2011-12 and AY 2012-13. The inconsistency in tax treatment of "gain on sale of financial assets to

Securitisation/Reconstruction companies for assets reconstruction" resulted in under assessment of income of the assessee by ₹ 191.57 crore with a consequent tax effect of ₹ 65.11 crore.

The audit observation was communicated to the DCIT Circle 5(1) Kolkata in March 2022. DCIT Circle 5(1) Kolkata in its reply (April 2025) stated that proposal for revision under Section 263 of the Act has been submitted for assessment relating to AY 2015-16. Reply of the Department in respect of AY 2011-12 is awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

b) Charge: PCIT-1, Madurai

Assessee: M/s T3

AYs: 2016-17, 2018-19 and 2019-20

Scrutiny assessments for three AYs 2016-17, 2018-19 and 2019-20 were completed in March 2018, May 2021 and September 2021. The assessee claimed a deduction towards "loss on sale of assets to ARC", aggregating to ₹ 1,069.35 crore in the computation of income for three AYs and the same was allowed in the scrutiny assessments. Audit observed that the above losses had not crystallised at the point of assignment/sale to ARC, as the settlement is accounted for only at the time of closure of relevant accounts at a later point in time. As the loss on the sale of assets to ARC is over and above the already created provisions/ technical write-offs in respect of the sold NPAs, such loss represents the residual write-off of the NPAs sold, for which deduction under Section 36(1)(vii) read with Section 36(1) (viii) is available. Hence, the claim of loss on the sale of assets sold to ARC does not qualify as a deduction under Section 37. The incorrect allowance of deduction resulted in under assessment of income aggregating to ₹ 1,069.35 crore, involving a tax effect of ₹ 373.05 crore.

The audit observation was communicated to the DCIT Circle 2(1), Trichy in May 2022. *In its reply, the Department (June 2023) stated that the bank treated the sale of the loan asset to the ARC, and the borrower was liable for the payment of the full amount to the ARC (not to the bank). Therefore, the sale of assets to ARC is a business loss and allowable under Section 37.*

The reply is not tenable as during the scrutiny proceedings, the assessee had submitted that the transaction with the SC/ARC is on an "assignment" basis, i.e. the loan assets in respect of the sold borrowers are still held in its books of accounts. Moreover, for the AY 2017-18, the bank itself disallowed and added back a loss of ₹ 252.76 crore to the total income.

Reply of the Ministry is awaited (November 2025).

The settlement on the sale of assets to SC/ ARC is accounted for only at the time of closure of the account, and hence, the loss on the sale of assets to ARC has not crystallised at the point of assignment/ sale to ARC. As the loss on the sale of assets to ARC is over and above the already created provisions/ technical write-offs in respect of the sold NPAs, such loss

represents the residual write-off of the NPAs sold, for which deduction under Section 36(1)(vii) read with Section 36(1)(viiia) is available. Hence, the claim of loss on the sale of assets to ARC did not qualify as a deduction under Section 37 and is required to be disallowed and added back to the total income.

Recommendation:

CBDT may issue appropriate clarifications regarding the treatment of the profits/losses on the sale of assets to Securitisation Companies/Asset Reconstruction Companies to ensure uniformity in its tax treatment and avoid possible revenue leakage.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

Details of action initiated/taken by the Ministry in this regard will be awaited in Audit (November 2025).

4.5 Business Code-wise analysis of Sample

ITD has allocated specific business codes based on the nature of the business undertaken, and the assessee is required to quote the correct business code while filing returns. Allocating specific codes to different businesses is essential for proper monitoring, collection, and sharing of relevant information, as well as expert handling of sector-specific issues during assessment. The business codes were revised by CBDT from AY 2018-19. Audit noted that out of the total audit sample of 2,463 cases selected, 1,808 cases pertained to the period up to AY 2017-18 and 655 sample cases from 2018-19 onwards, as detailed in Table 4.18 below.

Table 4.18: Business Code-wise analysis of the sample							
Business Codes up to AY 2017-18				Revised Business Codes from AY 2018-19			
Sr. No.	Business Code	No. of Cases in Sample	Sector of operation	Sr. No.	Business Code	No. of cases in Sample	Sector of operation
1	101	2	Manufacturing industries (agro-based)	16	1001	2	Growing & manufacturing of tea
2	107	1	Manufacturing industries (engineering goods)	17	4041	3	Manufacture of pharmaceuticals
3	124	1	Manufacturing industries others)	18	4097	1	Other manufacturing
4	204	16	Trading (others)	19	7002	2	Operating of real estate of self-owned buildings
5	401	1	Builders (builders)	20	7005	7	Other real estate/renting

Table 4.18: Business Code-wise analysis of the sample							
Business Codes up to AY 2017-18				Revised Business Codes from AY 2018-19			
Sr. No.	Business Code	No. of Cases in Sample	Sector of operation	Sr. No.	Business Code	No. of cases in Sample	Sector of operation
6	403	1	Builders (property developers)	21	9005	2	General commission agents, commodity brokers & auctioneers
7	404	1	Builders (others)	22	9027	5	Wholesale of other products
8	505	1	Contractors (others)	23	9028	3	Retail sale of other products
9	708	2	Service sector (hotels)	24	11001	2	Travel agency & tour operators
10	714	5	Service sector (others)	25	13001	169	Commercial banks, savings banks & discount houses
11	801	278	Financial service sector (Banking companies)	26	13002	58	Specialised institutions granting credit
12	803	151	Financial service sector (Financial Institutions)	27	13003	9	Financial leasing
13	804	2	Financial service sector (Financial service providers)	28	13004	3	Hire-purchase financing
14	805	4	Financial service sector (Leasing companies)	29	13005	58	Housing finance activities
15	807	1342	Financial service sector (NBFC)	30	13006	297	Commercial loan activities
				31	13008	1	Mutual funds
				32	13010	19	Investment activities
				33	13018	13	Other financial intermediation services
				34	21008	1	Other services
Total		1808				655	Total cases 2,463

Source: Data furnished by DGIT (Systems)

The banking companies were allocated a business code of 801 up to AY 2017-18 and 13001 from AY 2018-19. For NBFCs, there were specific codes (807) up to AY 2017-18. However, from AY 2018-19, no specific code for NBFCs were allocated. Further, from AY 2018-19, the Department would not be able to identify NBFCs separately, and NBFC-specific criteria cannot be applied to select cases, identify non-filers, etc. The audit identified 53 cases in which business codes were incorrectly entered in ITRs, but the Department took no action to rectify

the mistake in any of them. Further, as per business activity-based codification till AY 2017-18 and the latest scheme of business code classification after AY 2018-19, it was noticed from the audit sample that 31 cases and 27 cases, respectively, had irrelevant business codes, i.e. manufacturing, trading, other real estate or renting, etc.

In the absence of a correct business code, AO may not be able to ascertain the applicability of relevant Sections and determine the correctness of expenditure, deductions or exemptions claimed by the assessee in the returns filed; the risk of loss of revenue to the exchequer cannot be ruled out.

Recommendation:

CBDT may allot NBFCs a separate business code for identification of eligible assessee falling in the broad category of NBFCs, to prevent misuse of claim of deductions by ineligible assessee.

In response, the Ministry stated (September 2024) that presently 18 business codes are dedicated to the business engaged in Financial Intermediation Services, which, inter alia, include the Commercial banks, Saving banks and discount houses, Specialised institutions granting credit, Financial leasing, Commercial loan activities, Hire-purchase financing, Housing finance activities, Investment activities, Other financial intermediation services. Hence, NBFCs already qualify for one or more than one existing business codes for the purposes of filing Income Tax Return Forms. Therefore, a separate business code for NBFCs is not required. It is further submitted that there are safeguards and provisions already existing in the income tax law for preventing the misuse of claims of deductions by ineligible assessee in all categories.

Reply of the Ministry is not tenable as these 18 business codes dedicated to the business engaged in Financial Intermediation Services that have been allocated from AY 2024-25 onwards do not enable identification of assessment cases/ assessee pertaining to the broad category of RBI-registered NBFCs to ascertain the eligibility of specific deductions under the Income Tax Act.

4.6 Mismatch between the Centralised data of the CBDT and the data of their Field Formations due to wrong capturing of the business code

Data received from the CBDT in respect of 2,463 sample cases comprising 2,161 NBFC and 302 bank cases were examined in Audit. During the Audit, it was observed that the sample of 2,463 actually consisted of 355 bank cases and 2,108 NBFC cases. The reason for this difference was mainly the incorrect business code mentioned in the ITR, as detailed in Table 4.19 below.

As per DGIT Systems data			As per the Assessment data		
Banks	NBFCs	Total	Banks	NBFCs	Total
302	2,161	2,463	355	2,108	2,463

Source: Assessment Records of ITD and Data furnished by CBDT (Refer to Annexure 4.13)

In 53 cases, business codes pertaining to NBFCs were shown in the ITR filed by Banks. Details of these 53 cases are given in **Annexure 4.13**.

Allocating specific, correct codes to different businesses in the finance sector is essential for proper monitoring, collection, and sharing of relevant information, as well as expert handling of sector-specific issues during assessment. The possibility that some assesses may deliberately enter incorrect business codes to avoid the attention of regulators and Investigating agencies cannot be ruled out.

4.7 Conclusion

Audit observed that existing formats of ITR-6 and Form 3CD lacked specific columns for capturing deductions and authentication of such claims made towards bad debts written off as irrecoverable under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viia) and special reserve created out of profit from eligible businesses under Section 36(1)(viii). Audit observed instances of allowance of deductions for bad debts written-off by banks without verification of eligibility of claims and without calling for PAN particulars of borrowers for loans exceeding rupees one lakh during scrutiny assessment.

Audit observed that Rule 6EA of Income Tax Rules, 1962 had not been amended to include two categories of NBFCs, viz., deposit-taking non-banking financial companies and systemically important non-deposit-taking non-banking financial companies, in accordance with the amendment made in Section 43D *vide* Finance Act 2019 with effect from 01.04.2020. Audit observed instances where the NBFCs did not offer income in respect of interest accrued on NPAs to tax for the period up to AY 2019-20 in the absence of clarification made by CBDT through Circular no. 10 of 2017 dated 23 March 2017 on taxation of interest on NPAs on accrual basis effective from 01 April 2020 (AY 2020-21). Further, Section 41(4A) does not provide for the taxation of retained money in the Special Reserve by the entity after the discontinuance of its long-term finance business.

Audit observed that ambiguity in Rule 6EA of Income Tax Rules, 1962, with provisions of Section 43D regarding the period to consider a loan or interest as outstanding, is subject to tax litigations. As per Rule 6EA, a period of six months for non-payment of loan is treated as outstanding, whereas it is three months as per RBI Guidelines, resulting in inconsistency in tax treatment of accrued interest on non-viable or sticky advances outstanding for a period between three and six months. Audit observed inconsistency in assessments while allowing claims or deductions related to broken period interest, amortisation of premium paid on securities held under HTM category, diminution in value of investments and taxation of profits on sale of assets to Securitisation Companies/ Asset Reconstruction Companies.

As per the existing allocation of Business Codes, NBFCs have not been assigned a distinct Business Code for the identification of assessee falling under the broad category of NBFCs while assessing eligibility of claims of deduction under the Income Tax Act.

Chapter 5 Compliance Issues including 360-Degree Analysis

This chapter includes cases of non-compliance with the prescribed rules and regulations, audit observations emanating from 360-degree analysis, as well as observations noticed in respect of verification of related party transactions. Tax effect has been shown only with respect to compliance issues. Replies received from the Department up to 30 November 2025 have been suitably incorporated in this Report.

Based on the records/ details made available by ITD to the Field Audit parties, Audit observed irregularities of tentative incorrect assessment of income of ₹ 2,72,553.49 crore and issued 533 audit observations involving total probable tax effect⁵² of ₹ 74,766.39 crore which comprised 504 audit observations of under assessment of income of ₹ 2,63,100.93 crore involving short levy of tax of ₹ 71,498.45 crore and 29 audit observations of over assessment of income of ₹ 9,452.56 crore involving excess levy of tax of ₹ 3,267.94 crore. Total short levy of tax of ₹ 71,498.45 crore further comprised issues of non-compliance resulting in under assessment of income involving short levy of tax of ₹ 70,171.12 crore and incorrect levy of interest / irregular allowance of MAT credit, DIT relief, etc. that did not result in incorrect assessment of income but involved short levy of tax of ₹ 1,327.33 crore. Total excess levy of tax of ₹ 3,267.94 crore further comprised issues of non-compliance resulting in over assessment of income involving excess levy of tax of ₹ 2,723.98 crore and incorrect levy of interest / irregular allowance of MAT credit, DIT relief, etc. that did not result in incorrect assessment of income but involved short levy of tax of ₹ 543.96 crore. Further, the probable tax effect of ₹ 74,766.39 crore comprised a positive tax effect of ₹ 70,200.62 crore and a potential tax effect of ₹ 4,565.77 crore. Audit also observed 118 irregularities in respect of related party transactions, based on cross-verification of claims and amounts as per the records of the main assessee vis-à-vis those of the related party transactions. Further recovery of ₹ 3,503.44 crore has been made from demand raised to rectify the errors in assessment based on audit observations.

Out of the 533 audit observations involving probable tax effect of ₹ 74,766.39 crore pertaining to compliance issues included in the Report, the Ministry has furnished replies in 25 audit observations involving tax effect of ₹ 1,061.58 crore. Of these 25 audit observations, the Ministry has accepted 21, involving a tax effect of ₹ 799.38 crore, and partly accepted two audit observations, involving a tax effect of ₹ 24.50 crore. Out of 25 audit observations, remedial action has been completed in 17 audit observations involving a tax effect of ₹ 599.04 crore, and remedial action has been initiated in six audit observations involving a tax effect of ₹ 224.84 crore. The Ministry did not accept two audit observations involving the tax

⁵² The tax implication computed by Audit is based on records/ details made available by ITD to Field Audit parties, mainly assessment records furnished by the ITD which are required to be verified by the ITD before taking remedial action.

effect of ₹ 237.70 crore. At the field formations level, the Income Tax Department (ITD) had furnished replies in 212 audit observations involving a tax effect of ₹ 47,557.33 crore. Of these 212 audit observations, ITD has accepted 88, involving a tax effect of ₹ 28,639.13 crore; completed remedial action in 79, involving a tax effect of ₹ 5,056.59 crore; and initiated remedial action in 64, involving a tax effect of ₹ 15,324.15 crore. ITD did not accept 41 audit observations involving the tax effect of ₹ 6,900.25 crore.

The audit observations related to 360-degree analysis have been discussed in para 5.1.1 to 5.4.7 of this report, while compliance issues have been included under Para 5.5.1 to 5.5.12. Audit observed irregularities in allowance of deductions, expenses, losses and mistakes in computation of income in 651 audit observations resulting in incorrect assessment of income of ₹ 2,72,553.49 crore and probable tax effect of ₹ 74,766.39 crore, as given in Table 5.1 below:

Sr. No.	Para No.	Subject in brief	Details of the Incorrect assessment			
			Type of Incorrect assessment	No. of paras	Amount of Incorrect assessment	Probable Tax Effect
1	5.5.1	Irregular allowance of deduction for bad debts written off under Section 36(1)(vii)	Underassessment	92	88,758.04	31,979.97
			Over assessment	8	5,846.20	1,479.11
			Sub-Total	100	94,604.24	33,459.08
2	5.5.2	Irregular allowance of deduction for provision for bad and doubtful debts under Section 36(1)(viiia)	Underassessment	59	6,665.19	2,316.51
			Over assessment	9	1,668.65	654.75
			Sub-Total	68	8,333.84	2971.26
3	5.5.3	Incorrect allowance of deduction under Section 36(1)(viii)	Underassessment	32	1431.10	531.18
			Over assessment	0	0	0
			Sub-Total	32	1431.10	531.18
4	5.5.4	Incorrect allowance of exemptions	Underassessment	45	1,297.80	483.2
			Over assessment	0	0	0
			Sub-Total	45	1,297.80	483.2
5	5.5.5	Income escaping assessment	Underassessment	40	17,941.61	7,700.77
			Over assessment	0	0	0
			Sub-Total	40	17,941.61	7,700.77
6	5.5.6	Incorrect allowance of deduction for provisions and expenditure	Underassessment	79	15,646.01	2,766.55
			Over assessment	0	0	0
			Sub-Total	79	15,646.01	2,766.55
7	5.5.7	Irregularity in computation of book profit under Section 115JB	Underassessment	28	1,24,644.73	22,375.12
			Over assessment	1	985.05	210.22
			Sub-Total	29	1,25,629.78	22,585.34
8	5.5.8	Incorrect computation and allowance of Long-Term Capital Loss/Gains	Underassessment	4	1,553.83	357.35
			Over assessment	0	0	0
			Sub-Total	4	1,553.83	357.35
9	5.5.9	Incorrect allowance of deduction under Section 44C to Foreign Banks	Underassessment	8	1,470.35	636.07
			Over assessment	0	0	0
			Sub-Total	8	1,470.35	636.07

Table 5.1: Audit observations noticed under Compliance issues (₹ in crore)						
Sr. No.	Para No.	Subject in brief	Details of the Incorrect assessment			
			Type of Incorrect assessment	No. of paras	Amount of Incorrect assessment	Probable Tax Effect
10	5.5.10	Irregular set off and carry forward of losses	Underassessment	23	2,293.35	510.09
			Over assessment	0	0	0
			Sub-Total	23	2,293.35	510.09
11	5.5.11	Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty, etc.	Underassessment	94	1,398.92	1,841.64
			Over assessment	11	952.66	923.86
			Sub-Total	105	2,351.58	2,765.5
Total	Total (5.5.1 to 5.5.11)		Underassessment	504	2,63,100.93	71,498.45
	Total (5.5.1 to 5.5.11)		Over assessment	29	9,452.56	3,267.94
	Grand Total			533	2,72,553.49	74,766.39
12	5.5.12	Audit observations on Related Party Transactions [Main assessee: No.: 77, TE: ₹ 38.97 crore] [Related Parties: No.: 41, TE: ₹ 14.84 crore]		118	NMV ⁵³	NMV
Total				651	2,72,553.49	74,766.39

A significant amount of deductions were allowed to banks and NBFCs under Sections 36(1)(vii) and 36(1)(vii-a) and 36(1)(viii) of the Act. The Audit noticed that the Department was allowing bad debts under section 36(1)(vii) of the Act without adjusting the opening balance of the provision for bad and doubtful debts, resulting in an irregular allowance of significantly high amounts of deduction. Despite there being clear provision under Section 36(1)(vii-a) of the Income Tax Act, the AOs did not examine the claims made by the assessee towards provision for bad and doubtful debts resulting in irregular allowance of deduction on account of inadmissible items such as provision for standard assets and non-restriction of the deduction to the specified percentage of Gross Total Income, as applicable in the case of Banks and NBFCs. The Department did not have an institutional mechanism in place to verify the veracity and genuineness of the claims towards the rural advances admissible under Section 36(1)(vii-a) of the Act, resulting in irregular allowance of deduction for advances made by the branches that did not qualify as rural branches of the assessee.

Audit noticed deficiencies in the extent of examination made by AOs under scrutiny assessments of banks and NBFCs. Although the assessments were completed under scrutiny, the Assessing Officers did not examine the correctness of claims made by assessee under section 36(1)(viii) of the Act, resulting in incorrect allowance of deduction that was more than the amount transferred to Special Reserve during the previous year and on income from business other than specified business. Though the assessments were examined under complete scrutiny, the AOs did not examine the incorrect figures adopted for the computation of the disallowance of expenditure under Section 14A of the Act against exempt income. In certain cases, the issues escaped examination as the returns were processed under summary. Further, although NBFCs, not eligible to accept Specified Bank Notes during the

⁵³ No Money Value

demonetisation period, had accepted the same and did not offer the unauthorised deposits for taxation, the AO did not verify and add back the same during the scrutiny assessment.

Audit noticed cases of irregular allowance of deduction on account of items such as depreciation on goodwill, other provisions and write-off without verification, loss on account of fraud, loss on sale of capital assets, contingent expenditure, provision for bad and doubtful debts not added back, notional loss on account of foreign currency revaluation, provision of foreign branches, provision for standard assets, prior period expenditure, unpaid liability etc. Audit noted cases where adjustments required to be made to net profit for arriving at book profit were not made, resulting in incorrect computation of book profit. Audit also noted cases where assessment was completed under normal provision at loss, although tax was leviable under Section 115JB of the Act.

Audit noticed cases of irregular allowance of expenses under section 44C of the Act, though the assessee had neither paid the sum of head office expenses attributable to Indian operations to its head office nor debited any such expenditure in its books of accounts. Audit also noticed cases of irregular allowance of penalty imposed by RBI, errors in computation of tax as per income tax computation sheet due to non-consideration of disallowances made as per the assessment order, errors in computation of income, application of incorrect rate of tax, incorrect levy of surcharge, irregular allowance of inadmissible MAT credit and excess allowance of foreign tax credit. Audit noticed variations in the disclosure of the value of transactions made in the records and documents of the main assessee vis-à-vis that of related parties.

Audit observations of 360 degree analysis of three public sector banks, six private sector banks and one foreign bank are discussed in Para 5.1.1 to 5.1.3, Para 5.2.1 to 5.2.6 and Para 5.3, respectively, of this report. Audit observations of 360-degree analysis of seven NBFCs are discussed in Para 5.4.1 to 5.4.7 of this report. Further, audit observations for 360-degree cases relating to systemic issues and internal control, co-ordination issues and monitoring mechanisms are highlighted in chapters 4 and 6, respectively, along with other sampled cases.

5.1 360-degree analysis of assessments of Public Sector Banks

Audit selected 167 unique cases of banks and NBFCs for 360-degree analysis to ascertain compliance with the general provisions of the IT Act, and cases of 10 banks and seven NBFCs have been illustrated in paras 5.1 to 5.4 of this Chapter. The audit observations regarding related party transactions are discussed in Para 5.5.12 of this Chapter.

5.1.1 360-degree analysis of assessments of S8

S8, assessed under the jurisdiction of PCIT-2 Mumbai, is India's largest commercial Bank in terms of assets, deposits, branches, number of customers and employees. As per the Annual Report of S8 for FY 2019-20, the total corporate advances of the Bank were ₹ 8,44,215 crore,

while the total government business turnover was ₹ 52,62,643 crore and the total SME⁵⁴ advances were ₹ 2,67,614 crore as on 31 March 2020. The total customer base of the bank was ₹ 44.89 crore with 22,141 branches. The market share of the bank was 22.84 *per cent* in terms of deposits and 19.69 *per cent* in terms of advances. The financial highlights of S8 for FYs 2016-17 to 2019-20, particulars of assessments of S8 for AYs 2016-17 to 2019-20, details of deductions claimed and allowed during AYs 2016-17 to 2019-20 and significant observations noticed in audit of assessments of S8 are detailed in Table 5.5.

S8 : S8⁵⁵ merged with five domestic banking subsidiaries (DBS) of S8 viz.(i) S18, (ii) S47, (iii) S48, (iv) S13, (v) S17; and B15 with effect from 01 April, 2017. Pursuant to this merger, all assets and liabilities of the transferor Banks were recorded in the books of S8 at their existing carrying amounts as on the effective date⁵⁶.

5.1.1.1 Details of NPAs in the Bank and recovery in Written-off accounts

Details of NPAs in the Bank and recovery in Written-off accounts for the four financial years from FY 2016-17 to FY 2019-20, are given in Table 5.2 below:

Table 5.2: Movement of NPAs				(₹ in crore)
	FY 2016-17*	FY 2017-18	FY 2018-19	FY 2019-20
Gross NPA	1,77,866	2,23,427	1,72,750	1,49,092
Gross NPA [in <i>per cent</i>]	9.11	10.91	7.53	6.15
Net NPA [in <i>per cent</i>]	5.19	5.73	3.01	2.23
Fresh Slippages + Increase in Outstanding	1,15,932	1,00,287	39,740	54,510
Cash Recoveries/ Up-gradations	32,283	14,530	31,512	25,781
Write-Offs	27,757	40,196	58,905	52,387
Recoveries in AUCA ⁵⁷	3,963	5,333	8,345	9,250
PCR ⁵⁸ [in <i>per cent</i>]	61.53	66.17	78.73	83.62
*Post-Mergers				
Source: Annual Report of S8 for FY 2019-20				

It can be seen from the above table that Net Non-Performing Assets (NPA) have gradually decreased from 5.73 *per cent* in FY 2018 to 2.23 *per cent* in FY 2020, due to increased write-offs during the period and improvements in recovery. According to the Annual Report for FY 2020 (page 66), a significant surge in NPA levels was anticipated during FY 2021, in the backdrop of the COVID-19 pandemic. The Bank took several pre-emptive measures to extend assistance to its borrowers, enabling them to face the challenges and continue as performing assets. The level of NPA by the end of March 2020 had significantly declined due to the

⁵⁴ Small and medium enterprises

⁵⁵ Director's Report in the Annual Report of the Bank for FY 2018 (page 34)

⁵⁶ Effective Date is the date on which scheme is complete and effective, i.e., certified copy of the High Court order is filed with Registrar of Company or the last of the approvals obtained. From the effective date amalgamation becomes effective and Transferor Company stands dissolved.

⁵⁷ AUCA: Advances Under Collection Account

⁵⁸ PCR: Provision Coverage Ratio

continuous reduction of Gross Non-Performing Assets (GNPA) through FY 2019 and FY 2020, resulting from various actions taken by the Bank.

The financial highlights of S8 for FY 2016-17 to FY 2019-20 are given in Table 5.2A below:

FY → /Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	27,05,966.30	34,54,751.99	36,80,914.25	39,51,393.92
Total Advances	15,71,078.38	19,34,880.19	21,85,876.92	23,25,289.56
Total Deposits	20,44,751.39	27,06,343.28	29,11,386.01	32,41,620.73
Interest/discount on advances/bills	1,19,510.00	1,41,363.17	1,61,640.23	1,79,748.83
Shareholder's fund	797.35	892.45	892.46	892.46
Retail Advances	954597.65	13,19,933.76	14,91,676.59	15,80,600.47
CASA	9,31,958	12,36,258	13,31,668	14,63,916
Operating Revenue	2,10,979.16	2,65,100.00	2,79,643.54	3,02,545.07

Source: Annual Report of S8 of respective FYs

5.1.1.2 Details of Income Tax Assessment

The assessment details of S8 for AYs 2016-17 to 2019-20 are given in Table 5.3 below:

AY	Date of filing return	Returned Income	Assessed Income	Additions made	Addition as a percentage of returned income [in per cent]	Assessment made under Section and date of assessment
2016-17	22.02.2017 (Revised)	12,338.34	31,735.50	19,397.16	157.21	143(3)/ 27.3.2018
2017-18	06.03.2019 (Revised)	10,865.89	33,126.08	22,260.19	204.86	143(3)/ 16.3.2019
2018-19	30.03.2019 (Revised)	(-) 28,209.29	15,425.61	43,634.90	Not Calculable (Returned Income being a loss)	143(3)/ 20.3.2020
2019-20	30.06.2020 (Revised)	0	3,479.85	3,479.85	Not Calculable (Returned Income being nil)	143(3)/ 29.9.2021
Total		23,204.23 (-) 28,209.29	83,767.04	88,772.10		

Source: Assessment records of ITD

It can be observed from the above table that significant additions were made every year on account of several legacy issues on account of Broken Period Interest, Interest accrued but not due, amortisation of premium paid on Held to Maturity (HTM) category of securities, disallowance of expenses under Section 14A, Interest income from Non-Performing Assets, claim of bad debts, Interest on Perpetual Debt Instruments, etc.

5.1.1.3 Details of Deductions claimed and allowed

Deduction claimed and allowed to S8 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viia), towards special reserve under Section 36(1)(viii) and exempt income under different Sections are shown in Table 5.4 below:

AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viia)*		Deduction for special reserve under Section 36(1)(viii)		Exempt income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2016-17	27,221.98	0	0.00	13,333.74	309.65	309.65	837.93	837.93
2017-18	32,905.63	19,764.74	0.00	15,469.68	224.84	0	1,139.95	1,139.95
2018-19	71,374.23	24,725.74	0.00	17,058.47	0	0	6,602.73	6,602.73
2019-20	54,694.33	54,694.33	0.00	0.00	0	0	989.27	989.27
Total	1,86,196.17	99,184.81	0	45,861.89	534.49	309.65	9,569.88	9,569.88

Source: Assessment records of ITD

**Note: S8 was not claiming deduction under Section 36(1)(viia) as explained in subsequent sub-para below this Table.*

Audit noted that S8 was not claiming a deduction under Section 36(1)(viia) towards provision for bad and doubtful debts in their return, contending that the provision for bad and doubtful debts made in the books of account is to be allowed as a deduction for bad debts. Assessee submitted during assessment that it maintains financial statements in line with the Banking Regulation Act, 1949/ Reserve Bank of India guidelines. The bank reduces the provision for bad and doubtful debts from the loans and advances in the balance sheet, and the net amount of loans and advances is indicated. The net provision amount is debited to the Profit and Loss Account, which is claimed as a deduction under Section 36(1)(vii) as Bad Debts written off.

The Department contested this stand of S8 and allowed a deduction for bad debts to the extent of the write-off in the books of accounts. In addition, the Department also allowed deduction for bad and doubtful debts under Section 36(1)(viia) as per the law, even though it was not claimed in the return. These issues have been under appeal for all these years. The audit observations related to these issues are discussed in detail in the following paragraphs.

5.1.1.4 Significant Audit observations in 360-degree analysis

Audit identified 15 audit observations involving incorrect assessment of ₹ 1,28,077.18 crore with tax effect of ₹ 34,379.55 crore including seven findings involving under assessment of income of ₹ 1,26,417.70 crore and short levy of tax of ₹ 32,968.45 crore, three findings involving over assessment of income of ₹ 1,659.50 crore and excess levy of tax of ₹ 672.25 crore, one finding on incorrect allowance of DIT relief with short levy of tax of ₹ 219.38 crore, one finding on non-allowance of DIT relief with excess levy of tax of ₹ 519.47 crore and two findings are systemic in nature without any tax effect. Out of 15 audit observations, DCIT-2(2)(1), Mumbai, has accepted 13, stating that remedial action will be initiated. Further, remedial action has been taken in two cases, and recovery of ₹ 3,141 crore was effected at the instance of the Audit, and remedial action has been initiated in 10 cases.

Further details of the remedial action taken are awaited, despite the issuance of reminders (April 2024, November 2024). Significant audit findings/irregularities noticed in the assessments of S8 are listed in Table 5.5 below:

Table 5.5: Details of irregularities noticed in respect of S8						(₹ in crore)
S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Over assessment	Tax effect	Department's Reply
1	AY 2018-19 143(3) dated 20.3.2020	Opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia) in the earlier AY not reduced while allowing bad debts in the succeeding year.	5,993.55	--	2,613.56 [Under charge]	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
2	AY 2017-18 & 2018-19 143(3) dated 16.3.2019 and 20.3.2020	Opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia) in the earlier AY not reduced while allowing bad debts in the succeeding year.	15,293.84	--	5,292.89 [Undercharge]	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
3	AY 2019-20 143(3) dated 29.9.2021	Opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia) in the earlier AY not reduced while allowing bad debts in the succeeding year	17,058.47	--	5,960.91 [Undercharge]	Accepted (June 2022) and stated that appropriate remedial action will be taken. Further details are awaited (November 2025).
4	AY 2017-18 143(3) dated 16.3.2019	Opening balance of ₹ 6,056.25 crore in Foreign Currency Translation Reserve (FCTR) as on 1.4.2016 not offered to tax as per the provisions of Income Computation and Disclosure Standards (ICDS).	6,056.25	--	2,598.97 [Undercharge]	Accepted (March 2022) and initiated remedial action vide issue of notice under Section 148 in March 2021. Further details are awaited (November 2025).
5	AY 2018-19 143(3) dated 20.3.2020	While computing book profit, the actual amount of provision created in the books of account, amounting to ₹ 2,121.53 crore, was not added back. Instead, the amount paid ₹ 1,796.70 crore was reduced.	1,796.70	--	483.14 [Undercharge]	Accepted (March 2022). The case was reopened under Section 263, and the amount was added back in March 2023. The Department stated (July 2023) that an amount of ₹ 741 crore has been recovered.
6	AY 2018-19 143(3) dated 20.3.2020	While computing book profit, an amount of ₹ 1,659.41 crore was added back instead of ₹ 674.36 crore,	--	985.05	210.22 [Overcharge]	The assessee is in appeal before CIT(Appeals) (January 2022). Further details are

Table 5.5: Details of irregularities noticed in respect of S8						(₹ in crore)
S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Over assessment	Tax effect	Department's Reply
		apparently due to an oversight.				awaited (November 2025).
7	AY 2018-19 143(3) dated 20.3.2020	Deduction for bad debts was allowed from book profit under Section 115JB.	24,725.74	--	5,276.87 [Undercharge]	Not accepted (February 2022), stating that the issue is debatable. Rejoinder issued (February 2022) stating that the Audit noticed that a similar claim in AY 2017-18 was disallowed by the AO. Further details are awaited (November 2025).
8	AY 2019-20 143(3) dated 29.9.2021	Deduction for bad debts was allowed from the book profit under Section 115JB.	55,493.13	--	10,742.11 [Undercharge]	Accepted (June 2022) and stated that appropriate remedial action will be taken. Further details are awaited (November 2025).
9	AY 2018-19 143(3) dated 20.3.2020	Deduction under Section 36(1)(vii) was allowed at the rate of 7.5 per cent of the total income instead of applicable rate of 8.5 per cent for AY 2018-19.	--	324.84	112.42 [Overcharge]	Accepted in principle (February 2022). The assessee is in appeal before CIT(Appeals). Further details are awaited (November 2025).
10	AY 2017-18 143(3) dated 16.3.2019	DIT relief sought by the assessee amounting to ₹ 349.61 crore was reduced from the taxable income instead of reducing the same from tax liability as sought by the assessee.	--	349.61	349.61 [Overcharge] 150.03 [Undercharge]	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
11	AY 2016-17 143(3) dated 27.3.2018	When the entire income of foreign branches was brought to tax in India, the assessee should have been allowed DIT relief of ₹ 209.88 crore as per their alternative claim.	--	--	209.88 [Overcharge]	Accepted in principle (February 2022). Further details are awaited (November 2025).
12	AY 2018-19 143(3) dated 20.3.2020	When the entire income of foreign branches were brought to tax in India assessee should have been allowed DIT relief of ₹ 309.59 crore as per their alternative claim.	--	--	309.59 [Overcharge]	Accepted in principle (February 2022). Further details are awaited (November 2025).
13	AY 2019-20 143(3) dated 29.9.2021	Assessee was allowed DIT relief under Section 90/91 amounting to ₹ 219.38 crore even though income of foreign branches was not added in the income.	--	--	219.38 [Undercharge]	Accepted (June 2022). Further details awaited (November 2025).

Table 5.5: Details of irregularities noticed in respect of S8						(₹ in crore)
S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Over assessment	Tax effect	Department's Reply
14	AY 2016-17 to 2019-20 143(3)	Bad debts allowed without verification due to non-disclosure of PAN of borrower in ITR-6 under bad debts information.	--	--	--	Accepted (June 2022). As incorporated under para 4.3.2.1 (Box 4.5). Further details are awaited (November 2025).
15	AY 2019-20 143(3) dated 29.9.2021	Assessment was completed without verifying past assessment records and without disallowing inadmissible expenses.	--	--	--	Accepted (June 2022) and stated (July 2023) that remedial action has been taken under Section 143(3) read with Section 263 in March 2023 and an amount of ₹ 2,400 crore has been recovered.
Total			1,26,417.68	1,659.50	34,379.55	

5.1.1.5 Excess allowance of deduction for bad debts due to improper adjustment of the opening balance in the provision for bad and doubtful debts account allowed under Section 36(1)(viiia)

Audit noticed irregularities in allowance of bad debts written off in case of assessments of a major public sector bank on account of non-adjustment of closing balance of provision of bad and doubtful debts allowed in preceding previous year and non-reduction of deduction allowed to associate banks under Section 36(1)(viiia) prior to merger with this bank resulting in excess allowance of deduction, as discussed below.

Assessments for AY 2017-18 and AY 2018-19 were finalised after complete scrutiny under Section 143(3) in March 2019 and March 2020, determining income at ₹ 33,126.08 crore and at book profits of ₹ 36,405.06 crore under Section 115JB, respectively.

The five associate banks of S8, viz. S18, S47, S48, S13, and S17 were merged with S8 with effect from 1 April 2017. Hence, in the AY 2018-19, only one assessee, i.e., S8, had filed an income tax return consolidating accounts of all the associate banks.

In the assessment for AY 2018-19, a deduction of ₹ 40,195.42 crore was allowed towards bad debts written off without adjusting with the provision for bad and doubtful debts (PBDD) account under Section 36(1)(viiia). In AY 2017-18, a closing balance of ₹ 15,469.68 crore was available in the PBDD account under Section 36(1)(viiia). Hence, the bad debts written off for AY 2018-19, amounting to ₹ 24,725.74 crore only, were allowable to the assessee after adjustment with the opening balance in the PBDD account as per the prescribed adjustment under Section 36(2)(v).

Similarly, for AY 2017-18, the assessee was allowed a deduction of ₹ 19,764.74 crore towards bad debts written off. In AY 2016-17 closing balance of ₹ 6,436.00 crore was available in the

PBDD account under Section 36(1)(viiia). Hence, the bad debts written off for AY 2017-18, amounting to ₹ 13,328.74 crore, were allowable to the assessee.

Scrutiny assessments under Section 143(3) of five associate banks of S8 for AYs 2016-17 and 2017-18 disclosed that provision for bad and doubtful debts amounting to ₹ 5,993.55 crore was allowed to them under Section 36(1)(viiia). However, this provision for bad and doubtful debts of ₹ 5,993.55 crore, already allowed under Section 36(1)(viiia) to the associates, was not reduced while allowing the deduction for bad debts written off to S8 in AY 2018-19.

Similarly, in AY 2015-16, a deduction of ₹ 15,293.84 crore was allowed under Section 36(1)(viiia) towards a provision for bad and doubtful debts by the CIT(Appeals) in his order dated 18.03.2019. The order giving effect to the CIT(Appeals) order was passed on 27.03.2019, wherein taxable income for AY 2015-16 was re-assessed at ₹ 20,692.94 crore after allowing deduction of ₹ 15,293.84 crore under Section 36(1)(viiia). This amount was also not reduced while allowing deduction for bad debts written off to S8 in the AY 2017-18 and AY 2018-19, resulting in under assessment of income of ₹ 21,287.39 crore involving short levy of tax of ₹ 7,906.45 crore for AY 2017-18 and AY 2018-19, excluding liability for interest.

This was brought to the notice of DCIT-2(2)(1) Mumbai in December 2020. The Department accepted (February 2022) the audit observation and stated that action under Section 154 was under consideration, as these are mistakes apparent from the records. Further details are awaited (November 2025) despite the issue of reminders (April 2024, November 2024). Ministry's reply is also awaited (November 2025).

Scrutiny assessment for AY 2019-20 was completed under Section 143(3) in September 2021, determining income at ₹ 3,479.85 crore under normal provisions. Assessee's claim of deduction of ₹ 54,694.33 crore towards write off of bad debts as per the computation of income was fully allowed in the assessment order. As per the scrutiny assessment order for AY 2018-19 (March 2020), a deduction of ₹ 17,058.47 crore was allowed under Section 36(1)(viiia) towards the provision for bad and doubtful debts. However, this amount was not reduced, despite allowing for bad debts for AY 2019-20. Thus, there was an excess allowance of bad debts to the extent of ₹ 17,058.47 crore during AY 2019-20, involving a tax effect of ₹ 5,960.91 crore.

This was brought to the notice of the DCIT-2(2)(1), Mumbai, in January 2022. In reply (June 2022), the Department accepted the audit observation and stated that appropriate remedial action would be taken. It was also stated that the assessment for AY 2019-20 was reopened and completed under Section 263 in March 2023, during which the excess allowance for bad debts was disallowed. Further, an amount of ₹ 2,400 crore was recovered from the assessee against the demand of ₹ 3,612.22 crore raised in respect of reopened assessment for AY 2019-20. Details of the recovery of the remaining amount are awaited (November 2025).

5.1.1.6 Incorrect allowance of deduction for bad debts while computing book profit under Section 115JB

Explanation below Section 115JB⁵⁹ provides for adjustments to be made to net profit for arriving at book profit for the purpose of this Section. There is no provision under Section 115JB to allow deduction for any expenditure or claim which is not debited in the profit and loss account unless it falls under any specified adjustment given under the explanation below Section 115JB. The Hon'ble Supreme Court in the case of Apollo Tyres Ltd. vs CIT⁶⁰ held that the AO, while computing the income under Section 115J (now Section 115JB), can only examine whether the books of accounts are certified by the authorities under the Companies Act. The AO cannot question the net profit shown in the profit and loss account. The AO's powers were limited to making additions and reductions, as per the Explanation to Section 115J.

In the C&AG's Performance Audit Report No. 30 of 2017⁶¹ on payment of tax by certain companies under special provisions of Section 115JB, it had also been pointed out that there was no provision to reduce bad debts written off in the computation of book profit under Section 115JB. Ministry, in its Action Taken Note in August 2018, had accepted audit observations. The irregularity in the allowance for bad debts while computing book profit persists in the Department, despite the issue being flagged in the C&AG's report of 2017, as discussed in the following paragraphs.

The scrutiny assessment of the assessee for AY 2018-19 was finalised after complete scrutiny under Section 143(3) in March 2020, determining income at ₹ 15,425.61 crore under normal provisions and at ₹ 36,405.06 crore under the special provisions of Section 115JB. Tax was determined to be payable under the provisions of Section 115JB. Assessment for AY 2019-20 was finalised after scrutiny in September 2021, determining income at ₹ 3,479.85 crore under normal provisions and accepting the returned book loss of ₹ 1,887.97 crore. Audit observed from the assessment order that while computing book profit under the provisions of Section 115JB, AO allowed a deduction of ₹ 24,725.74 crore for AY 2018-19 towards bad debts written off, keeping in view allowance under normal provisions of the Act.

In AY 2019-20, the assessee had claimed a deduction of ₹ 54,617.72 crore from net profit towards bad debts written off while computing book profit. No positive adjustment was made by the AO to the book profit offered by the assessee in the assessment order passed in September 2021. Similarly, the assessee claimed deductions of ₹ 63.98 crore for the write-off of other assets and ₹ 2,699.40 crore for income from foreign branches in AY 2019-20. These deductions were also not allowable as they did not fall under the prescribed adjustments given under the explanation below Section 115JB. The total amount disallowable for AY 2019-20 worked out to ₹ 57,381.10 crore. The AO incorrectly allowed deduction for bad

⁵⁹ As per Section 115JB of the IT Act, where the tax computed under normal provisions of the Act is less than the tax payable on book profits under special provisions of Section 115JB, assessee would be liable to pay tax on book profits as per special provisions.

⁶⁰ [255 ITR 273 (2002)]

⁶¹ Para 2.8.1 of C&AG's Performance Audit Report no. 30 of 2017

debts written off from the net profit under Section 115JB, though it was not debited to the Profit and Loss Account. It is pertinent to note that a similar claim of the assessee in AY 2017-18 was disallowed by the AO vide para no.25 in the assessment order. This resulted in under assessment of book profit of ₹ 24,725.74 crore for AY 2018-19 and ₹ 57,381.10 crore for AY 2019-20, involving a short levy of tax of ₹ 5,276.87 crore in AY 2018-19 and ₹ 10,742.11 crore in AY 2019-20.

This was brought to the notice of DCIT-2(2)(1), Mumbai, in January 2022. DCIT-2(2)(1), Mumbai, while accepting the observation for AY 2019-20, stated (June 2022) that appropriate remedial action would be initiated. In respect of AY 2018-19, the DCIT replied (February 2022) that since there is no specific provision under explanation 1 below Section 115JB for allowing write off of bad debts as a deduction, the issue raised in the Audit was debatable.

A rejoinder was issued to the Department (February 2022) in respect of AY 2018-19, while not accepting the reply stating that the Department had adopted an inconsistent stand in the case of the same assessee and disallowed such claim for AY 2017-18. Further, the Department had also accepted a similar audit observation for AY 2019-20.

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may clarify its stance on the issue of allowing deductions for bad debts written off as adjustments while computing book profit under Section 115JB when the bad debts written off are not debited to the Profit and Loss account, considering the significant amount of revenues foregone and to avoid protracted litigation on the issue.

In response, the Ministry stated (November 2024) that, from perusal of this recommendation, it is not clear whether it relates to the provision of bad debts or the bad debts written off. Therefore, it is requested to provide clarification on this issue. Further, it is stated that when the bad debts written off is not debited to the Profit and Loss account of assessee, then question of allowing such expenses while computing book profit does not arise. This recommendation is under examination.

The audit recommendation pertains to the negative adjustment/decrease of bad debts written off from the net profit while computing the book profit under Section 115JB. Audit is of the view that although there is no provision to reduce bad debts written off in the computation of book profit under Section 115JB when it is not debited to the Profit and Loss Account, the irregularity of allowance of bad debts while computing book profit still persists in the ITD. CBDT may, therefore, review and issue suitable instructions to ensure compliance with the provisions of Section 115JB of the IT Act, to avoid loss of revenue to the exchequer and protracted legal cases in future.

5.1.1.7 Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)

As per sub-Section (2) of Section 43AA⁶², gain or loss arising on account of the effect of a change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to Foreign Currency Translation Reserve (FCTR). The Government notified⁶³ Income Computation and Disclosure Standards (ICDS) effective from AY 2017-18. As per clause 5 of ICDS-VI, in respect of monetary items, exchange differences arising on the settlement thereof or conversion thereof, on the last day of the previous year shall be recognised as income or expenses in that previous year. The CBDT, vide Question 16 of Circular No. 10 of 2017 dated 23.03.2017, clarified that the opening balance in FCTR as on 1 April 2016 pertaining to exchange difference shall be recognised in the previous year relevant to AY 2017-18 to the extent not recognised in the income computation in the past.

Despite the above clarification, Audit noticed that neither the assessee bank offered the same to tax nor did the AO add it back during scrutiny assessment, resulting in income on account of exchange differences in the FCTR escaping assessment, as discussed below.

Box 5.1

Assessment of the assessee for AY 2017-18 was finalised after complete scrutiny under Section 143(3) in March 2019, determining income at ₹ 33,126.08 crore and tax liability under normal provisions of the Act. As per Schedule-2 (Reserves & Surplus) of the Balance Sheet, the opening balance of Foreign Currency Translation Reserve (FCTR) was ₹ 6,056.25 crore as on 01.04.2016. The audit observed that the assessee did not offer the opening balance of FCTR for the computation of taxable income. This had resulted in an underassessment of income of ₹ 6,056.25 crore and a short levy of tax of ₹ 2,598.97 crore.

This audit observation was brought to the notice of DCIT-2(2)(1), Mumbai, in December 2020. In reply, the DCIT-2(2)(1), Mumbai, while accepting the audit observation, stated (March 2022) that remedial action was initiated under Section 148 in March 2021. Further details are awaited (November 2025).

Ministry's reply is awaited (November 2025).

5.1.1.8 Non allowance of DIT Relief when foreign income is taxed in India

Sections 90 and 91⁶⁴ of the Income Tax Act provides relief from double taxation on income earned from foreign sources. When the income of an assessee is taxed in India, and the

⁶² Section 43AA of the Income Tax Act, as amended by Finance Act 2018, with retrospective effect from AY 2017-18, prescribes that any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss shall be computed in accordance with the ICDS notified by the Government under sub-Section (2) of Section 145.

⁶³ Notification No.3079(E) dated 29th September 2016

⁶⁴ Under Section 90 and Section 91 of the Act, if any person who is resident in India in any previous year proves that, in respect of his income which accrued or arose during that previous year outside India (and which is not deemed to accrue or arise in India), he has paid in any country income tax, by deduction or otherwise, under the law in force in that country, he shall be entitled to the deduction from the Indian income tax payable by taxpayer of a sum calculated on such doubly taxed income at the Indian rate of tax or the rate of tax of the said country, whichever is the lower. Section 90 is applicable in the presence of DTAA. Under Section 91 of the Act, an individual is eligible to claim tax relief if a DTAA is absent between India and another country.

exemption claimed is denied, the assessee is eligible to claim Double Income Tax (DIT) relief of tax paid outside India, not exceeding the tax paid in India. The audit observed that DIT relief was not granted to the assessee, even though the entire income of the foreign branches was brought to tax in India, as discussed below.

Box 5.2

Scrutiny assessment for AY 2018-19 was completed under Section 143(3) in March 2020, determining book profit of ₹ 36,405.06 crore under Section 115JB. Assessee had claimed exemption of ₹ 1,997.29 crore towards income earned by its foreign branches in countries that have a Double Taxation Avoidance Agreement (DTAA) with India, which was entirely disallowed by AO and added back to the taxable income. As per the assessment order, the assessee had made an alternative claim for DIT relief of ₹ 309.59 crore in the event that the exemption for income of foreign branches under a DTAA was not granted to the assessee.

Since the entire income of foreign branches was brought to tax in India, and the assessee had also filed Form 67⁶⁵ in terms of Rule 128⁶⁶, the assessee should have been allowed DIT relief of ₹ 309.59 crore.

This was brought to the notice of the DCIT-2(2)(1), Mumbai, in January 2022. In reply (June 2022), the DCIT-2(2)(1), Mumbai, accepted the audit observation in principle and stated that appropriate remedial action would be taken. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.1.1.9 DIT Relief allowed when foreign income was not taxed in India

Audit observed that DIT relief was allowed to the assessee bank although the claim was not made, and the income earned outside India was allowed as exempt.

Assessment for AY 2019-20 was finalised after complete scrutiny under Section 143(3) in September 2021, determining income at ₹ 3,479.85 crore under normal provisions. The DIT relief amounting to ₹ 219.38 crore was allowed under Section 90/91 during scrutiny assessment. However, in the assessee's computation of income, no claim of DIT relief was made as the entire foreign income of ₹ 2,668.19 crore was claimed and allowed as exempt income. As the income earned outside India was allowed as exempt, the assessee was not entitled to DIT relief. This had resulted in irregular allowance of DIT relief of ₹ 219.38 crore.

The audit observation was brought to the notice of the DCIT-2(2)(1), Mumbai, in January 2022. In reply (June 2022), the DCIT, while accepting the audit observation, stated that remedial action had been completed under Section 143(3) read with Section 263 on

⁶⁵ Form 67 is required to be submitted to claim credit of foreign tax paid in a country or specified territory outside India. It is also required to be submitted in case of carry backward of loss of the current year resulting in refund of foreign tax for which credit has been claimed in any earlier previous years.

⁶⁶ As per Rule 128 of the Income Tax Rules, 1962, a resident taxpayer is eligible to claim credit for any foreign tax paid, in a country or specified territory outside India. The credit shall be allowed only if the assessee furnishes the required particulars in Form 67 within the specified timelines.

28.03.2023, wherein income from the foreign branches was added back to the taxable income and consequently DIT relief was allowed.

5.1.1.10 Mistakes in the computation of the amount of deduction under Section 36(1)(viiia)

Scrutiny assessment for AY 2018-19 was finalised under Section 143(3) in March 2020, determining book profit of ₹ 36,405.06 crore under Section 115JB of the Act. As per para 23 of the assessment order, the deduction was allowed under Section 36(1)(viiia) at the rate of 7.5 *per cent* of the total income, instead of the applicable rate of 8.5 *per cent*, for AY 2018-19. This had resulted in a short allowance of deduction of ₹ 324.84 crore under Section 36(1)(viiia) and overassessment of a like amount involving overcharge of tax of ₹ 112.42 crore.

This was brought to the notice of the DCIT-2(2)(1), Mumbai, in January 2022. In reply (February 2022), DCIT-2(2)(1), Mumbai, accepted the audit observation in principle and stated that appropriate remedial action would be taken. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.1.1.11 Irregular computation of taxable income in assessment after scrutiny under the faceless scheme

The Government had introduced an e-assessment scheme⁶⁷ with the objective to eliminate personal interaction between the assessee and the tax authorities during assessment proceedings.

Box 5.3

Assessment for AY 2019-20 was finalised after complete scrutiny under the faceless assessment scheme in September 2021, determining income at ₹ 3,479.85 crore under normal provisions of the Act.

Audit observed that the notices under Section 142(1) were issued on 14.9.2021 and 23.09.2021 to investigate issues observed during the survey of certain securitisation trusts. As per the assessment order, a notice under Section 143(2) was also issued on 28.09.2020. However, a copy of the said notice and the status of the enquiries conducted were not produced to the Audit. Scrutiny Assessment was completed considering issues raised in the notice issued under Section 142(1) only. Audit further observed that the assessment was completed without verifying past assessment records and without disallowing inadmissible expenses and deductions as per past assessments. A comparison of the additions made in the preceding two AYs with the AY 2019-20 is given in Table 5.6 below:

⁶⁷ E-assessment scheme was notified by the CBDT vide notification nos. 61/2019 and 62/2019 dated 12 September 2019. All communication among the assessment unit, review unit, verification unit or technical unit or with the assessee or any other person with respect to the information or documents or evidence or any other details, as may be necessary for the purposes of making an assessment under this Scheme shall be through the National e-assessment Centre to ensure that the claims of the assessee are examined in a transparent manner while providing the opportunity to defend their claim at every level and to determine taxable income as per the provisions of the Income Tax Act without any errors or omissions.

Table 5.6: Details of additions made during AY 2017-18 to AY 2019-20						(₹ in crore)
S. No.	Issue on which addition made in the scrutiny assessment	AY 2017-18	AY 2018-19	AY 2019-20	Amounts to be disallowed in AY 2019-20 based on previous year assessments as per Audit	Remarks
	Returned Income	10,865.89	(28,389.97)	3,242.82		
1.	Interest accrued but not due	2,148.35	3,370.34	0	214.19	As per assessee computation & note 12 to computation
2.	Broken Period Interest paid	981.17	2,804.95	0	2,475.93	As per note 12 to computation
3.	Disallowance under section 14A	95.49	125.54	0	150.63	As per annexure 8 to computation of income
4.	Amortisation of premium paid on HTM securities	799.08	1,771.72	0	Information was not made available	
5.	Interest income on NPA	62.2	177.62	0	Information was not made available	
6.	Claim of bad debts under section 36(1)(vii)	26,469.63	46,648.49	0	17,058.50	Previous year Assessment order
7.	Recovery in written off accounts	246.09	246.51	0	116.63	As per computation & note 20 to computation
8.	Income from foreign branches	3,008.57	1,997.29	0	2,668.19	As per computation & note 20 to computation
9.	Interest on Perpetual Debt Instruments (IPDI)	788.43	1,207.58	0	Information was not made available	
	Total	34,599	58,350.05	0	22,684.07	
	Tax Implication				7,926.72	

Source: Assessment records of ITD

The above-mentioned additions were made consistently during the past assessments, and most of these issues are pending in appeals at different levels. Adoption of an inconsistent stand in the taxability of similar claims in the assessee's case in different AYs without any justification or without a proper speaking order is likely to jeopardise the Department's stand in the appellate proceedings. As per the information available on records, an addition of at least ₹ 22,684.07 crore involving tax of ₹ 7,926.72 crore should have been made in AY 2019-20 in the assessment to be consistent with the stand taken by the Department in the past assessments.

The audit observation was communicated to the DCIT-2(2)(1), Mumbai, in February 2022. In reply (June 2022), DCIT- 2(2)(1), Mumbai, accepted the audit observation and stated (July 2023) that the assessment for AY 2019-20 was reassessed under Section 143(3) read with Section 263 in March 2023. It was observed that taxable income was determined at ₹ 11,603.55 crore instead of ₹ 3,479.85 crore determined in the original assessment order

passed in September 2021. The Department also stated that an amount of ₹ 2,400 crore was recovered from the assessee against the demand of ₹ 3,612.22 crore raised in respect of reopened assessment for AY 2019-20.

Reply of the Ministry is awaited (November 2025).

Audit noted that the Department has adopted an inconsistent stand in the taxability of similar claims in the case of the assessee bank in different AYs. The department may review similar cases assessed under the faceless assessment scheme, wherein additions or disallowances on account of items or claims were not made, though similar claims were disallowed in the earlier AYs in the case of the same assessee.

5.1.1.12 Related party transactions

Audit observed that AOs did not cross-verify the details of taxability of amounts shown as paid to related parties with the jurisdictional AOs, as per the records of the assessee bank.

For examining the authenticity of the transactions entered into with related parties falling under the provisions of Section 40A(2)(b) reported in the Tax Audit Report⁶⁸ of S8, Audit cross-verified a few of these transactions with the information given in the income tax return filed by the recipients of these payments in their respective jurisdictions. Audit noticed following variations, as per details given in Table 5.7 below.

Table 5.7: Details of variations noticed as per the records of the main assessee and related party (₹ in crore)							
AY	Name of related party	Amount paid as per Clause 23 of Form 3CD	Nature of transaction	Amount as shown in the return of recipient	Difference	Account head under which the transaction shown by the recipient	Remarks
2016-17	S36	3.59	Interest paid on bonds	5.43	1.84	Interest income	Due to the non-availability of related records, the one-on-one correlation between the interest paid as per Form 3CD of the payer and the interest income shown by the recipient could not be ascertained in the Audit.
2017-18	S36	3.59	Interest paid on bonds	2.85	-0.74	Interest income	
2018-19	S36	2.24	Interest paid on bonds	84.26	82.02	Interest income	
Total		9.42		92.54	83.12		

Source: Assessment records of ITD

⁶⁸ Tax Auditor is required to certify in the Clause 23 of the Form 3CD (Tax Audit Report), that the payments made or to be made to the related parties for the expenditures, which were debited to the Profit & Loss Account, is at par or less than fair market value of the transactions.

As per the records made available to Audit, Audit observed that AO did not make any enquiry with the jurisdictional AO of S36 to verify whether interest on bonds shown as paid has been offered to tax correctly by S36.

The variations noticed in the Audit were communicated to DCIT-2(2)(1), Mumbai, in March 2022. Reply of the DCIT is awaited (November 2025) despite the issue of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

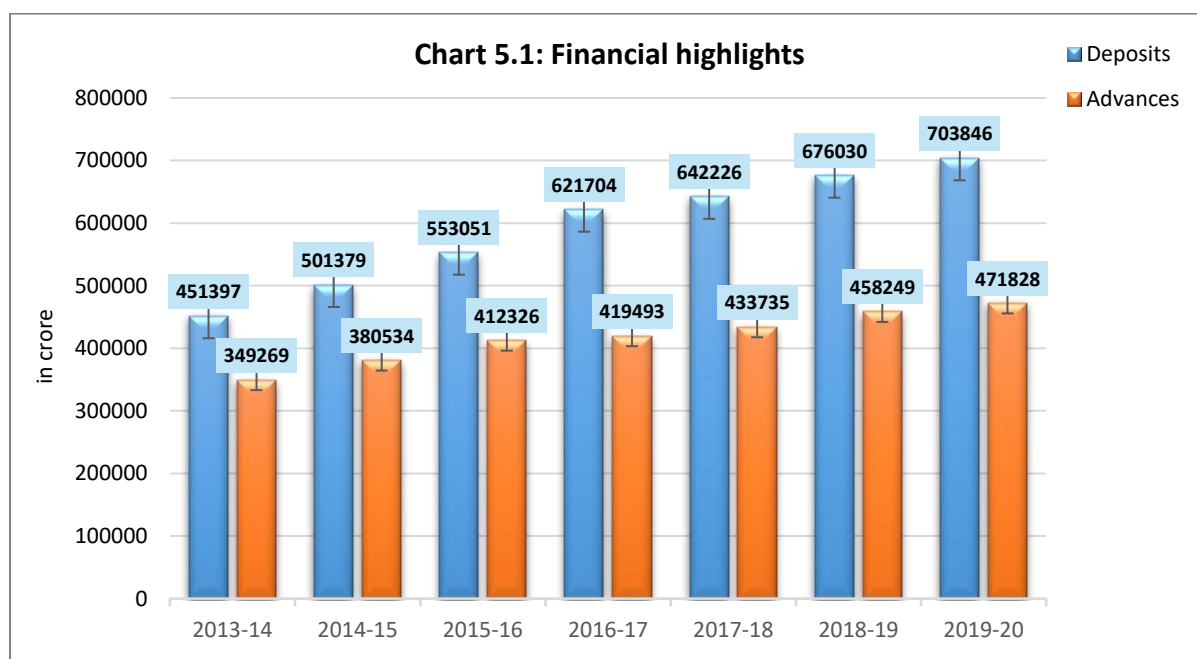
5.1.2 360-degree analysis of assessment of P1

P1 is a large public sector bank in India offering a diversified portfolio of financial products and services to retail, SME and corporate customers. The Bank has an extensive network of branches, ATMs and other touchpoints.

P1 is assessed under the jurisdiction of PCIT-7 Delhi. The financial highlights of the bank for FYs 2014-15 to 2019-20, particulars of assessments of the bank for AYs 2014-15 to 2019-20, details of deductions claimed and allowed during AYs 2014-15 to 2019-20, and significant observations noticed in the audit of assessments of P1 are discussed below.

5.1.2.1 Details of Financial Highlights of P1

The financial highlights of P1 for FYs 2013-14 to 2019-20 is given below:



Source: Annual Reports

5.1.2.2 Details of Income Tax assessment of P1

Assessments of P1 were selected for 360-degree analysis for six AYs from 2014-15 to 2019-20. ITRs of P1 were selected for complete scrutiny under Section 143(3) in all the sampled AYs. The assessment details of P1 for AY 2014-15 to AY 2019-20 revealed that additions made

during scrutiny assessment ranged from 15.18 per cent to 52.07 per cent of the returned income, as shown in Table 5.8 below:

S. No.	AY	Date of return	Returned Income	Assessed Income	Addition Made	Addition as a percentage of returned income (in per cent)	Section under which assessed/ Date of assessment
1	2014-15	27.11.2014	5,469.46	8,022.75	2,553.29	46.68	143(3)/ 27.12.2017
2	2015-16	23.03.2017	6,009.53	9,030.58	3,021.05	50.27	143(3)/ 21.12.2018
3	2016-17	28.11.2016	3,799.14	5,777.51	1,978.37	52.07	143(3)/ 31.12.2019
4	2017-18	31.03.2018	6,024.39	6,938.86	914.47	15.18	143(3)/ 31.12.2019
5	2018-19	31.03.2019	(-)3,809.51	6,066.66	9,876.17	Not Calculable* [Returned Income being a loss]	143(3)/ 05.07.2021
6	2019-20	29.09.2020	(-)47.68	5,156.84	5,204.52	Not Calculable* [Returned Income being a loss]	143(3)/ 30.09.2021
Total			21,302.52 {(-)3,857.19}	40,993.20	23,547.87		

Source: Assessment records of ITD
*Note: Returned Income being a loss

5.1.2.3 Details of Deductions claimed and allowed

Deductions claimed and allowed for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viiia), deduction towards amount transferred to special reserve under Section 36(1)(viii), and details of exempt income claimed under different Sections are shown in Table 5.9 below.

AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viiia)		Deduction for special reserve under Section 36(1)(viii)		Exempt income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2014-15	2,731.30	2,731.30	4,362.01	4,362.01	237.53	237.53	203.29	203.29
2015-16	8,095.31	8,095.31	4,948.57	4,948.57	267.42	0	213.30	213.30
2016-17	8,092.52	8,092.52	5,428.49	5,428.49	0	0	241.64	241.64
2017-18	13,692.17	13,692.17	5,528.10	5,528.10	251.70	0	243.91	243.91
2018-19	15,890.75	15,890.75	4,917.58	4,917.58	0	0	257.44	257.44
2019-20	20,468.50	20,468.50	5,928.36	5,928.36	0	0	NA	NA
Total	68,970.55	68,970.55	31,113.11	31,113.11	756.65	237.53	1,159.58	1,159.58

Source: Assessment records of ITD

It is evident from the above Table that deductions claimed on account of bad debts, provision for bad and doubtful debts and exempt income during AYs 2014-15 to 2019-20 were allowed as claimed, whereas the deduction for transfer to the special reserve was allowed at ₹ 237.53 crore against ₹ 756.65 crore.

5.1.2.4 Significant Audit observations in 360-degree analysis

Audit noticed eight significant cases involving under-assessment of ₹ 7,803.71 crore, with a tax effect of ₹ 3,724.21 crore, including seven findings involving under-assessment of income of ₹ 7,803.71 crore and short levy of tax of ₹ 3,643.65 crore, and the remaining one finding involving an issue of excess refund of ₹ 80.56 crore. The gist of these audit observations is given in Table 5.10 below.

Table 5.10: Gist of the audit observations in respect of P1						
(₹ in crore)						
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2014-15	143(3) dated 27.12.2017	Incorrect allowance of deduction under Section 36(1)(viii)	7.53	2.56	Reply awaited (November 2025)
2	2014-15	143(3) dated 27.12.2017	Incorrect disallowance of expenditure under Section 14A against exempt income	25.54	8.68	Reply awaited (November 2025)
3	2014-15	143(3) dated 27.12.2017	Incorrect allowance of deduction of recovery from written off accounts	514.84	175.00	Reply awaited (November 2025)
4	2015-16	143(3) dated 21.12.2018	Incorrect allowance of deduction of recovery from written off accounts	1,017.24	501.35	Reply awaited (November 2025)
5	2016-17	143(3) dated 31.12.2019	Incorrect allowance of deduction of recovery from written off accounts	2,297.58	1,152.96	Reply awaited (November 2025)
6	2017-18	143(3) dated 31.12.2019	Incorrect allowance of deduction of recovery from written off accounts	2,132.99	981.78	Reply awaited (November 2025)
7	2019-20	143(3) dated 30.09.2021	Incorrect allowance of deduction of recovery from written off accounts	1,807.99	821.32	Reply awaited (November 2025)
8	2019-20	143(3) dated 30.09.2021	Excess refund issued	0	80.56	Reply awaited (November 2025)
Total				7,803.71	3,724.21	

The audit observations are discussed in the following paragraphs:

5.1.2.5 Incorrect allowance of deduction for special reserve under Section 36(1)(viii)

Audit observed that deduction allowed under Section 36(1)(viii)⁶⁹ was not restricted to the amount transferred to the special reserve, as discussed below.

Box 5.4

In Delhi, Pr.CIT-7 charge, the assessment of M/s P1 for AY 2014-15 was completed in December 2017 at an income of ₹ 8,022.75 crore. The order under Section 250⁷⁰ read with Section 143(3) was passed in December 2018 at an income of ₹ 5,469.46 crore. As per the assessment order under Section 250, the assessee was allowed a deduction of ₹ 237.53 crore under Section 36(1)(viii), whereas the amount transferred to the special reserve was only ₹ 230 crore. This mistake resulted in an excess allowance for deduction of ₹ 7.53 crore, involving a tax effect of ₹ 2.56 crore.

The audit observation was communicated to the DCIT Circle-19(1), Delhi, in March 2022. Reply from the DCIT is awaited (November 2025) despite the issuance of reminders (April 2023, June 2023, April 2024, and November 2024).

Reply of the Ministry is awaited (November 2025).

5.1.2.6 Incorrect allowance of deduction of recovery from written-off accounts

Audit observed that the deduction from the recovery of written-off accounts was neither offered as income by the assessee bank nor added back to the taxable income by the Department. Although the assessee had claimed deductions of the recovery from written off accounts during AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2019-20, the same were not offered to tax, resulting in underassessment of ₹ 7,770.65 crore, having tax effect of ₹ 3,632.41 crore, as discussed below.

Box 5.5

In Delhi, Pr.CIT-7 charge, the assessment of M/s P1 for the AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2019-20 were completed at an income of ₹ 8,022.75 crore, ₹ 9,030.58 crore, ₹ 5,777.51 crore, ₹ 6,938.86 crore and ₹ 5,156.84 crore respectively. Audit scrutiny revealed that the assessee had deducted ₹ 514.84 crore, ₹ 1,017.24 crore, ₹ 2,297.58 crore, ₹ 2,132.99 crore and ₹ 1,807.99 crore on account of recovery from written off accounts in the computation of income for AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2019-20. However, the assessee had not offered the same as income in previous years relevant to AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2019-20, which resulted in under assessment of income of ₹ 514.84 crore having tax effect of ₹ 175 crore for AY 2014-15, ₹ 1,017.24 crore

⁶⁹ Section 36(1)(viii) of the IT Act *inter alia*, provides that deduction in respect of any special reserve should be restricted to the amount transferred during the previous year to the special reserve account created for the purpose of Section 36(1)(viii).

⁷⁰ Section 250 the income tax act prescribes Appeal procedure and powers of the CIT(Appeals) to rectify a mistake apparent from records.

having tax effect of ₹ 501.35 crore for AY 2015-16, ₹ 2,297.58 crore having tax effect of ₹ 1,152.96 crore for AY 2016-17, ₹ 2,132.99 crore having tax effect of ₹ 981.78 crore for AY 2017-18 and ₹ 1,808 crore having tax effect of ₹ 821.32 crore for AY 2019-20 respectively.

The audit observation was communicated to the DCIT Circle-19(1), Delhi, in May and June 2022. Reply of the DCIT is awaited (November 2025) despite issuance of reminders (April 2023, June 2023, April 2024 and November 2024).

Reply of the Ministry is awaited (November 2025).

5.1.2.7 Excess refund allowed

AO is required to make a correct assessment of the total income or loss of the assessee and determine the correct sum payable by him or refundable to him on the basis of such assessment. Audit, however, observed that an incorrect amount of the refund was considered while raising the demand, resulting in a short demand of ₹ 73.98 crore, involving tax of ₹ 80.56 crore, including interest, as illustrated below:

Box 5.6

Scrutiny assessment of M/s P1 for AY 2019-20 was completed in September 2021 at an income of ₹ 5,156.83 crore. Audit scrutiny revealed that the Department issued a refund of ₹ 188.19 crore while passing an order under Section 143(1) of the Income Tax Act in March 2021. However, while passing an order under Section 143(3) of the Act, the Department raised a demand of ₹ 2,245.90 crore and added back only the refund of ₹ 114.21 crore, instead of the correct amount of ₹ 188.19 crore, resulting in a short demand of ₹ 73.98 crore. Further, the Department also did not charge interest of ₹ 6.58 crore under Section 234D for the refund already issued. This resulted in a short levy of tax of ₹ 80.56 crore, including interest, under Section 234D⁷¹.

The audit observation was communicated to the DCIT Circle-19(1), Delhi, in June 2022. Reply from the DCIT is awaited (November 2025) despite the issuance of reminders (April 2023, June 2023, April 2024, and November 2024).

Reply of the Ministry is awaited (November 2025).

5.1.2.8 Incorrect disallowance of expenditure under Section 14A against exempt income

As per the provisions of Section 14A of the Income Tax Act, 1961, any expenditure incurred in relation to exempt income is not allowable as a deduction. CBDT clarified⁷² that disallowance of the expenditure shall be made even where a taxpayer in a particular year had not earned any exempt income. Clause 21(h) in the Tax Audit Report requires reporting of the amount of

⁷¹ Section 234D of the Income Tax Act deals with the interest leviable on the excess refund amount paid to the taxpayer as per the claims made.

⁷² Circular No. 5 of 2014 dated 11.02.2014

deduction inadmissible in terms of Section 14A in respect of expenditure incurred in earning exempt income and which is not allowable as a deduction in computing the taxable income under Section 14A.

A case is illustrated below:

Box 5.7

Scrutiny assessment for AY 2014-15 was completed in December 2017 at an income of ₹ 8,022.75 crore. The order under Section 250/143(3) was passed in December 2018 at an income of ₹ 5,469.46 crore. Audit scrutiny revealed that although CIT (Appeals) had confirmed the disallowance of ₹ 25.54 crore under Section 14A of the Income Tax Act, read with Rule 8D⁷³, the AO did not add back the same while computing taxable income. This had resulted in an underassessment of the income of ₹ 25.54 crore, having a tax effect of ₹ 8.68 crore.

The audit observation was communicated to the DCIT Circle-19(1), Delhi, in May 2022. Reply of the DCIT is awaited (November 2025) despite the issue of reminders [April 2023, June 2023, April 2024 and November 2024].

Reply of the Ministry is awaited (November 2025).

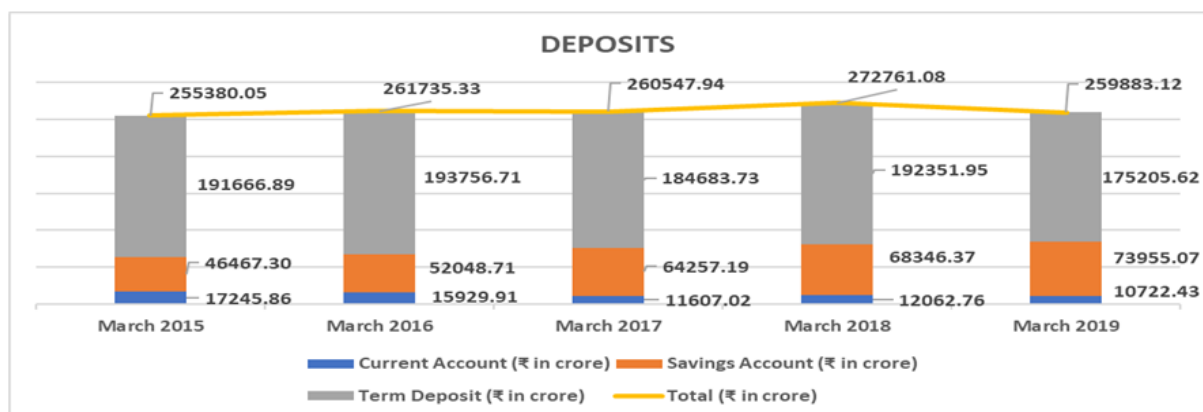
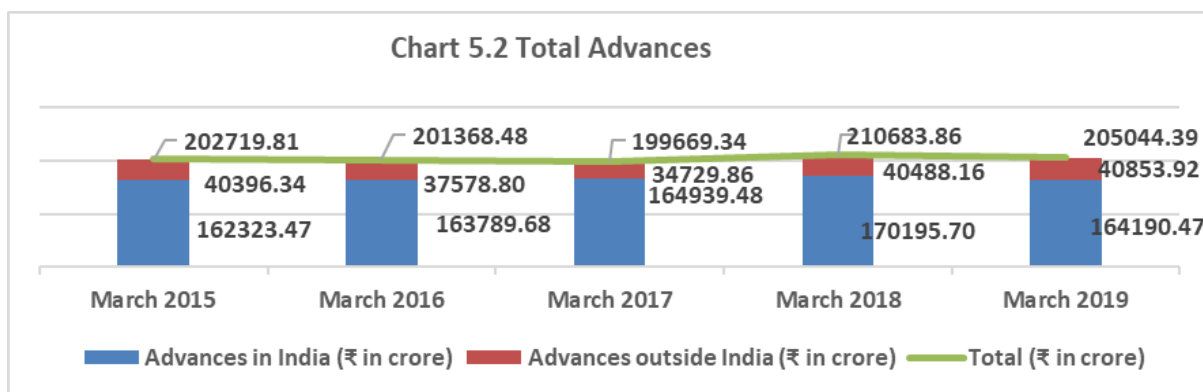
5.1.3 360-degree analysis of assessment of S15

S15 is assessed under the jurisdiction of PCIT-2 Bengaluru. S15 has been amalgamated into C6 with effect from 01 April 2020. Before its amalgamation, S15 was one of the oldest and major commercial banks of India. S15 was founded in 1925 in Udupi, Karnataka. The bank, along with 13 major commercial banks of India, was nationalised on 19 July 1969 by the Government of India. S15 specialised in agricultural banking, international banking, MSME banking, retail banking, deposits, corporate banking, gold loans, mutual funds and insurance services and others. The financial highlights of the bank for FYs 2014-15 to 2018-19, particulars of assessments of the bank for AYs 2015-16 to 2019-20, details of deductions claimed and allowed during AYs 2015-16 to 2019-20, and significant observations noticed in audit of assessments of S15 are detailed below.

5.1.3.1 Details of Financial Highlights of S15

The financial highlights of the erstwhile S15 for FY 2014-15 to FY 2018-19 are given below:

⁷³ As per Rule 8D, the disallowance would be equal to the amount of expenditure directly relating to income which does not form part of total income and an amount equal to one *per cent* of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income.



Source: Annual Reports

5.1.3.2 Details of Income Tax assessment of S15

Assessments for AYs 2015-16 to AY 2019-20 were selected for 360-degree analysis. ITRs of S15 were selected for complete scrutiny under Section 143(3) in all the sampled AYs. The assessment details of S15 for AY 2015-16 to AY 2019-20 are given in Table 5.11 below:

S.No.	AY	Date of return	Section under which assessed/ Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of returned income (in per cent)
1	2015-16	20.10.2018	154 read with Sections 147 and 143(3)/ 04.08.2020	504.76	3,320.74	2,815.98	557.88
2	2016-17	28.11.2016	143(3)/ 23.07.2018	101.08	2,982.76	2,881.68	2,850.89
3	2017-18	21.10.2018	143(3)/ 30.12.2019	165.27	4,574.07	4,408.80	2,667.63
4	2018-19	21.10.2018	143(3) read with Section 144B/ 20.04.2021	(-5,058.51)	3,168.55	8,227.06	-
5	2019-20	28.10.2019	143(3)/ 30.09.2021	(-6,039.87)	3,185.10	9,224.97	-
Total				771.11 (-11,098.38)	17,231.22	27,558.49	

Source: Assessment records of ITD

In the five AYs, i.e. from AY 2015-16 to 2019-20, the assessee has returned an aggregate income of ₹ 771.11 crore and an aggregate loss of ₹ 11,098.38 crore. During the assessment of these five AYs, aggregate additions of ₹ 27,558.49 crore were made to the returned income/loss, determining the aggregate assessed income of ₹ 17,231.22 crore.

5.1.3.3 Details of Deductions claimed and allowed

Audit observed that additions made during scrutiny assessments ranged from 557 *per cent* to 2,850 *per cent* of the returned income. Systemic issues with respect to S15 are discussed in Chapter 4. Deductions claimed and allowed to S15 under Section 36(1)(vii), Section 36(1)(viia), Section 36(1)(viii) and exempt income under different Sections are shown in Table 5.12 below:

AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viia)		Deduction for special reserve under Section 36(1)(viii)		Exempt income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2015-16	975.07	0	1,696.52	281.53	262.90	262.90	29.96	26.31
2016-17	1,296.56	0	1,779.82	281.16	0.00	0.00	21.51	21.51
2017-18	2,764.49	0	2,010.80	408.39	313.12	313.12	12.72	12.72
2018-19	6,206.21	0	2,154.73	174.83	0.00	0.00	18.78	18.78
2019-20	7,198.77	0	2,299.45	303.32	0.00	0.00	11.52	11.52
Total	18,441.1	0	9,941.32	1,449.23	576.02	576.02	94.49	90.84

Source: Assessment records of ITD

The bad debts claim of the assessee was not allowed in the assessment by the Assessing Officer in any year on the grounds that it had already been claimed as provisions allowable under Section 36(1)(viia) that were accounted in previous years.

5.1.3.4 Significant Audit observations in 360-degree analysis

Audit noticed six cases of incorrect assessment of ₹ 585.99 crore with tax effect of ₹ 300.48 crore, including four findings of irregular allowance of deductions and expense involving underassessment of income of ₹ 267.02 crore, with short levy of tax of ₹ 113.32 crore and two findings of overassessment of income of ₹ 318.97 crore with overcharge of tax of ₹ 187.16 crore. The gist of the audit observations is given in Table 5.13 below:

S. No.	AY	Section and Date of Assessment	Gist of irregularity noticed in Audit	Under assessment	Over assessment	Tax effect	Department's Reply
1	2019-20	143(3) dated 30.09.2021	Short allowance of deduction under Section 36(1)(viia)	---	34.89	15.97 [Overcharge]	Accepted (January 2023). Further details are awaited (November 2025).

Table 5.13: Gist of the audit observations							(₹ in crore)
S. No.	AY	Section and Date of Assessment	Gist of irregularity noticed in Audit	Under assessment	Over assessment	Tax effect	Department's Reply
2	2017-18	143(3) dated 20.04.2021	Incorrect allowance of deduction for special reserve under Section 36(1)(viii)	140.28	---	64.32 [Under charge]	Not Accepted (March 2021)
3	2018-19	143(3) dated 20.04.2021	Incorrect computation of income (Over Assessment)	---	284.08	171.19 [Over charge]	Department's reply awaited (November 2025).
4	2015-16	143(3) dated 30.03.2017	Incorrect disallowance of expenditure towards exempt income	75.54	---	25.68 [Under charge]	Accepted (March 2021). Further details are awaited (November 2025).
5	2019-20	143(3) dated 30.09.2021	Allowance of penalty levied by the RBI and not assessed to tax	2.00	---	0.92 [Under charge]	Not accepted (January 2023) Rejoinder issued by Audit (May 2024).
6	2017-18	143(3) dated 20.04.2021	Allowance of inadmissible expenses	49.20	---	22.40 [Under charge]	Reply awaited (November 2025).
Total				267.02	318.97	300.48	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.1.3.5 Short allowance of deduction under Section 36(1)(viiia)

Audit noticed the cases of incorrect adoption of rates specified while allowing deductions under Section 36(1)(viiia), as discussed below.

(a) Assessment for AY 2019-20 was completed after complete scrutiny in September 2021 at an income of ₹ 3,185.10 crore. Assessee had claimed a total deduction of ₹ 2,299.45 crore under Section 36(1)(viiia) of the IT Act, against which the AO disallowed an amount of ₹ 1,997.13 crore while allowing deduction of ₹ 303.32 crore. Audit observed that although the deduction was allowable at an admissible rate of 8.5 per cent of the total income determined for the AY 2019-20, the AO erroneously adopted the rate at 7.5 per cent. This resulted in a short allowance of deduction of ₹ 34.89 crore involving an excess levy and an overcharge of tax of ₹ 15.97 crore.

Audit observation was brought to the notice of the DCIT-2(2)(1), Bengaluru in March 2022. The Department accepted the audit observation (January 2023). Further details regarding remedial action are awaited (November 2025) despite the issue of reminders (December 2024, March 2025).

Reply of the Ministry is awaited (November 2025).

(b) Assessment for AY 2018-19 was completed after scrutiny in April 2021 at an income of ₹ 3,168.55 crore. Subsequently, a rectification order was passed under Section 154 of the Act in February 2022 to rectify the mistake of incorrect adoption of Total Assessed Income in the Tax Computation sheet of the Assessment order passed in April 2021, determining income at ₹ 3,167.30 crore. Audit observed that though a positive income of ₹ 3,167.30 crore was determined in the rectification order, the deduction under Section 36(1)(viiia) to the extent of 8.5 *per cent* of total income was not allowed. This had resulted in overassessment of income, resulting in excess levy of tax of ₹ 171.19 crore.

Audit observation was brought to the notice of the DCIT-2(2)(1), Bengaluru, in May 2024. Reply from the Department is awaited (November 2025) despite the issue of reminders (December 2024, March 2025).

Reply of the Ministry is awaited (November 2025).

5.1.3.6 Incorrect allowance of deduction for special reserve under Section 36(1)(viii)

Audit observed that the deduction allowed under Section 36(1)(viii)⁷⁴ was not restricted to the amount transferred to the special reserve, resulting in an excess allowance of deduction, as discussed below.

Audit observed that, during AY 2017-18, the deduction of ₹ 313.13 crore was allowed under Section 36(1)(viii) as against the amount of ₹ 172.84 crore transferred to special reserve as per the financial statements. This resulted in excess allowance of deduction of ₹ 140.28 crore and underassessment of income to the same extent, with consequential short levy of tax of ₹ 64.32 crore.

This observation was brought to the notice of the DCIT-2(2)(1), Bengaluru, in February 2021. The Department, in its reply (March 2021), did not accept the audit objection, stating that the assessee created a reserve by transferring an amount of ₹ 172.84 crore under the head 'Special Reserve' and an amount of ₹ 186.11 crore under the head 'Other Reserves' aggregating to ₹ 358.95 crore. Hence, deduction of ₹ 313.12 crore claimed under Section 36(1)(viii) in the computation of income is allowable. *The Department's reply is not acceptable as the deduction under Section 36(1)(viii) is allowable to the extent of special reserves created*

⁷⁴ As per section 36(1)(viii) of the Income Tax Act, 1961 deduction is allowable in respect of any special reserve created and maintained by a specified entity, to the extent of an amount not exceeding twenty *per cent* of the profits derived from eligible business computed under the head "Profits and gains of business or profession" carried to such reserve account. Further, where the aggregate of the amounts carried to such reserve account from time to time exceeds twice the amount of the paid-up share capital and of the general reserves of the specified entity, no allowance under this clause shall be made in respect of such excess. Deduction should be restricted to the amount transferred during the previous year to the special reserve account created for the purpose of section 36(1)(viii)."

under Section 36(1)(viii) as per the provisions *ibid*. The Department's contention of allowing the amount credited to other reserve as a deduction under Section 36(1)(viii) is also not acceptable, considering the provisions of Section 41(4A) of the Act, which stipulates that any amount withdrawn from a special reserve created under Section 36(1)(viii) shall be chargeable to tax.

Reply of the Ministry is awaited (November 2025).

5.1.3.7 Incorrect allowance of expenditure towards exempt income

Audit noticed that in AY 2015-16, there was a short disallowance towards expenditure relating to earning the exempt income under Section 14A⁷⁵ of the Income Tax Act, read with rule 8D. This amounted to ₹ 75.54 crore with a resultant short levy of tax of ₹ 25.68 crore.

The audit observation was brought to the notice of the DCIT-2(2)(1), Bengaluru, in February 2021. The Department accepted (March 2021) the audit observation. Further details regarding remedial action taken are awaited (November 2025) despite the issue of reminders [December 2024, March 2025].

Reply of the Ministry is awaited (November 2025).

5.1.3.8 Allowance of penalty levied by the RBI and not assessed to tax

As per Explanation 1 below Section 37(1) of the Act, "any expenditure incurred by an assessee for any purpose which is an offence, or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession, and no deduction or allowance shall be made in respect of such expenditure". The penalty or fine paid by the assessee is not an allowable expenditure, which is disclosed and certified in the Sl. No. 21(a) of Tax Audit Report in Form 3CD, where the assessee is required to furnish the details of amounts debited to Profit and Loss account, being in the nature of capital, personal, advertisement expenditure which *inter-alia* includes expenditure by way of penalty or fine for violation of any law for the time being in force for disallowance of such expenditure. Audit observed a case of non-disallowance of the penalty imposed by RBI, involving short levy of tax, as discussed in Box 5.8 below.

Box 5.8

During AY 2019-20, relevant to FY 2018-19, RBI imposed a monetary penalty of ₹ 2.00 crore on 08.03.2019 for non-compliance with the directions/guidelines issued by the RBI on account of cheque purchase/discounting, bill discounting and Know Your Customer (KYC)/Anti-Money Laundering (AML) norms. The penalty was imposed in exercise of the powers vested with the RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, considering the failure of the bank to adhere to the directions/ guidelines issued by the RBI.

⁷⁵ Section 14A of the Income Tax Act, 1961 stipulates that for the purpose of computing total income, no deduction shall be allowed in respect of expenditure incurred by the assessee, in relation to income which does not form part of the total income

The failure of the Tax Auditor to point this out in the Form 3CD and the AO to add back this penalty to the income of the assessee resulted in a short computation of the income of ₹ 2.00 crore, involving a short levy of tax of ₹ 0.92 crore.

Audit observation was brought to the notice of the DCIT-2(2)(1), Bengaluru, in March 2022. The DCIT-2(2)(1), Bengaluru (January 2023) while not accepting the audit observation stated that, from the records available, it could be seen that in the assessment proceedings under Section 143(3) for AY 2017-18, AY 2018-19 and AY 2019-20, the amounts which were disclosed by the assessee in the Tax Audit Report had been disallowed. The sums of ₹ 3 crore, ₹ 5 crore, and ₹ 1 crore have been disallowed in AY 2017-18, AY 2018-19, and AY 2019-20, respectively. Therefore, there has been no escapement of income as the penalties which have been disclosed in the Tax Audit Report have been disallowed by the AO and brought to taxation. With respect to AY 2019-20, the penalty imposed by the RBI was disclosed at ₹ 1 crore in the Tax Audit Report, and the same was disallowed. However, as the penalty of ₹ 2 crore imposed by the RBI on 08.03.2019 for AY 2019-20 was not disclosed in the Tax Audit report, and the same could not be disallowed.

A rejoinder was issued to the CIT(Audit) Bengaluru (May 2024) stating that the reply of the Department was not acceptable with respect to the objection on the ineffectiveness of the TAR, as the Tax Audit report has to be duly certified by a Chartered Accountant after auditing the financials. In case of discrepancies in the TAR resulting in escapement of income, the Income Tax Act, 1961 provides for reassessment of income and other such remedial measures.

Reply of the Ministry is awaited (November 2025).

5.1.3.9 Allowance of inadmissible expenses

Audit noticed incorrect allowance of unpaid liabilities towards leave encashment, as discussed in Box 5.9 below:

Box 5.9

Assessment for AY 2017-18 was completed after scrutiny in December 2019 at an income of ₹ 4,574.07 crore. Audit observed that the liability of ₹ 49.20 crore under the head "Leave Encashment" was not paid on or before filing the return of income under Section 139(1) of the Act. The omission to disallow the same under Section 43B⁷⁶ of the Act had resulted in short computation of income to the extent of ₹ 49.20 crore and consequential short levy of tax of ₹ 22.40 crore.

⁷⁶ As per Section 43B of the Act, deductions otherwise allowable under the Act which includes, *inter alia*, any sum payable by the assessee as an employer in lieu of any leave at the credit of his employee shall be allowed only in computing the income of that previous year in which such sum is actually paid by the assessee.

Audit observation was brought to the notice of DCIT-2 (2)(1), Bengaluru, in February 2021. Reply of the Department is awaited (November 2025) despite the issuance of reminders [December 2024, March 2025].

Reply of the Ministry is awaited (November 2025).

5.2 360-degree analysis of assessments of Private Sector Banks

5.2.1 360-degree analysis of assessment of I4

The assessee bank, assessed under the jurisdiction of PCIT-2 Mumbai, is a large private-sector bank in India offering a diversified portfolio of financial products and services to retail, SME, and corporate customers. The bank has an extensive network of branches, ATMs and other touchpoints. The particulars of assessments of the bank for AYs 2014-15 to 2019-20, details of deductions claimed and allowed during AYs 2014-15 to 2019-20, and significant observations noticed in the audit of assessments of I4 are detailed below.

5.2.1.1 Financial Highlights of I4

The financial highlights of I4 for FY 2016-17 to FY 2019-20 are given in Table 5.14 below:

FY → /Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	7,71,791.44	8,79,189.16	9,64,459.14	10,98,365.14
Total Advances	4,64,232.08	5,12,395.28	5,86,646.58	6,45,289.96
Total Deposits	4,90,039.06	5,60,975.20	6,52,919.67	7,70,968.99
Interest/discount on advances/ bills	39,603.39	40,866.20	47,942.62	57,551.11
Shareholder's fund	1,165.10	1,285.10	1,289.45	1,294.76
Retail Advances	2,44,038.00	2,93,995.00	3,61,936.00	4,16,217.00
CASA	2,46,822.00	2,89,925.00	3,23,940.00	3,47,819.00
Operating Revenue	73,660.76	72,385.52	77,913.35	91,246.93

Source: Annual Report of I4 of respective FYs

5.2.1.2 Details of Income Tax assessments

Assessments for AY 2014-15 to AY 2019-20 were selected for 360-degree analysis. The income tax return of I4 was selected for complete scrutiny under Section 143(3) in all the sampled AYs except AY 2019-20. The assessment details of I4 for AY 2014-15 to AY 2019-20 are given in Table 5.15 below:

S. No.	AY	Date of return/ revised return	Section under which assessed/ Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income
1	2014-15	22.03.2016 (Revised)	143(3)/ 21.2.2018	11,404.92	14,847.81	3,442.89	30.19
2	2015-16	30.03.2017 (Revised)	143(3)/ 12.02.2019	13,721.27	16,208.84	2,487.57	18.13

Table 5.15: Details of assessments made							(₹ in crore)
S. No.	AY	Date of return/ revised return	Section under which assessed/ Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income
3	2016-17	30.03.2018 (Revised)	143(3)/ 14.02.2020	15,808.93	18,112.35	2,303.42	14.57
4	2017-18	29.03.2019 (Revised)	143(3)/ 18.11.2021	6,150.12	7,400.07	1,249.95	20.32
5	2018-19	29.03.2019 (Revised)	143(3)/ 25.11.2021	8,486.88	10,184.37	1,697.49	20.00
6	2019-20	25.07.2020 (Revised)	143(1)/ 23.03.2021	9,330.17	9,330.18	0.01	NA*
Total				64,902.29	76,083.62	11,181.32	

Source: Assessment records of ITD
*Note: Processed under Summary Assessment under Section 143(1)

Additions made during scrutiny assessment ranged from 14.57 per cent to 30.19 per cent of the returned income. Systemic issues in respect of I4 are discussed in Chapter 4, along with similar issues noticed in other banks.

5.2.1.3 Details of Deductions claimed and allowed

Deduction claimed and allowed to I4 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viiia), towards special reserve under Section 36(1)(viii) and exempt income under different Sections are shown in Table 5.16 below:

Table 5.16: Details of deductions claimed and allowed									(₹ in crore)
AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viiia)		Deduction for special reserve under Section 36(1)(viii)		Exempt income		
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	
2014-15	1,482.07	1,482.07	1,063.65	1,087.12	815.95	869.54	1,661.28	1,661.28	
2015-16	792.11	792.11	1,312.95	1,472.18	1,057.30	1,100.00	2,189.85	2,189.85	
2016-17	974.23	974.23	1,560.33	1,747.09	1,136.79	1,296.16	2,159.71	2,159.71	
2017-18	12,891.19	12,891.19	992.60	1,081.85	311.56	209.79	6,997.47	6,997.47	
2018-19	8,720.60	8,720.60	1,460.21	1,625.52	403.27	485.33	6,745.83	6,745.83	
2019-20	10,696.43	10,696.43	Not Available	Not Available	Not Available	Not Available	1,336.68	1,336.68	
Total	35,556.63	35,556.63	6,389.74	7,013.76	3,724.87	3,960.82	21,090.82	21,090.82	

Source: Assessment records of ITD

Audit observations made during the examination of records relating to the allowance of deductions stated above are discussed in the following paragraphs.

5.2.1.4 Significant Audit observations in 360 degree analysis

Audit noticed 12 significant cases of under assessment of ₹ 3,808.44 crore with tax effect of ₹ 1,277.98 crore, including eleven cases involving under assessment of income of ₹ 3,808.44 crore and short levy of tax of ₹ 1,170.28 crore, and one case on incorrect allowance of MAT credit involving short levy of tax of ₹ 107.70 crore. The DCIT-2(3)(1) and DCIT-2(3)(2), Mumbai accepted five audit observations involving tax effect of ₹ 398.83 crore (March 2021, February 2022, March 2022) and initiated remedial action in these cases under Section 148 and Section 263 of the Income Tax Act (AY 2014-15, AY 2015-16 and AY 2016-17). Further

details are awaited (November 2025). Gist of the audit observations raised is given in Table 5.17 below.

Table 5.17: Details of audit observations issued in respect of I4 (₹ in crore)						
S. No	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2014-15	143(3) dated 21.2.2018	Excess allowance of bad debts in the current year due to incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia).	31.29	10.63	Accepted (February 2022) and remedial action initiated under Section 148 in March 2021. Further details are awaited (November 2025).
2	2016-17	143(3) dated 14.2.2020	Excess allowance of bad debts in the current year due to incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia).	159.22	55.10	Reply is awaited (November 2025).
3	2017-18	143(3) dated 18.11.2021	Excess allowance of bad debts in the current year due to incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia).	186.76	64.64	Reply is awaited (November 2025).
4	2018-19	143(3) dated 25.11.2021	Excess allowance of bad debts in the current year due to incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia).	89.25	30.89	Reply is awaited (November 2025).
5	2014-15	143(3) dated 21.2.2018	Incorrect allowance of deduction for special reserve under Section 36(1)(viii)	53.59	18.22	Accepted (February 2022) and remedial action initiated under Section 148 in March 2021. Further details are awaited (November 2025).
6	2015-16	143(3) dated 12.2.2019	Incorrect allowance of deduction for special reserve under Section 36(1)(viii)	42.70	21.34	Reply is awaited (November 2025)
7	2016-17	143(3) read with Section 144C(3)	Incorrect allowance of deduction for special	159.37	55.16	Accepted (February 2022) and remedial action initiated under

Table 5.17: Details of audit observations issued in respect of I4						
						(₹ in crore)
S. No	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
		dated 14.02.2020	reserve under Section 36(1)(viii)			Section 263. Further details are awaited (November 2025).
8	2016-17	143(3) dated 14.2.2020	Incorrect Computation of Long-term capital loss	367.75	84.85	Accepted (February 2022) and remedial action initiated under Section 263. Further details are awaited (November 2025).
9	2015-16	143(3) dated 12.2.2019	Incorrect Computation of Long-term capital loss	996.75	229.97	Accepted (March 2022) and remedial action initiated under Section 263 in March 2021. Further details are awaited (November 2025).
10	2017-18	143(3) dated 18.11.2021	Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)	1,698.29	587.75	Reply is awaited (November 2025).
11	2018-19	143(3) dated 25.11.2021	Incorrect allowance of credit for MAT under Section 115JAA	--	107.70	Reply is awaited (November 2025).
12	2015-16	250 dated 29.3.2019	Incorrect allowance of deduction towards bad debts - Incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia).	23.47	11.73	Reply is awaited (November 2025).
Total				3,808.44	1,277.98	

Some of the significant audit observations are discussed in subsequent paragraphs.

5.2.1.5 Excess allowance of bad debts under Section 36(1)(vii) due to non-adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia)

Audit observed that although Section 36(1)(vii) and 36(2)(v) of IT Act, 1961 provided for deduction of the amount of bad debts which exceeded credit balance available in the provision for bad and doubtful debts account created under Section 36(1)(viia) of the Act, deduction for provision made in the earlier assessment years under Section 36(1)(viia) during

scrutiny assessments was not reduced. This resulted in an excess allowance of bad debts, as detailed below in Table 5.18:

Table 5.18: Details of irregular allowance of bad debts written off							(₹ in crore)
AY	Deduction allowed under Section 36(1)(vii)	Opening Balance in PBDD Account considered in the assessment	Actual amount that should have been considered as the Opening Balance	Excess allowance of bad debts	Bad debts allowed	Bad debts allowable	Tax effect
(Col.1)	(Col.2)	(Col.3)	(Col.4)	(Col.5)= (Col.4 – Col.3)	(Col.6)	(Col.7)= (Col.6 – Col.5)	(Col.8)
2013-14	851.11						
2014-15	1,087.12	819.82	851.11	31.29	1,482.07	1,450.78	10.63
2015-16	1,472.18	1,063.65	1,087.12	23.47	792.11	768.64	11.73
2016-17	1,747.09	1,312.95	1,472.18	159.22	974.23	815.01	55.10
2017-18	1,081.85	1,560.33	1,747.09	186.76	11,330.87	11,144.10	64.64
2018-19	1,625.52	992.60	1,081.85	89.25	7,728.00	7,638.75	30.89
Total		5,749.35	6,239.35	489.99	22,307.28	21,817.28	172.99

Source: Assessment records of ITD

Thus, in the AYs 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, bad debts were allowed amounting to ₹ 22,307.28 crore instead of ₹ 21,817.28 crore allowable as per Section 36(1)(vii). This had resulted in an under assessment of income of ₹ 489.99 crore, involving a short levy of tax of ₹ 172.99 crore.

Audit observations were brought to the notice of the DCIT-2 (3)(2), Mumbai and the DCIT-2 (3)(1), Mumbai, in December 2020 and February 2022, respectively. Department accepted the observation for AY 2014-15 (February 2022), and replies in respect of other AYs are awaited (November 2025) despite issue of reminders [April 2024, November 2024]. Reply of the Ministry is awaited (November 2025).

Audit observed that AOs are consistently allowing bad debts under Section 36(1)(vii) without adjusting the opening balance of the provision for bad and doubtful debts allowed as a deduction in earlier AYs.

Recommendation:

CBDT may reiterate its instructions to ensure the correctness of amounts allowed as deductions for bad debts written off, after adjusting the opening balance of the provision for bad and doubtful debts allowed as deductions in earlier years.

5.2.1.6 Incorrect allowance of deduction for Special Reserve under Section 36(1)(viii)

Audit observed that the Department was consistently not accepting the method of computation of deduction under Section 36(1)(viii) of the assessee and allowing excess deduction to the assessee, as discussed below:

Box 5.10

Scrutiny assessments of the assessee for AYs 2014-15, 2015-16 and 2016-17 were finalised under Section 143(3) in February 2018, February 2019 and February 2020 at incomes of ₹ 14,847.81 crore, ₹ 16,208.84 crore and ₹ 18,112.35 crore, respectively.

In the revised return of income for AY 2014-15 filed in March 2016, the assessee had claimed a deduction of ₹ 815.95 crore under Section 36(1)(viii) towards profit from long-term finance. In the return for AY 2015-16, deduction of ₹ 1,057.30 crore under Section 36(1)(viii) was claimed. Similarly, in the revised return of income for AY 2016-17 filed in March 2018, the assessee had claimed a deduction under Section 36(1)(viii) amounting to ₹ 1,136.79 crore. The working of the special reserve calculation provided by the assessee was rejected by the AO in all the years, stating that the method adopted by the assessee was not appropriate. AO recomputed and arrived at an eligible deduction of ₹ 869.54 crore for AY 2014-15, ₹ 1,100.00 crore for AY 2015-16 and ₹ 1,296.16 crore for AY 2016-17. Audit observed that the amount computed and allowed by the AO was in excess of ₹ 53.59 crore for AY 2014-15, ₹ 42.70 crore for AY 2015-16 and to the extent of ₹ 159.37 crore for AY 2016-17 than what was claimed by the assessee in his return. It could not be ascertained in the Audit whether the excess deduction allowed pertained to the long-term finance. Unlike provisions of Section 36(1)(viiia) where deduction is based on total income computed, reasons for recomputing eligible deduction under Section 36(1)(viii) and allowing more deductions than what was claimed by the assessee could not be ascertained. These observations are summarised in Table 5.19 below:

AY	Deduction claimed under Section 36(1)(viii) by the assessee	Deduction allowed under Section 36(1)(viii) by the assessee	Excess deduction allowed/ Under assessment of income	Tax Effect
2014-15	815.95	869.54	53.59	18.22
2015-16	1,057.30	1,100.00	42.70	21.34
2016-17	1,136.79	1,296.16	159.37	55.16
Total	3,010.04	3,265.70	255.66	94.71

Thus, the additional deduction of ₹ 255.66 crore allowed by the AO for AY 2014-15 to AY 2016-17 was not in order and resulted in an under-assessment of income to the same extent and short levy of tax of ₹ 94.71 crore for three years.

This was brought to the notice of the DCIT-2(3)(2), Mumbai in December 2020. In reply, the DCIT while accepting the observation (February 2022) stated that remedial action had been initiated vide issue of notice under Section 148 in March 2021 in respect of AY 2014-15 and under Section 263 for AY 2016-17 in March 2021. Further details are awaited (November 2025) despite issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may examine and consider prescribing a standard method for computing profit from long-term finance, as the Income Tax Act currently does not prescribe this for allowing deductions under Section 36(1)(viii) of the Act. This results in discrepancies between the amounts allowed and claimed as deductions.

Reply of the Ministry is awaited (November 2025).

5.2.1.7 Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)

The CBDT vide Circular No. 10/2017 dated 23.03.2017 clarified that the opening balance in FCTR as on 1st April 2016 pertaining to exchange difference on mandatory items for non-integral operations shall be recognised in the previous year relevant to AY 2017-18 to the extent not recognised in the income computation in the past.

Box 5.11

Scrutiny assessment for AY 2017-18 was made under Section 143(3) in November 2021, determining income at ₹ 7,400.07 crore. As per Schedule 2 (Reserves & Surplus) to Balance Sheet, the opening balance in FCTR as on 01.04.2016 was ₹ 1,698.29 crore under the head 'Foreign Currency Translation Reserve' (Item No. VI). Audit observed that assessee had not offered the opening balance of FCTR for computing taxable income. This had resulted in under assessment of income to the extent of ₹ 1,698.29 crore, resulting in short levy of tax of ₹ 587.75 crore.

Audit observation was brought to the notice of the DCIT-2(3)(1), Mumbai in February 2022. Reply of the DCIT-2(3)(1), Mumbai is awaited (March 2025). However, in a similar case of S8 for AY 2017-18, the Department accepted (March 2022) the audit observation as brought out in para 5.1.1.6 of this report. Further details regarding remedial action are awaited (November 2025) from the Department despite the issue of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

5.2.1.8 Incorrect Computation of Long-term Capital Loss

Audit observed that ITD had irregularly allowed long-term capital loss and indexation benefit to the assessee on buyback and redemption of investments in subsidiary companies where the entire share capital is held by the holding company, even though these transactions do not amount to transfer as per the Section⁷⁷ 47 of the Income Tax Act, as discussed below:

⁷⁷ As per sub-Section (v) of Section 47 of the Income Tax Act, 1961, any transfer of a capital asset by a subsidiary company to the holding company does not amount to transfer if the whole of share capital of the subsidiary company is held by the holding company and the holding company is an Indian Company.

Box 5.12

Assessments for AY 2015-16 and AY 2016-17 were finalised after complete scrutiny under Section 143(3) in February 2019 and February 2020, at incomes of ₹ 16,208.84 crore and ₹ 18,112.35 crore, respectively. In computing income under the head 'long term capital gains'⁷⁸ in AY 2015-16, the assessee had claimed long-term capital loss of ₹ 996.75 crore on buyback of investment in subsidiaries⁷⁹ viz. I34, I31 and I32. Similarly, in AY 2016-17, the assessee had claimed long-term capital loss of ₹ 367.75 crore on buyback of equity shares invested and redemption of preference shares of I31 on 31st March 2016 at the cost price. These transactions are also reported in Annual Accounts under related party transactions under the head "Redemption/buyback of investments". On these transactions, the assessee had claimed long-term capital loss by availing the indexation benefit of the cost price, and it was accepted in the assessment. Since the transfer was from a subsidiary company to a holding company, the transaction cannot be considered as a transfer under Section 47, and hence the assessee was not eligible to claim the indexation benefit.

Audit also observed that the assessee had considered the cost of acquisition of shares in foreign currency, viz. Canadian Dollar (CAD) and applied cost of indexation to the amount (as cost of Investment), and the indexed cost in foreign currency was reduced from the Sale consideration (i.e. in foreign currency). Further, the difference of foreign currency was multiplied by the exchange rate (i.e. exchange rate on the date of sale) to compute the loss against the sale of shares in Indian Rupees.

As the Cost of Inflation Index (CII)⁸⁰ is with reference to the Indian economy and computed with reference to Indian Currency, computing the indexed cost of acquisition using CII on foreign currency was irregular. This had resulted in irregular allowance of long-term capital loss of ₹ 996.75 crore and ₹ 367.75 crore, resulting in short levy of tax of ₹ 230.00 crore and ₹ 84.85 crore for AY 2015-16 and AY 2016-17, respectively.

The audit observations were brought to the notice of the DCIT-2(3)(2), Mumbai in January 2021. In reply, the Department accepted the observation (February 2022) for both years and stated that remedial action under Section 263 was initiated. Further details regarding remedial action are awaited (November 2025) from the Department despite the issuance of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

⁷⁸ As per Section 48 of the Income Tax Act, the income chargeable under the head "Capital gains" shall be computed by deducting from the full value of the consideration expenditure incurred wholly and exclusively in connection with such transfer and the cost of acquisition of the asset including the cost of any improvement thereto.

⁷⁹ As per para 43 of Schedule 18 - Significant Accounting Policies forming part of the Accounts, (FY 2014-15) it was stated under related party transactions that I31 and I34 are the subsidiaries of I4 Limited, India.

⁸⁰ The Central Government specifies the cost of inflation index by notifying in the official gazette. The cost of Inflation Index is equal to 75 per cent of the average rise in the Consumer Price Index (urban) for the immediately preceding year. Consumer Price Index compares the current price of a basket of goods and services which represents the economy with the cost of the same basket of goods and services in the previous year to calculate the increase in prices.

5.2.1.9 Incorrect allowance of credit for MAT under Section 115JAA

As per Section 115JAA(2A) of the Income Tax Act, 1961, the tax credit to be allowed to the assessee shall be the difference between tax paid under the provisions of Section 115JB and tax payable under normal provisions of the Act in the relevant year. In other words, if tax payable under normal provisions of the Act is more than tax payable under Section 115JB, the assessee shall not be eligible to carry forward any credit of tax paid in that year to any subsequent year.

Box 5.13

Scrutiny Assessment of the assessee for AY 2018-19 was completed under the faceless assessment scheme in November 2021, determining income at ₹ 10,184.37 crore under normal provisions. As per the computation sheet generated in ITBA, the assessee was allowed MAT credit of ₹ 107.70 crore during AY 2018-19, whereas as per Schedule 'MATC' of ITR filed by the assessee for AY 2018-19, MAT credit was claimed in respect of AY 2017-18.

As per the assessment order for AY 2017-18 completed under Section 143(3) in November 2021, tax was paid under normal provisions as it was more than the tax payable on the book profit. Tax payable under Section 115JB was ₹ 2,556.17 crore compared to tax of ₹ 2,558.10 crore payable under normal provisions. As MAT credit was not available to the assessee for AY 2018-19, the allowance of MAT credit of ₹ 107.70 crore given to the assessee was irregular.

This was brought to the notice of the DCIT-2(3)(1), Mumbai in February 2022. Reply from the Department is awaited (November 2025) despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

5.2.1.10 Audit observation in respect of related party transactions

To examine authenticity of the transactions entered with related parties falling under the provisions of Section 40A(2)(b) reported in the tax audit report of I4, Audit tried to cross verify some transactions with the information given in the income tax return filed by the recipients of these payments in their respective jurisdictions. One illustrative case is discussed below.

During AY 2016-17, I4 had paid ₹ 8.30 crore as commission on 'Home Loan' to I33 as per Tax Audit Report in Form 3CD of I4. On verification of the tax return of I33 for AY 2016-17, assessed under the charge DCIT 4(1)(1), Mumbai, revealed that they had not shown any income under the head 'income from commission' in their return. The Department needs to examine whether the income received by I33 was offered to tax in AY 2016-17 or in any other year under any other heads of accounts to ensure that income has not escaped assessment.

This was brought to the notice of the DCIT-2(3)(1), Mumbai in March 2022. Reply from the Department is awaited (November 2025) despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

5.2.2 360-degree analysis of I24

I24, assessed under the jurisdiction of PCIT-3 Mumbai, was constituted under the I24 Act, 1964 as a development financial institution (DFI) and came into being on 1 July 1964. It was regarded as a Public Financial Institution in terms of the provisions of Section 4A of the Companies Act, 1956. On 27 September 2004, I24 was transformed into a Banking Company under the provisions of the Companies Act, 1956. The name of the Bank was changed to I24 with effect from 7 May 2008. The Bank was categorised as a Private Sector Bank for regulatory purposes by the RBI with effect from 21 January 2019, consequent upon Life Insurance Corporation of India acquiring 51 *per cent* of the total equity paid-up share capital of the bank. The particulars of assessments of the bank for AYs 2014-15 to 2019-20, details of deductions claimed and allowed during AYs 2014-15 to 2019-20 and significant observations noticed in audit of assessments of I24 are detailed below.

5.2.2.1 Financial Highlights of I24

The financial highlights of I24 for FY 2016-17 to FY 2019-20 are given in Table 5.20 below:

Table 5.20: Financial details of I24				(₹ in crore)
FY → /Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	3,61,767.90	3,50,313.64	3,20,284.49	2,99,942.36
Total Advances	1,90,825.93	1,71,739.95	1,46,790.43	1,29,841.78
Total Deposits	2,68,538.10	2,47,931.61	2,27,371.72	2,22,424.12
Interest/discount on advances/bills	19,310.33	15,693.55	14,380.90	13,101.50
Shareholder's fund	2,058.81	3,083.86	7,736.29	10,380.59
Retail Advances	1,66,889	1,28,470	1,71,469	1,71,634
CASA	19,382.68	20,611.87	8,572.20	19,955.79
Operating Revenue	31,758.96	30,035.41	25,371.53	25,295.47

Source: Annual Report of I24 of respective FYs

5.2.2.2 Details of Income Tax Assessment

Assessments from AY 2014-15 to AY 2019-20 of I24 were selected for 360-degree analysis. The income tax return of I24 was selected for complete scrutiny under Section 143(3) in all AYs except for AY 2019-20. The assessment details of I24 for AY 2014-15 to AY 2019-20 are given in Table 5.21 below:

AY	Date of Return	Section under which assessed/ Details of assessment	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income (in per cent)
2014-15	27.11.2014	143(3) read with Section 144C(3)/ 29.12.2017	3,242.84	3,447.12	204.28	6.30
2015-16	26.11.2015	143(3)/ 26.12.2017	2,840.48	3,222.72	382.24	13.45
2016-17	29.11.2016	143(3)/ 29.12.2018	(-)669.28	6,307.04	6,976.32	Not Calculable [Returned Income being a loss]
2017-18	20.02.2019	143(3)/ 27.12.2019	352.53	1,777.08	1,424.55	404.00
2018-19	30.03.2019	143(3)/ 15.09.2021	(-)7,237.96	(-)6,653.21	584.75	Not Calculable [Returned Income being a loss]
2019-20	26.06.2020	143(1)/ 15.09.2020	(-)13,026.40	(-)13,026.40	0	Not Calculable [Returned Income being a loss]
Total			6,435.85 (-)20,933.64	14,753.96 (-)19,679.61	9,572.14	

Source: Assessment records of ITD

5.2.2.3 Details of Deductions claimed and allowed

Deductions claimed and allowed to I24 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viiia), towards special reserve under Section 36(1)(viii) and exempt income under different Sections are shown in Table 5.22 below:

AY	Bad debts written off under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viiia)		Deduction for special reserve under Section 36(1)(viii)		Exempt Income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2014-15	1,392.68	1,392.68	0.00	0.00	0	0.00	480.38	480.38
2015-16	1,608.85	1,608.85	0.00	0.00	151.79	151.79	662.52	662.52
2016-17	5,298.42	0	462.87	646.55	0.00	0.00	397.59	397.59
2017-18	2,566.33	2,566.33	264.31	379.82	0.00	0.00	329.76	329.76
2018-19	12,500.97	12,500.97	Not available	Not available	0.00	0.00	117.87	117.87
2019-20	16,053.24	16,053.24	Not available	Not available	Not available	Not available	60.05	60.05
Total	39,420.49	34,122.07	727.18	1,026.37	151.79	151.79	2,048.17	2,048.17

Source: Assessment records of ITD

As shown in the above table, I24 was allowed a deduction of ₹ 34,122.07 crore during the last six years, i.e. AY 2014-15 to AY 2019-20, towards bad debts. During this period, I24 had claimed exemption of ₹ 2,048.17 crore under different Sections of the Income Tax Act. Further, the Audit examination was constrained as the computation sheets filed by the assessee for AY 2018-19 and AY 2019-20 were not furnished to the Audit, therefore Audit could not ascertain the amount of deduction claimed by the assessee under Sections 36(1)(viiia) and 36(1)(viii) in these two years.

5.2.2.4 Significant Audit observations in 360-degree analysis

Audit noticed five significant cases of under assessment of ₹ 7,451.41 crore with tax effect of ₹ 1,630.10 crore, including four findings with under assessment of income of ₹ 7,335.91 crore and positive tax effect of ₹ 1,590.13 crore, and one finding with under assessment of income of ₹ 115.50 crore and potential tax effect of ₹ 39.97 crore. Details of Audit observations noticed during examination of assessment records of I24 are given in Table 5.23 below:

S. No.	AY	Section under which assessed	Date of assessment	Gist of observation	Under assessment	Tax Effect	Department's reply
1	2017-18	143(3)	27.12.2019	Incorrect adjustment of the opening balance in the provision for bad and doubtful debts allowed under Section 36(1)(viia) while allowing bad debts under Section 36(1)(vii)	183.68	63.57	Reply is awaited (November 2025).
2	2018-19	143(3)	15.09.2021	Incorrect adjustment of the opening balance in the provision for bad and doubtful debts allowed under Section 36(1)(viia) while allowing bad debts under Section 36(1)(vii)	115.50	39.97	Reply is awaited (November 2025).
3	2017-18	143(3)	27.12.2019	Irregular deductions under Section 80LA in respect of certain incomes of Offshore Banking Units	1.21	0.42	Not accepted (July 2021) Rebuttal issued (March 2022)
4	2018-19	143(3)	15.09.2021	Incorrect computation of book profit under Section 115JB due to allowance of deduction for diminution in the value of business asset that was not debited to Profit and Loss Account	774.24	165.23	Reply is awaited (November 2025)
5	2018-19	143(3)	15.09.2021	Incorrect computation of book profit under Section 115JB	6,376.78	1,360.91	Reply is awaited (November 2025)
Total					7,451.41	1,630.10	

Three audit observations are discussed below:

5.2.2.5 Excess allowance of bad debts due to non-adjustment of the opening balance in the provision for bad and doubtful debts allowed under Section 36(1)(viia)

Audit observed during scrutiny assessments for the AYs 2017-18 and 2018-19 that while allowing bad debts, deduction for provision made in the earlier year under Section 36(1)(viia)

was not reduced to the extent it was actually allowed in the scrutiny assessment of earlier years. The details are given in Table 5.24 below:

Table 5.24: Details of deductions claimed and allowed							(₹ in crore)
AY	Deduction allowed under Section 36(1)(viiia)	Opening balance considered in the assessment	Actual amount that should have been considered	Excess allowance of bad debts and under assessment	Bad debts allowed	Bad debts allowable	Tax Effect
(Col.1)	(Col.2)	(Col.3)	(Col.4)	(Col.5)= (Col.4 – Col.3)	(Col.6)	(Col.7)= (Col.6 – Col.5)	(Col.8)
2016-17	646.55	--	--	--	--	--	--
2017-18	379.82	462.88	646.55	183.68	2,566.33	2,382.66	63.57
2018-19	Not Applicable	264.31	379.82	115.50	12,500.29	12,384.57	39.97
Total		727.19	1,026.37	299.18	15,066.62	14,767.23	103.54

Source: Assessment records of ITD

As is evident from the above Table, for AYs 2017-18 and 2018-19, bad debts written off amounting to ₹ 15,066.30 crore were allowed instead of ₹ 14,767.23 crore allowable as per the provisions of Section 36(1)(vii). This had resulted in under assessment of the income of ₹ 299.18 crore, involving a short levy of tax of ₹ 103.54 crore.

Audit observation was brought to the notice of the DCIT-3(4), Mumbai, in February 2020 and February 2021 for AY 2017-18 and 2018-19, respectively. In reply (July 2024), the DCIT-3(4), Mumbai stated that scrutiny assessment in the instant case for AY 2017-18 is pending before NeFAC, and information on the ITBA portal on 01.04.2024 to consider this issue at the time of framing the assessment order and reopening of assessment for AY 2018-19 under Section 148 is under progress. Further details regarding remedial action are awaited (November 2025) from the Department despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

5.2.2.6 Incorrect allowance of deduction for bad debts while computing book profit under Section 115JB

Although Audit had pointed out in C&AG's Performance Audit Report No.30 of 2017⁸¹ that there was no provision to reduce bad debts written off in the computation of book profit under Section 115JB, the inconsistency in tax treatment of bad debts while computing book profit continues in the Department, as discussed below:

⁸¹ Payment of tax by certain companies under special provisions of Section 115JB

Box 5.14

In the case of I24 under PCIT-3 Mumbai charge, the assessment was finalised for AY 2018-19 after complete scrutiny under Section 143(3) in September 2021, determining the assessed income at a loss of ₹ 6,653.21 crore under normal provisions. The book loss was computed at ₹ 5,345.42 crore under Section 115JB.

It was observed from the assessment order that, while computing book profit under the provisions of Section 115JB, the AO allowed a deduction of ₹ 12,500.29 crore for AY 2018-19 towards bad debts written off. Only an amount of ₹ 778.09 crore was debited to the profit and loss account under the head 'provisions and contingencies'. The balance amount claimed as a deduction of ₹ 11,722.20 crore was not debited to the Profit and Loss Account, but it was adjusted against the provisions for NPA created in the books of account in the balance sheet. Excess deduction on this account amounted to ₹ 11,722.20 crore, and the short levy of tax amounted to ₹ 1,360.91 crore. Further, an amount of ₹ 774.24 crore was claimed as a deduction towards diminution in the value of the business asset. This was also not an allowable deduction as per the explanation below Section 115JB. The short levy of tax on account of this deduction amounted to ₹ 165.23 crore.

This led to an underassessment of book profit amounting to ₹ 12,496.45 crore, involving a short levy of tax of ₹ 1,526.14 crore.

This was brought to the notice of the DCIT-3(4), Mumbai, in February 2022. In reply (July 2024), the Department stated that the proposal of reopening under Section 147 is in progress. Further details regarding remedial action are awaited (November 2025) from the Department despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

Audit observed that deductions towards diminution in the value of investment and deductions towards bad debts written off, which were not debited to the profit and loss account, were irregularly allowed while computing book profit under Section 115JB of the Act.

5.2.2.7 Audit observations in respect of related party transactions

For examining the authenticity of the transactions entered into with related parties falling under the provisions of Section 40A(2)(b) reported in the tax audit report of I24, Audit tried to cross-verify a few of these transactions with the information given in the income tax return filed by the recipients of these payments in their respective jurisdictions. Audit noticed the following variations, as depicted in Table 5.25 below:

AY	Name of related party & DCIT Charge	Amount paid	Nature of transaction	Amount as shown in the return of recipient	Account head under which transaction shown by the recipient	Difference
2014-15	I36 Circle 15(1)(2), Mumbai	40.95	OBST ⁸² Payments	25.44	Income under OBST	15.51
2015-16	I36 Circle 15(1)(2), Mumbai	00.20	OBST payments	0.0019	Income under OBST	00.20
2017-18	I35 Circle 4(1)(1), Mumbai	4.53	Interest on Deposit	3.89	Interest income from deposit	00.64
2017-18	I36 Circle 15(1)(2), Mumbai	3.23	Interest on Deposit	1.87	Interest income from deposit	1.36
2017-18	I37 Circle 1(2)(1), Mumbai	17.40	Interest on Deposit	9.60	Interest income from deposit	7.80
Total		66.31		40.80		25.51

Source: Assessment records of ITD

These variations were brought to the notice of the DCIT-15 (1)(2), Mumbai, having jurisdiction over recipients of these services (March 2022). Reply of the Department is awaited (November 2025) despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

5.2.3 360-degree analysis of the assessment of A6

A6, assessed under the jurisdiction of PCIT-1 Ahmedabad, is a large private sector bank in India offering a diversified portfolio of financial products and services to retail, SME and corporate customers. The Bank has an extensive network of branches, ATMs and other touchpoints. The financial details of A6 for FYs 2015-16 to 2019-20, particulars of assessments of A6 for AYs 2011-12, 2012-13, 2015-16 to 2019-20, details of deductions claimed and allowed during AYs 2011-12, 2012-13, 2015-16 to 2019-20 and significant observations noticed in audit of assessments of A6 are detailed below:

5.2.3.1 Financial Highlights of A6

The financial highlights⁸³ of the bank for FYs 2015-16 to FY 2019-20 are given in Table 5.26 below:

⁸² OBST stands for Order Based Scheduling Technique

⁸³ Source: Annual Reports of A6 for respective years.

FY → /Financials Description	2015-16	2016-17	2017-18	2018-19	2019-20
Total Assets	5,39,821	6,01,468	6,91,330	8,00,997	9,15,165
Total Advances	3,38,774	3,73,069	4,39,650	4,94,798	5,71,442
Total Deposits	3,57,968	4,14,379	4,53,623	5,48,471	6,40,105
Net Interest Income	16,833	18,093	18,618	21,708	25,206
Shareholder's fund	53,165	55,763	63,445	66,676	84,948
Retail Advances	1,38,521	1,67,993	2,06,465	2,45,812	3,05,400
CASA ⁸⁴	1,69,445	2,13,050	2,43,852	2,43,394	2,63,706
Operating Revenue	26,204	29,784	29,585	34,838	40,743

Source: Annual Reports of A6

5.2.3.2 Details of Income Tax Assessment

Assessments for AYs 2011-12, 2012-13 and 2015-16 to AY 2019-20 of A6 were selected for 360-degree analysis. The income tax returns of A6 were selected for complete scrutiny under Section 143(3) in AYs 2011-12, 2012-13, 2015-16 and 2016-17. Assessment details of A6 for AYs 2011-12, 2012-13, 2015-16 to 2019-20 are given in Table 5.27 below.

S. No.	AY	Date of return (Revised Return)	Section under which assessed/ Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income (in per cent)
1	2011-12	22.05.2018	143(3) read with Section 147/ 15.11.2018	5,830.67	6,117.66	286.99	4.92
2	2012-13	22.05.2018	143(3) read with Section 147/ 15.11.2018	6,784.49	7,024.99	240.50	3.54
3	2015-16	30.03.2017	143(3) read with Section 263/ 02.02.2018	11,253.09	12,200.22	947.13	8.42
4	2016-17	21.03.2018	143(3) read with Section 144C(3)/ 28.01.2020	11,655.36	12,927.51	1,272.15	10.91
5	2017-18	28.03.2019	143(1)/ 21.11.2019	14,163.39	14,156.87	NA	NA
6	2018-19	29.03.2019	143(1)/ 06.08.2020	4,834.54	4,937.21	NA	NA
7	2019-20	15.06.2020	143(1)/ 19.03.2021	8,436.38	8,436.38	NA	NA
Total				62,957.92	65,800.84	2,746.77	

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 3.54 per cent to 10.91 per cent of the returned income⁸⁵.

⁸⁴ CASA stands for Current Account and Savings Account.

⁸⁵ Data source: Assessment records of ITD.

5.2.3.3 Details of Deductions claimed and allowed

Deduction claimed and allowed to A6 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viia), deduction allowed towards special reserve under Section 36(1)(viii) and exempt income under different Sections of the IT Act are shown in Table 5.28 below:

AY	Bad debts written off under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viia)		Deduction for special reserve under Section 36(1)(viii)		Exempt income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2011-12	678.37	678.37	276.74	276.74	Nil	Nil	16.25	16.25
2012-13	721.87	721.87	138.56	138.56	Nil	Nil	68.96	68.96
2015-16	1,217.81	1,217.81	595.43	595.43	Nil	Nil	351.18	351.18
2016-17	3,163.94	3,163.94	1,135.14	636.51	Nil	Nil	290.65	290.65
2017-18	0	0	0	0	Nil	Nil	303.51	303.51
2018-19	11,095.01	11,095.01	0	0	Nil	Nil	375.65	375.65
2019-20	8,956.32	8,956.32	0	0	Nil	Nil	250.80	250.80
Total	25,833.32	25,833.32	2,145.87	1,647.24	Nil	Nil	1,657	1,657

Source: Assessment records of ITD

5.2.3.4 Significant Audit observations in 360-degree analysis

Audit noticed 17 cases of underassessment of income of ₹ 183.48 crore with tax effect of ₹ 54.09 crore including five findings involving underassessment of income of ₹ 183.48 crore and short levy of tax of ₹ 44.68 crore, one finding involving excess levy of interest of ₹ 2.62 crore, one finding involving short levy of interest of ₹ 6.79 crore and ten findings on systemic issues. A summary of the significant audit observations is given in Table 5.29 below.

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2015-16	263/02.02.2018	Bad debts in case of borrowers without the disclosure of PAN	--	--	Not accepted (January 2023)
2	2011-12 2012-13 2015-16 2016-17	147/15.11.2018 147/15.11.2018 263/02.02.2018 143(3)/28.01.2020	Bad debts allowed without verification of borrower details	--	--	Accepted (January 2023). Further details awaited (November 2025).
3	2016-17	263/02.02.2018	Mismatch in amount of bad debts written off against NPA outstanding at the beginning of the Financial Year.	21.29	7.37	Reply awaited (November 2025)
4	2015-16 2016-17	263/02.02.2018 143(3)/28.01.2020	Amount of bad debts written off by the bank was not offered by the borrowers as income under Section 41(1).	55.61	0	Reply awaited (November 2025)

Table 5.29: Gist of irregularities in respect of A6						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
5	2015-16	263/02.02.2018	Non-revision of 3CD report while filing revised return	1.16	0.80	Accepted (January 2023). Further details awaited (November 2025).
6	2016-17	143(3)/28.01.2020	Allowance of Bad debts not reflected in the ITR	--	--	Reply awaited (November 2025)
7	2011-12 2012-13 2015-16 2016-17	147/15.11.2018 147/15.11.2018 263/02.02.2018 143(3)/28.01.2020	Allowance of Provision for Bad and doubtful debts under Section 36(1)(viiia) without verifying the details of Rural Advances	--	--	Accepted (May 2022). Further details awaited (November 2025).
8	2011-12 2015-16 2016-17	147/15.11.2018 263/02.02.2018 143(3)/28.01.2020	Allowance of Double Taxation Avoidance Agreement Relief under Section 90/91 without verifying the evidence of tax payment	--	--	Reply awaited (November 2025)
9	2011-12 2012-13 2015-16 2016-17	147/15.11.2018 147/15.11.2018 263/02.02.2018 143(3)/28.01.2020	Non-disclosure of recovery of bad debts in the ITR	0	0	Reply awaited (November 2025)
10	2016-17	143(3)/28.01.2020	Overcharging of interest under Section 234A in ITBA	0	2.62	Reply awaited (November 2025)
11	2011-12 2012-13 2015-16	147/15.11.2018 147/15.11.2018 263/02.02.2018	Non-sustainability of additions made in scrutiny assessment	--	--	Reply awaited (November 2025)
12	2012-13 2015-16 2016-17	147/15.11.2018 263/02.02.2018 143(3)/28.01.2020	Internal Audit not conducted	--	--	Reply awaited (November 2025)
13	2017-18	143(1)/30.03.2019	Recovery against bad debts written off- not matching with RBI Data	--	--	Reply awaited (November 2025)
14	2016-17 2017-18 2018-19 2019-20	143(3)/28.01.2020 143(1)/30.03.2019 143(1)/06.08.2020 143(1)/19.03.2021	Bad debts written off- not matching with RBI Data	--	--	Reply awaited (November 2025)
15	2017-18	143(1)/30.03.2019	Income in respect of opening balance in FCTR escaping assessment	102.03	35.31	Reply awaited (November 2025)
16	2012-13	147/15.11.2018	Short levy of interest under Section 234D	0	6.79	Reply awaited (November 2025)

Table 5.29: Gist of irregularities in respect of A6						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
17	2016-17	143(3)/28.01.2020	Related party transactions- (i) Escapement of perquisites under salary income in the ITRs of its Directors S33 and S42 (ii) Fees and Commission paid by A6 to A17 was reported less by the related party A17 in its return.	1.77 1.62	0.64 0.56	(i) Reply awaited (November 2025) (ii) Accepted (June 2023) and remedial action initiated under Section 148A(d) in April 2023. Further details awaited (November 2025).
Total				183.48	54.09	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.2.3.5 Mismatch between the amount of bad debts written off against the provision for bad debts outstanding at the beginning of the Financial Year

Audit observed in the case of A6 that total NPA outstanding against two borrowers was ₹ 363.72 crore as on 01.04.2015 whereas the bad debts written off during FY 2015-16 and allowed by the Department of these two borrowers was ₹ 385.01 crore contravening the provisions of Section 36(1)(vii) and 36(2)(v) of IT Act which provided that deduction towards bad debts written off should be more than the opening balance of the provision for bad and doubtful debts. Thus, an excess deduction of ₹ 21.29 crore, involving a tax effect of ₹ 7.37 crore, was allowed.

Audit observation was brought to the notice of the DCIT 1(1)(1), Ahmedabad, in February 2022. Reply of the Department is awaited (November 2025) despite the issuance of reminders [November 2024, January 2025].

Reply of the Ministry is awaited (November 2025).

5.2.3.6 Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)

Audit observed that the opening balance of FCTR as on 01.04.2016 was not offered to tax, resulting in income escaping assessment, as discussed below.

Box 5.15

Scrutiny of ITR and Annual Accounts of A6 in AY 2017-18 disclosed that the Bank held Foreign Currency Translation Reserve (FCTR) having an opening balance of ₹ 102.03 crore as on 01.04.2016. Assessee bank did not offer this reserve to the income as per ICDS-VI,

stating that the Hon'ble Delhi High Court had struck down ICDS-VI and no ICDS-VI was applicable during the year.

The assessee did not consider the amendment by the Finance Act, 2018 wherein a new Section 43AA was inserted with effect from AY 2017-18 to override the decision of Hon'ble Delhi High Court and to implement the ICDS-VI with effect from AY 2017-18, while not offering the opening balance of FCTR of ₹ 102.03 crore to tax during AY 2017-18. Omission resulted in escapement of income of ₹ 102.03 crore, involving a tax effect of ₹ 35.31 crore.

The observation was pointed out to the DCIT 1(1)(1), Ahmedabad, in April 2022. Reply of the Department is awaited (November 2025) despite the issue of reminders [November 2024, January 2025].

Reply of the Ministry is awaited (November 2025).

5.2.3.7 Observation on related party transactions

To examine the authenticity of the transactions entered with related parties falling under the provisions of Section 40A(2)(b) reported in the Tax Audit Report of A6, the Audit tried to cross-verify a few of these transactions with the information given in the ITRs filed by the recipients of these payments in their respective jurisdictions.

5.2.3.7.1 Escapement of perquisites under salary income

According to Section 17(2)(vi) of the Income Tax Act, 1961, perquisites include the value of any specified security (including ESOP) or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at a concessional rate to the assessee.

Audit observed that the AO did not correlate the details of transactions of shares from the financial statements of the bank while determining the income of the assessee from the exercise of the option towards the purchase of shares from the bank, resulting in the escapement of income from tax.

Assessment of Smt. S33, MD and CEO of A6, selected for limited scrutiny, was completed under Section 143(3) in December 2018, with an income of ₹ 17.26 crore, accepting the returned income. Audit observed that the assessee had offered income of ₹ 11.81 crore from the exercise of the option to purchase 7.5 lakh shares of A6 under the ESOP Scheme during the year. Assessee had offered as income, the difference between the Fair Market Value of each share on the date of exercise of the option and the price of each share at which the option was exercised by the assessee.

Audit analysed the books of account of A6 for AY 2016-17 and noticed that, as per the Bank's books of accounts, the assessee had exercised 8.50 lakh shares during the year against 7.50 lakh shares offered by her in her return. Therefore, the assessee had offered less income pertaining to one lakh shares having a value of ₹ 1.67 crore, involving a tax effect of ₹ 0.58 crore.

The audit observation was communicated to DCIT 1(1)(1), Ahmedabad, in April 2022. Reply of the Department was awaited (November 2025) despite the issuance of reminders [November 2024, January 2025].

Reply of the Ministry is awaited (November 2025)

5.2.3.7.2 Fees and Commission paid by the assessee to its subsidiary not fully shown in the ITR by the subsidiary

According to Section 5 of the Income Tax Act, 1961, the total income of any previous year of a person who is a resident includes all income from whatever source derived.

M/s A17, one of the related parties of A6, reported income of ₹ 3.55 crore as 'Servicing Fees' from Holding Company A6 in the Notes to Financial Statements for the year ended 31 March 2016 under '23-Related Party Disclosures'. However, A6 in its Audit Report under Section 44AB of the IT Act, for AY 2016-17 had shown an amount of ₹ 5.17 crore as "Fee & Commission" paid to its related party, A17. This resulted in under-reporting of income of ₹ 1.62 crore by the related party, with consequent short levy of tax of ₹ 0.56 crore.

The observation was brought to the notice of the DCIT 1(1)(1), Ahmedabad (June 2022). The Department accepted the audit observation (June 2023) and stated that remedial action under Section 148 had been initiated in April 2023. Further details are awaited (November 2025). Despite the issue of reminders [November 2024, January 2025].

Reply of the Ministry is awaited (November 2025).

5.2.4 360-degree analysis of assessment of B11

B11 is assessed under the jurisdiction of PCIT-2 Kolkata. B11 is a new private sector bank incorporated on 23 December 2014, based on the in-principle approval accorded by the RBI on 9 April 2014 to B14 to set up a Bank in the private sector. M/s G5 (an NBFC) was amalgamated with the assessee bank with effect from 01 January 2019. This private sector bank is offering a diversified portfolio of financial products and services to retail, Small and Medium Enterprises (SME), and corporate customers in India, in general, and eastern India in particular. The Bank has an extensive network of branches, ATMs and other touchpoints. The particulars of assessments of the private bank for AYs 2015-16 to 2019-20, details of deductions claimed and allowed during AYs 2015-16 to 2019-20, and significant observations noticed in the audit of assessments of B11 are detailed below.

5.2.4.1 Financial Highlights of B11

The financial highlights of B11 for FY 2016-17 to FY 2019-20 are given in Table 5.30 below:

FY → /Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	30,236.09	44,310.05	56,441.71	91,717.80
Total Advances	16,839.07	29,713.03	39,643.39	66,629.94
Total Deposits	23,228.66	33,869.00	43,231.62	57,081.50

FY → /Financials Description	2016-17	2017-18	2018-19	2019-20
Net Interest Income	2,403.49	3,032.24	4,496.10	6,323.91
Shareholder's fund	1,095.14	1,192.80	1,193.08	1,610.25
Retail Advances	776.51	1,476.16	2,516.66	19,876.31
CASA	6,837.33	11,623.90	17,617.72	21,028.45
Operating Revenue	3,908.71	4,802.30	6,644.05	10,885.49

Source: Annual Report of B11 of respective FYs

5.2.4.2 Details of Income tax assessment

Assessments for AYs 2015-16 to AY 2019-20 of B11 were selected for 360-degree analysis. The income tax return of B11 Limited was selected for complete scrutiny under Section 143(3) in AYs 2015-16, 2016-17 and 2017-18, but the return of the assessee bank for the AYs 2018-19 and 2019-20 was assessed in summary manner under Section 143(1). The assessment details⁸⁶ of B11 for AY 2015-16 to AY 2019-20 are given in Table 5.31 below:

Sl. No.	AY	Date of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income
1	2015-16	27.11.2015	143(3) dated 4.12.2018	7.93	7.93	0	0
2	2016-17	30.11.2016	143(3) dated 19.12.2019	490.94	494.46	3.52	0.71
3	2017-18	31.10.2017	143(3) dated 29.12.2019	1,776.97	1,777.26	0.29	0.01
4	2018-19	27.10.2018	143(1) dated 17.11.2019	2,194.74	2,195.00	NA	NA
5	2019-20	31.10.2019	143(1) dated 15.01.2021	3,298.00	3,298.00	NA	NA
Total				7,768.58	7,772.65	4.07	

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 0.01 per cent to 0.71 per cent of the returned income. Systemic issues regarding B11 are discussed in Chapter 4 of this Report, along with similar issues observed in other banks.

5.2.4.3 Details of Deductions claimed and allowed

Deductions claimed and allowed to B11 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(vii-a), towards special reserve under Section 36(1)(viii) as well as exempt income under different Sections are shown in Table 5.32 below:

⁸⁶ Source: Assessment records to ITD

AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viia)		Deduction for special reserve under Section 36(1)(viii)	Deduction for special reserve allowed under Section 36(1)(viii)	Exempt income claimed	Exempt income allowed
	Claimed	Allowed	Claimed	Allowed				
2015-16	0	0	0	0	0	0	0	0
2016-17	0	0	2.13	2.13	0	0	0.24	0.24
2017-18	31.18	31.18	16.56	16.56	84.00	83.13	0	0
2018-19	51.00	51.00	374.21	374.21	0	0	0	0
2019-20	277.49	277.49	391.00	391.00	0	0	0	0
Total	359.67	359.67	783.90	783.90	84.00	83.13	0.24	0.24

Source: Assessment records of ITD

5.2.4.4 Significant Audit observations in 360-degree analysis

Audit noticed five significant cases of under assessment of ₹ 1,049.92 crore and short levy of tax of ₹ 364.98 crore. Gist of these audit observations is given in Table 5.33 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment (₹ in crore)	Tax effect (₹ in crore)	Department's Reply
1.	2016-17	143(3) dated 19.12.2019	Amount credited to books of accounts of assessee not offered to tax	480.28	166.21	Reply awaited (November 2025)
2.	2017-18 2018-19 2019-20	143(3) dated 29.12.2019 143(1) dated 17.11.2019 143(1) dated 15.01.2021	Grant of deduction of bad debts without adjustment with the opening credit balance of the provisions for bad and doubtful debt	233.85	81.59	Not Accepted for AY 2017-18 Reply Awaited for AY 2018-19 and 2019-20 (November 2025).
3.	2019-20	143(1) dated 15.01.2021	Grant of deduction for provisions for bad and doubtful debts in excess of permissible amount under Section 36(1)(viia)	295.40	103.22	DCIT stated (April 2025) that remedial action had been initiated under Section 148. Further details are awaited (November 2025).
4.	2017-18	143(3) dated 29.12.2019	Incorrect grant of deduction of provisional/contingent expenses	36.61	12.66	Reply awaited (November 2025)
5.	2017-18	143(3) dated 29.12.2019	Incorrect grant of deduction of provision for depreciation	3.78	1.30	Not Accepted (April 2024) Rejoinder issued (May 2024) As per reply (April 2025) remedial action initiated under Section 148. Further details are awaited (November 2025).
Total				1,049.92	364.98	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.2.4.5 Grant of deduction of bad debts without adjustment to the opening credit balance of the provision for bad and doubtful debts

In the case of B11, in the assessments completed under complete scrutiny for AY 2017-18 and in the summary assessments for AY 2018-19 & 2019-20, Audit observed that while allowing bad debts, deduction for provision made and allowed in the earlier years under Section 36(1)(vii) was not reduced from the claim of bad debts. The details are given in Table 5.34 below:

AY	Opening balance of PBDD considered in the assessment	Bad debts debited in the Profit and Loss Account	Deduction of Bad debts claimed	Deduction of Bad debts allowed under Section 36(1)(vii)	Deduction allowable under Section 36(1)(vii)	Excess allowance of bad debts and under assessment	Tax effect
2017-18	8.53	31.18	31.18	31.18	22.65	8.53	2.95
2018-19	25.09	51.00	51.00	51.00	25.91	25.09	8.68
2019-20	200.23	277.49	277.49	277.49	77.26	200.23	69.96
Total		359.67	359.67	359.67	125.82	233.85	81.59

Source: Assessment records of ITD

Thus, in the AYs 2017-18, 2018-19 and 2019-20, bad debts amounting to ₹ 359.67 crore were allowed instead of ₹ 125.82 crore allowable as per the provisions of Section 36(1)(vii). This had resulted in an under-assessment of income of ₹ 233.85 crore, involving a short levy of tax of ₹ 81.59 crore.

Audit observations were brought to the notice of the DCIT 5(1), Kolkata, in March 2022, April 2022 and May 2022. The PCIT-2 Kolkata, in the reply [May 2022 (AY 2017-18) and April 2024 (AYs 2018-19 & 2019-20)] did not accept the audit observations.

In respect of AY 2017-18, the Department contended that the AO had allowed all expenses of ₹ 47.74 crore (including the amount of ₹ 31.18 crore towards bad debts written off) under 36(1)(vii), which was within 7.5 per cent of the total income. *The reply of the Department is not acceptable, as the assessee, in its computation sheet and its submission (21 December 2019), had claimed bad debts and provision for bad and doubtful debts separately and also showed the opening balance of provisions of bad and doubtful debts. However, the AO allowed deduction of the whole amount of ₹ 47.74 crore (₹ 31.18 crore + ₹ 16.56 crore) under Section 36(1)(vii) without adjusting the amounts allowed.*

Further in respect of AYs 2018-19 and 2019-20, the Department stated that the aggregate claim of the assessee under Section 36(1)(vii) and 36(1)(vii) was less than the amount allowable under the Act. Hence, there was no revenue loss, and the assessee was entitled to claim a deduction of ₹ 51 crore and ₹ 668.99 crore in AY 2018-19 and 2019-20, respectively. *The reply of the Department is not acceptable, as the claim for deduction under Section*

36(1)(vii) and 36(1)(viia) should be examined separately, as the provisions for them are distinct. Further, as per clarification made by CBDT at Sr.(ii) of Instruction No. 17/2008 it is specifically mentioned that the claim of the bad and doubtful debts written off should be adjusted with the opening balance of the PBDD in the books of accounts and only such amount of bad debts written off should be allowed as exceeds the credit balance available in the provision for bad and doubtful debts account created under Section 36(1)(viia) of the Act.

The PCIT-2, Kolkata, in its reply (April 2025), stated that remedial action has been initiated under Section 148 of the Income Tax Act for AY 2018-19. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.2.4.6 Deduction towards provisions for bad and doubtful debts in excess of the permissible amount under Section 36(1)(viia)

Audit observed that this case for AY 2019-20, was processed under summary, the issue of allowance of provision for NPA as deduction under Section 36(1)(viia)⁸⁷ escaped examination of the Department and its disallowance, as discussed below.

Box 5.16

The assessee filed the revised return of income for AY 2019-20 on 30 October 2019, declaring a total income of ₹ 3,298 crore, which was processed under Section 143(1) on 15 October 2021 at an assessed income of ₹ 3,298 crore.

The assessee bank in its books of accounts debited ₹ 1,796.68 crore as provision and contingencies, which included provision for NPA of ₹ 668.49 crore, and the same was allowed in the summary assessment. As per provisions of Section 36(1)(viia), the assessee was eligible for a deduction of only ₹ 373.09 crore (i.e. 8.5 per cent of the total income of ₹ 4,389.40 crore). This had resulted in an excess allowance of deduction of ₹ 295.40 crore (₹ 668.49 crore - ₹ 373.09 crore), involving a tax effect of ₹ 103.22 crore. The audit observation was pointed out to DCIT 5(1), Kolkata, in May 2022. The DCIT stated in the reply (April 2025) that remedial action was initiated under Section 148, and the assessment is pending. Further details regarding remedial action are awaited (November 2025) despite the issue of a reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

⁸⁷ Section 36(1)(viia) of the Income Tax Act, 1962 stipulates that a scheduled bank is eligible for a deduction in respect of any provision for bad and doubtful debts made by them for an amount not exceeding seven and one-half per cent of the total income which was modified to eight and half per cent with effect from AY 2018-19 (computed before making any deduction under this clause and Chapter VIA) and an amount not exceeding ten per cent of the aggregate average advances made by the rural branches of such bank computed in the prescribed manner.

5.2.4.7 Incorrect grant of deduction of provisional/ contingent expenses

Audit noted that during AY 2018-19, the assessee debited ₹ 1,084.55 crore to the Profit and Loss account under the head “Provisions and Contingencies”. These provisions and contingencies included ₹ 710.34 crore as a provision for income tax, and the same was added back during scrutiny assessment. The remaining amount of ₹ 374.21 crore, being the provisions for standard assets, provisions for NPA, etc., was also required to be added back. The assessee, in its own computation of income, added back ₹ 337.60 crore as any other item or items of addition under Sections 28 to 44DA. This resulted in an under-assessment of income of ₹ 36.61 crore, involving a short levy of tax of ₹ 12.66 crore.

The audit observation was pointed out to the DCIT 5(1), Kolkata, in April 2022. The DCIT stated in the reply (April 2025) that remedial action was initiated under Section 148, and the assessment is pending. Further details are awaited (November 2025) despite the issue of a reminder (November 2024).

As the case for AY 2019-20 was processed under summary, the issue of allowance of provision for standard assets and provision for NPA as deduction to the extent not offered by the assessee as income escaped examination of the Department and its disallowance, which is required to be examined for taking remedial action, as per the provisions of the IT Act.

Reply of the Ministry is awaited (November 2025).

5.2.5 360-degree analysis of M/s T11

T11 Ltd. is assessed under the jurisdiction of PCIT-1, Kochi. The Bank is an Indian private sector bank headquartered in Aluva, Kerala. As on March 31, 2021, T11 had a network of 1,272 branches, 1,536 ATMs, 10 Mobile ATMs and 411 Cash Recyclers in 24 states, Delhi NCT and four Union Territories. It also has representative offices abroad in Abu Dhabi and Dubai. The particulars of assessments of the private bank for AYs 2010-11 to 2019-20, details of deductions claimed and allowed during AYs 2010-11 to 2019-20, and significant observations noticed in the audit of assessments of T11 Limited are detailed below:

5.2.5.1 Financial Highlights of T11

The financial highlights of T11 for FY 2016-17 to FY 2019-20 are given in Table 5.35 below:

FYs/ Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	1,14,977	1,38,314	1,59,340	1,80,638
Total Advances	73,336	91,957	1,10,223	1,22,268
Total Deposits	97,665	1,11,992	1,34,954	1,52,290
Net Interest earned	3,053	3,583	4,176	4,649
Shareholder's Fund	8,942	12,210	13,273	14,518
Retail Advances	21,794	25,683	31,742	37,878
CASA	31,838	37,252	43,388	46,450
Net Revenue	4,134	4,742	5,527	6,580

Source: Annual Report of T11 of respective FYs

5.2.5.2 Details of Income tax assessments

Assessments for AYs 2010-11 to 2019-20 of T11 were selected for 360-degree analysis. The income tax return of T11 was selected for complete scrutiny under Section 143/147 in all AYs except AY 2019-20. The assessment details for AYs 2010-11 to 2019-20 are given in Table 5.36 below:

S. No.	AY	Date of return	Returned Income	Assessed Income	Addition Made	Addition as a percentage of returned income	Section under which assessed & Date of assessment
1	2010-11	18.08.2017	695.12	905.04	209.92	30.20	147/ 28.12.2017
2	2011-12	28.04.2018	817.57	1,067.86	250.28	31.61	147/ 27.12.2018
3	2012-13	18.08.2017	900.22	1,420.31	520.08	57.77	147/ 21.12.2017
4	2013-14	29.04.2018	1,490.19	1,722.37	232.18	15.58	147/ 27.12.2018
5	2014-15	29.04.2019	546.83	1,004.53	457.70	83.70	147/ 19.12.2019
6	2015-16	24.03.2017	2,003.13	2,277.22	274.09	13.68	143(3)/ 29.12.2017
7	2016-17	29.12.2017	751.51	1,327.07	575.55	76.58	143(3)/ 26.12.2018
8	2017-18	31.12.2018	1,399.27	1,844.35	445.08	31.80	143(3)/ 29.12.2019
9	2018-19	30.10.2018	1,204.60	1,979.58	774.98	64.33	143(3)/ 18.04.2021
10	2019-20	31.10.2019	1,868.91	1,868.91	0.00	0	143(1)/ 24.07.2020
Total			11,677.35	15,417.24	3,739.86		

Source: Assessment records of ITD

Additions made during scrutiny assessments ranged from nil to 83.70 per cent of the returned income.

5.2.5.3 Details of Deductions claimed and allowed

Deduction claimed and allowed to T11 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viiia), towards special reserve under Section 36(1)(viii) and exempt income under different Sections are shown in Table 5.37 below:

AY	Bad debts claimed under Section 36(1)(vii)	Bad debts allowed under Section 36(1)(vii)	Provision for bad and doubtful debts claimed under Section 36(1)(viiia)	Provision for bad and doubtful debts allowed under Section 36(1)(viiia)	Deduction for special reserve claimed under Section 36(1)(viii)	Deduction for special reserve allowed under Section 36(1)(viii)	Exempt income claimed	Exempt income allowed
2010-11	254.08	413.11	200.51	0.00	26.05	16.23	4.69	4.69
2011-12	488.85	230.94	0.00	0.00	36.40	27.95	3.52	3.52
2012-13	148.71	0.00	73.06	0.00	28.50	17.72	5.12	5.12

AY	Bad debts claimed under Section 36(1)(vii)	Bad debts allowed under Section 36(1)(vii)	Provision for bad and doubtful debts claimed under Section 36(1)(viia)	Provision for bad and doubtful debts allowed under Section 36(1)(viia)	Deduction for special reserve claimed under Section 36(1)(viii)	Deduction for special reserve allowed under Section 36(1)(viii)	Exempt income claimed	Exempt income allowed
2013-14	189.28	0.00	0.00	0.00	33.59	33.59	5.89	5.89
2014-15	228.22	0.00	0.00	0.00	33.70	31.09	17.14	17.14
2015-16	204.35	0.00	0.00	0.00	34.85	34.85	12.99	12.99
2016-17	555.32	0.00	0.00	0.00	31.97	30.42	7.94	7.94
2017-18	405.12	0.00	0.00	0.00	46.00	31.07	3.34	3.34
2018-19	756.70	0.00	0.00	0.00	57.00	50.83	3.74	3.74
2019-20	630.55	630.55	0.00	0.00	0.00	0.00	3.10	3.10
Total	3,861.18	1,274.60	273.57	0.00	328.06	273.75	67.47	67.47

Source: Assessment records of ITD

5.2.5.4 Significant Audit observations in 360-degree analysis

Audit noticed 11 major cases of under assessment of ₹ 106.30 crore, having tax effect of ₹ 42.08 crore, as detailed in Table 5.38 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2015-16	143(3)/29.12.2017	Incorrect disallowance of expenditure under Section 14A against exempt income - Exempt income was considered instead of interest expenses for the computation of the disallowance.	44.75	20.38	Reply Awaited (November 2025)
2	2016-17	143(3)/26.12.2018	Incorrect disallowance of expenditure under Section 14A against exempt income - Investment of ₹ 398 crore made in Subsidiaries/ Joint Ventures has not been taken for calculation.	25.92	8.97	Reply Awaited (November 2025)
3	2017-18	143(3)/29.12.2019	Incorrect disallowance of expenditure under Section 14A against exempt income - Subsidiaries/ Joint Ventures of ₹ 398 crore shown under investment have not been taken for calculation.	3.98	1.38	Reply Awaited (November 2025)

Table 5.38: Details of audit observations noticed in respect of T11 Limited						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
4	2018-19	143(3)/ 18.04.2021	Incorrect disallowance of expenditure under Section 14A against exempt income – Subsidiaries/ Joint Ventures of ₹ 398 crore shown under investment have not been taken for calculation.	3.98	1.90	Reply Awaited (November 2025)
5	2019-20	143(1)/ 24.07.2020	Incorrect disallowance of expenditure under Section 14A against exempt income – Disallowance under Section 14A reported in Form 3CD was not considered for computing the total income.	3.19	1.11	Reply Awaited (November 2025)
6	2016-17 2018-19 2019-20	147 & 154/ 28.12.2017 143(3)/ 18.04.2021 143(3)/ 29.12.2017	Other Inadmissible claims under Section 37 – Penalty imposed by RBI as reported in Annual Accounts not disallowed.	5.04	1.77	Reply Awaited (November 2025)
7	2010-11	147&154/ 28.12.2017	Non-accounting of income (RPT) – Rental income received from the Main assessee not accounted for by the Related Party.	0.65	0.22	Reply Awaited (November 2025)
8	2011-12	147/ 27.12.2018	Non-accounting of income (RPT) - Rental income received from the main assessee not accounted for by the related party	0.54	0.18	Reply Awaited (November 2025)
9	2016-17	143(3)/ 26.12.2018	Non-accounting of income (RPT) - Commission income received from the main assessee not accounted for by the related party	3.54	1.23	Reply Awaited (November 2025)
10	2018-19	143(3)/ 18.04.2021	Non-accounting of income (RPT) - Commission income received from the main assessee not accounted for by related party	14.28	4.94	Reply Awaited (November 2025)
11	2017-18	143(3)/ 29.12.2019	Mismatch in donation (RPT) – Donation received from Main assessee short accounted for by Related Party.	0.43	0.00	Reply Awaited (November 2025)
Total				106.30	42.08	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.2.5.5 Incorrect disallowance of expenditure under Section 14A against exempt income

Assessment for the AY 2015-16 was completed after scrutiny in December 2017, determining income at ₹ 2,277.22 crore. Audit noticed that while computing the disallowance under Section 14A read with Rule 8D⁸⁸, the interest expense was erroneously considered as ₹ 12.99 crore, which was income received towards dividend, instead of the correct amount of ₹ 5,039.05 crore debited to the Profit and Loss Account. As per Rule 8D, interest expense debited to the Profit and Loss Account is to be considered for determining the quantum of disallowance under Section 14A. The adoption of an incorrect figure resulted in a short levy of tax of ₹ 20.38 crore.

The incorrect disallowance of expenditure in the following AYs is given in Table 5.39 below:

PCIT Charge	Name of assessee	A.Y.	Exempt income claimed	Expenses disallowed by ITD	Expenses disallowable as per the Audit	Under assessment	Tax effect
PCIT Kochi 1	T11	2015-16	12.99	3.62	48.37	44.75	20.38
		2016-17	7.94	15.96	41.88	25.92	8.97
		2017-18	3.34	1.75	5.73	3.98	1.38
		2018-19	3.74	2.53	6.51	3.98	1.90
		2019-20	3.10	0.00	3.19	3.19	1.11
Total			31.11	23.86	105.68	81.82	33.74

Source: Assessment records of ITD

Though the assessments were examined under complete scrutiny in AYs 2015-16 to 2018-19, the AOs did not examine the incorrect figure adopted for the computation of disallowance of expenditure under Section 14A of the Act against exempt income. Further, in AY 2019-20, the issue escaped examination as the return was processed under summary.

The observation was issued to the DCIT Corporate Circle 2(1), Kochi, in March 2022. Reply from the Department is awaited (November 2025) despite the issue of reminders (June 2024).

Reply of the Ministry is awaited (November 2025).

5.2.5.6 Discrepancies noticed in Related Party Transactions

Audit observed that the AOs did not examine the books of accounts of the related parties vis-à-vis the books of accounts of the main assessee while allowing the transactions shown under related party transactions of the Tax Audit Report of the assessee bank. Thus, incomes

⁸⁸ Rule 8D of Income Tax Rules, 1962 prescribes method for computing the quantum of expenditure attributable to earning exempt income and accordingly the expenditure in relation to exempt income shall be the aggregate of: i) amount of expenditure relating to exempt income, ii) in a case where the assessee has incurred expenditure by way of interest during the previous year which is not directly attributable to any particular income or receipt, an amount computed as $A*B/C$ [A=Amount of expenditure by way of interest, B=Average of value of investment, income from which does not or shall not form part of the total income, C=Average of total assets, as appearing in the balance sheet of the assessee, on the first and last day of the previous year] and iii) amount equal to one-half per cent of the average of value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the assessee, on the first and last day of the previous year.

shown as paid in the books of account of the main assessee and not offered for taxation by the related parties escaped notice of the Department, as discussed below.

Box 5.17**Charge: PCIT, Kochi****Assessee: M/s T11****AY: 2010-11 to 2011-12, 2016-17 and 2018-19**

In this case, the returns of income for AYs 2010-11, 2011-12, 2016-17 and 2018-19 were filed at income of ₹ 695.12 crore (August 2017), ₹ 817.57 crore (April 2018), ₹ 751.51 crore (December 2017) and ₹ 1,204.60 crore (October 2018), respectively. The reassessment under Section 147 for AYs 2010-11 and 2011-12 and scrutiny assessments under Section 143(3) for AYs 2016-17 and 2018-19 were completed determining income of ₹ 905.04 crore (December 2017), ₹ 1,067.86 crore (December 2018), ₹ 1,327.07 crore (December 2018) and ₹ 1,979.58 crore (April 2021) respectively.

Audit observed from Annexure VIII- 'Related Party Transactions' of clause 18 of Form 3CD of assessee company that the rental income of ₹ 0.65 crore and ₹ 0.54 crore, respectively, were paid to M/s F5 (Subsidiary Company) during the previous year relevant to AYs 2010-11 and 2011-12. However, these rental incomes were not shown as credited to the Profit & Loss account of the subsidiary company. Further, in item 2 of Part A- P&L of ITRs 2010-11 and 2011-12 of the subsidiary company, the income was shown as nil under the head 'Rent'.

Further, it was noticed that in clause 23 of Form 3CD, the commission income paid to M/s F5 (Subsidiary Company) during the previous year relevant to AY 2016-17 and 2018-19 was ₹ 3.54 crore and ₹ 14.39 crore, respectively. However, no Commission income was shown in the books of account by F5 for the AY 2016-17 and ₹ 0.11 crore was shown in AY 2018-19. Thus, there was an underassessment of income of ₹ 19.00 crore, involving a tax effect of ₹ 6.56 crore.

The audit observations were communicated to the DCIT Corporate Circle 2(1), Kochi, in June 2022. Reply from the Department is awaited (November 2025) despite the issue of a reminder [June 2024].

Reply of the Ministry is awaited (November 2025).

5.2.5.7 Mismatch in donation paid and accounted by related party

T11 filed the ITR for AY 2017-18, declaring a total income of ₹ 1,399.27 crore (December 2018), and regular assessment under Section 143(3) was completed, determining income at ₹ 1,844.35 crore (December 2019). M/s F6 is a trust, a related party of T11, registered under Section 12A, filed a return of income for AY 2017-18 declaring Nil income (September 2017) after claiming exemption of ₹ 11.08 crore under Section 11 and the return was processed under Section 143(1), accepting returned income at Nil (July 2018). Audit observed that for AY 2017-18, the T11 (main assessee) has shown payment of donation amounting to ₹ 11.48 crore in Clause 23 of Form 3CD to its related party, M/s F6. However,

the related party accounted for only a sum of ₹ 11.05 crore as a donation received from T11. Thus, there was a mismatch in the donation paid by the main assessee and accounted for by the related party, amounting to ₹ 0.43 crore.

The audit observations were communicated to the DCIT, Corporate Circle 2(1), Kochi, and the DCIT, Central Circle 1, Kochi, in June 2022. Reply from the Department is awaited (November 2025) despite the issue of reminders [June 2024].

Ministry's reply is awaited (November 2025).

5.2.6 360-degree analysis of T6

M/s T6 is assessed under the jurisdiction of PCIT-1 Madurai. M/s T6 offers a diversified portfolio of financial products and services to retail, SME and corporate customers. The Bank has an extensive network of branches, ATMs and other touchpoints. The particulars of assessments of the private bank for AYs 2010-11 to 2019-20, details of deductions claimed and allowed during AYs 2010-11 to 2019-20, details of exemptions claimed and allowed under Section 10 during AYs 2010-11 to 2019-20, and significant observations noticed in the audit of assessments of T6 are detailed below.

5.2.6.1 Financial Highlights of T6

The financial highlights of T6 for FY 2016-17 to FY 2019-20 are given in Table 5.40 below.

Table 5.40: Financial details of T6				(₹ in crore)
FYs/ Financials Description	2016-17	2017-18	2018-19	2019-20
Total Assets	36,984.37	37,919.95	40,532.80	42,758.80
Total Advances	21,972.32	23,768.72	26,487.94	27,715.76
Total Deposits	32,190.15	32,428.33	35,136.25	36,825.03
Interest earned	3,380.96	3,250.49	3,224.46	3,466.11
Share Capital	142.51	142.51	142.51	142.51
Retail Banking - Segment Assets	14,644.34	16,599.55	19,905.31	21,820.66
Net Profit	316.66	221.92	258.58	407.69

Source: Annual Reports of T6

5.2.6.2 Details of Income Tax assessment

Assessments for AY 2010-11 to AY 2019-20 of M/s T6 were selected for 360-degree analysis. The income tax returns of M/s T6 were selected for scrutiny under Section 143(3) in all the years selected for the performance audit. The assessment details are given in Table 5.41 below:

S. No.	AY	Date of return	Section under which assessed/ Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income
1	2010-11	23-08-2017	147/ 15.11.2017	248.57	269.21	20.6	8.30
2	2011-12	19-04-2018	147/ 24.12.2018	352.11	391.43	39.3	11.17
3	2012-13	23-08-2017	147/ 05.12.2017	371.88	439.04	67.2	18.06
4	2013-14	13-01-2015	147/ 24.12.2018	540.08	588.54	48.46	8.97
5	2014-15	07-12-2021	147/ 31.03.2022	184.97	214.59	29.62	16.01
6	2015-16	29-09-2015	143(1)/ 31.12.2016	495.60	NA	NA	NA
7	2016-17	30-10-2016	143(3)/ 24.12.2018	424.35	566.98	142.62	33.61
8	2017-18	31-10-2017	143(3)/ 30.12.2019	450.25	740.38	290.13	64.44
9	2018-19	10-10-2018	143(3)/ 12.04.2021	196.75	293.83	97.1	49.34
10	2019-20	30-09-2019	143(1a)/18.05.2020; 154/ 12.09.2020	367.96	377.37	9.4	2.56
		Total		3,632.52	3,881.37		

Source: Assessment records of ITD

5.2.6.3 Details of Deductions claimed and allowed

Deductions claimed and allowed to T6 for bad debts under Section 36(1)(vii), provision for bad and doubtful debts under Section 36(1)(viia), towards special reserve under Section 36(1)(viii) and exempt income under different Sections are given in Table 5.42 below.

AY	Bad debts under Section 36(1)(vii)		Provision for bad and doubtful debts under Section 36(1)(viia)		Deduction for special reserve under Section 36(1)(viii)		Exempt income	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
2010-11	0.00	0.00	22.12	1.48	0.00	0.00	13.45	13.45
2011-12	0.00	0.00	37.96	0.47	8.10	8.10	9.47	9.47
2012-13	0.00	0.00	67.94	4.16	10.00	10.00	6.07	6.07
2013-14	46.21	46.21	46.59	4.95	14.43	14.43	7.80	7.80
2014-15	29.36	29.36	140.73	4.63	23.80	23.80	20.53	20.53
2015-16	0.00	0.00	20.10	20.10	0.00	0.00	18.14	18.14
2016-17	96.55	96.55	133.61	8.56	35.00	35.00	13.10	13.10
2017-18	241.72	241.72	278.40	9.43	27.00	27.00	18.08	18.08
2018-19	592.95	592.95	91.62	1.01	29.00	29.00	22.44	22.44
2019-20	0.00	0.00	440.86	440.86	0.00	0.00	25.52	25.52
Total	1,006.79	1,006.79	1,279.93	495.65	147.33	147.33	154.60	154.60

Source: Assessment records of ITD

5.2.6.4 Details of Exemptions claimed and allowed

The Income claimed to be exempt under Section 10⁸⁹ by the assessee-bank was allowed as such. Disallowance of expenditure relatable to exempt income added back as per the provisions of Section 14A read with Rule 8D, is given in Table 5.43 below:

AY	Total amount of exemption claimed and allowed under Section 10	Expenditure disallowed in the return of Income	Expenditure disallowed in the scrutiny assessment
2010-11	13.45	0.79	0.79
2011-12	9.47	0.16	1.99
2012-13	6.07	0.25	3.62
2013-14	7.80	0.47	7.29
2016-17	13.10	0.07	17.66
2017-18	18.08	0.10	21.25
2018-19	22.44	0.08	2.08
2019-20	25.52	4.71	4.71
Total	115.93	6.63	59.39

Source: Assessment records of ITD

5.2.6.5 Significant Audit observations in 360-degree analysis

Audit noticed 12 cases of irregular allowance of deductions involving incorrect assessment ₹ 752.13 crore with tax effect of ₹ 290.71 crore including seven findings involving under assessment of income of ₹ 131.39 crore and short levy of tax of ₹ 45.53 crore, four findings involving over assessment of income of ₹ 620.74 crore and excess levy of tax of ₹ 213.99 crore and remaining one case of irregular allowance of MAT credit involving tax effect of ₹ 31.19 crore. Replies to the audit observations are yet to be received from the Department. Gist of the audit observations raised during the present performance audit is given in Table 5.44 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under Assessment	Over Assessment	Tax effect	Department's reply
1	2014-15	143(3)/22.12.2016	Incorrect disallowance of deduction under Section 36(1)(viiia)	---	136.10	46.26 [Over Charge]	Reply is awaited (November 2025).
2	2016-17	143(3)/24.12.2018	Incorrect disallowance of deduction under Section 36(1)(viiia)	---	125.05	43.28 [Over Charge]	Reply is awaited (November 2025).
3	2017-18	143(3)/30.12.2019	Incorrect disallowance of deduction under Section 36(1)(viiia)	---	268.98	93.09 [Over Charge]	Reply is awaited (November 2025).

⁸⁹ Section 10 of the Income Tax Act includes all the exemptions that a taxpayer can claim while paying income tax.

Table 5.44: Details of irregularities noticed in respect of T6							(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under Assessment	Over Assessment	Tax effect	Department's reply
4	2018-19	143(3)/12.04.2021	Incorrect disallowance of deduction under Section 36(1)(viiia)	---	90.61	31.36 [Over Charge]	Reply is awaited (November 2025).
5	2014-15	143(3)/22.02.2016	Deduction towards bad debts under Section 36(1)(vii) to be regulated as per Section 36(1)(viiia)	4.95	---	1.68 [Under Charge]	Reply is awaited (November 2025).
6	2016-17	143(3)/24.12.2018	Deduction towards bad debts under Section 36(1)(vii) to be regulated as per Section 36(1)(viiia)	24.74	---	8.56 [Under Charge]	Reply is awaited (November 2025).
7	2017-18	143(3)/30.12.2019	Deduction towards bad debts under Section 36(1)(vii) to be regulated as per Section 36(1)(viiia)	8.56	---	2.96 [Under Charge]	Reply is awaited (November 2025).
8	2018-19	143(3)/12.04.2021	Deduction towards bad debts under Section 36(1)(vii) to be regulated as per Section 36(1)(viiia)	9.42	---	3.26 [Under Charge]	Reply is awaited (November 2025).
9	2017-18	143(3)/30.12.2019	Incorrect allowance of deduction towards amortisation of the premium of HTM investments	23.55	---	8.15 [Under Charge]	Reply is awaited (November 2025).
10	2018-19	143(3)/12.04.2021	Incorrect allowance of deduction towards amortisation of the premium of HTM investments	30.80	---	10.66 [Under Charge]	Reply is awaited (November 2025).
11	2019-20	143 (1)a/18.05.2020	Incorrect allowance of deduction towards amortisation of the premium of HTM investments	29.37	---	10.26 [Under Charge]	Reply is awaited (November 2025).
12	2015-16	143(1)/31.12.2016	Ineligible MAT Credit allowed	---	---	31.19 [Under Charge]	Remedial action was taken by passing a rectification order under section 154 in March 2022, and recovery has been made.
Total				131.39	620.74	290.71	

Some of the significant compliance issues noticed are given below.

5.2.6.6 Incorrect disallowance of deduction under Section 36(1)(viia) due to segregation of PBDD into rural and non-rural account

The scrutiny proceedings for AYs 2014-15, 2016-17, 2017-18 and 2018-19 were concluded in February 2016, December 2018, December 2019 and April 2021, respectively. While examining the claim made by the assessee bank under Section 36(1)(viia) during the proceedings, the AO asked the assessee to furnish bifurcation details for rural branch-wise and non-rural branch-wise provision for bad and doubtful debts amounts as per the books of account. Based on bifurcation details furnished by the assessee for the relevant FYs, the AO allowed the provision amount made for rural advances alone as a deduction under Section 36(1)(viia) as against the entire amount of provisions made in the books of account, whereas the balance claim pertaining to non-rural advances was disallowed.

As per explanation 2 to Section 36(1)(vii) inserted by the Finance Act, 2013, there shall be only one account in respect of provision for bad and doubtful debts under clause (viia) of Section 36 and such account shall relate to all types of advances, including advances made by rural branches. In view of the same, the deduction under Section 36(1)(viia) was required to be restricted to the amount of provisions made in the books of account, without bifurcating the same as pertaining to rural and non-rural branches. Ignoring the provisions made for non-rural branch advances resulted in a short allowance of deduction under Section 36(1)(viia), aggregating to ₹ 620.73 crore, with a revenue impact of ₹ 213.98 crore.

The audit observations were communicated to the DCIT Circle 1, Tirunelveli, in April 2022. A reply from the Department is awaited (November 2025) despite the issuance of reminders [October 2023, April 2024, June 2024, and December 2024].

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may issue instructions to the AOs regarding the amended provision of the Act after the insertion of Explanation 2 to Section 36(1)(vii), which clearly specifies that there shall be only one PBDD account under Section 36(1)(viia) for all types of advances to prevent incorrect disallowance of deductions towards PBDD under Section 36(1)(viia).

5.2.6.7 Deduction towards bad debts under Section 36(1)(vii) to be regulated as per Section 36(1)(viia)

Audit observed that AOs are consistently allowing bad debts under Section 36(1)(vii)⁹⁰ without adjusting the opening balance of the provision for bad and doubtful debts allowed as a deduction in earlier AYs. For the AYs 2014-15 to 2018-19, Audit observed that a sum of ₹ 960.59 crore was claimed towards bad debts and was allowed by the AO under Section

⁹⁰ As per the provisions of Section 36(1)(vii), banks and NBFCs are eligible to claim deduction for the amount of any bad debts or part thereof exceeding the credit balance in the provision for bad and doubtful debts account made under that clause.

36(1)(vii) as such without adjusting the same against the provision account under Section 36(1)(viia), resulting in incorrect allowance of bad debts aggregating ₹ 47.67 crore, involving a tax effect of ₹ 16.47 crore.

The audit observations were communicated to the DCIT Circle 1, Tirunelveli, in April 2022. A reply from the Department is awaited (November 2025), despite the issuance of reminders in October 2023, April 2024, June 2024, and December 2024.

Reply of the Ministry is awaited (November 2025).

5.2.6.8 Mistake in the computation of Total Income

Audit noticed that in respect of AY 2014-15, re-assessment was made under Section 147, read with Section 144B in March 2022. The additions made earlier during assessment under Section 143(3) in December 2016 were omitted in the re-assessment order, resulting in under assessment of income of ₹ 136.09 crore, involving a tax effect of ₹ 46.26 crore.

The audit observations were communicated to the DCIT Circle 1, Tirunelveli, in April 2022. Remedial action was taken by passing a rectification order under Section 154, read with Section 147, on 9 May 2022.

Reply of the Ministry is awaited (November 2025).

5.2.6.9 Incorrect allowance of deduction towards amortisation of premium of HTM investments

RBI has prescribed the prudential norms for classification, valuation and operation of investment portfolio by banks, as per which the entire investment portfolio of the banks (including SLR securities and non-SLR securities) should be classified under three categories, viz., Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT).

Investments classified under HTM need not be marked to market and should be carried at acquisition cost, unless it is more than the face value, in which case the premium should be amortised over the period remaining to maturity. The banks should reflect the amortised amount in 'Schedule 13 – Interest Earned: Item II – Income on Investments', as a deduction, and the same need not be disclosed separately. The book value of the security should continue to be reduced to the extent of the amount amortised during the relevant accounting period.

As investments held under the HTM category need not be marked to market, they are not required to be treated as stock in trade, unlike the investments under the "AFS and HFT" categories.

Audit observed that the issue of admissibility of deduction towards amortisation of premium of HTM investments was not dealt with in the assessments of the Banks. It was seen from the Annual Reports for the assessment records for AYs 2017-18 to 2019-20 that the income on investment was offered by the assessee after claiming the amortisation premium as per the guidelines issued by the RBI. The aggregate of amortisation of ₹ 83.72 crore netted against

the interest income did not pertain to valuation and, therefore, was not an allowable deduction. The same was required to be disallowed and added back to the total income. This resulted in income of ₹ 83.72 crore escaping assessment, involving a tax effect of ₹ 29.07 crore.

The audit observations were communicated to the DCIT Circle 1, Tirunelveli, in April 2022. A reply from the Department is awaited (November 2025) despite the issuance of reminders [October 2023, April 2024, June 2024, and December 2024].

Reply of the Ministry is awaited (November 2025).

5.2.6.10 Ineligible MAT Credit allowed

Audit observed that no MAT credit was available for AY 2014-15 due to additions made to income in the scrutiny assessment order dated 22.12.2014. However, without considering the effect of additions made in the assessment, MAT credit of ₹ 31.19 crore pertaining to AY 2014-15 was incorrectly claimed and allowed under Section 115JAA in the return of income filed for AY 2015-16 on 29.09.2015.

The audit observations were communicated to the DCIT Circle 1, Tirunelveli, in May 2022. Remedial action was taken by passing a rectification order under section 154 in March 2022, and recovery has been made.

Reply of the Ministry is awaited (November 2025).

5.2.6.11 Observation on related party transactions

For the selected AYs, 17 related party transactions under the provisions of Section 40A(2)(b) were reported in the tax audit reports. Audit collated the related party transactions reported to determine a sample by adopting appropriate relevant criteria. Based on the adopted criteria, Audit attempted to cross-verify a few of these selected transactions with information given in the income tax return filed by the recipients of these payments in their respective jurisdictions. Audit did not notice any significant observations.

5.3 360-Degree analysis of assessments of Foreign Banks

5.3.1 360-Degree analysis of D1

D1 is assessed under the jurisdiction of PCIT (IT)-2 Mumbai. The bank is incorporated in and is a tax resident of Germany, having a permanent establishment in India. The assessee is a financial service provider to Indian corporates, institutions and individuals, and their services include onshore investment banking, institutional equities broking, asset and private wealth management, retail banking and business processes outsourcing. The particulars of assessments of the foreign bank for AYs 2014-15 to 2019-20 and significant observations noticed in audit of assessments of D1 are detailed below.

5.3.1.1 Details of Income Tax assessment

The income tax assessment details of D1 for the period from AY 2014-15 to AY 2019-20 are given in Table 5.45 below:

S. No.	AY	Date of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of returned income
1	2014-15	31.03.2015	143(3) read with Section144C (3) dated 15.2.2018	1,556.02	2,272.95	716.93	46.07
2	2015-16	31.03.2017	143(3) read with Section144C (3) dated 26.2.2019	2,656.62	3,421.44	764.82	28.79
3	2016-17	28.03.2018	143(3) read with Section144C (3) dated 26.2.2020	2,505.86	3,121.08	615.22	24.55
4	2017-18	27.03.2019	143(3) read with Section144C (3) dated 12.11.2021	2,342.88	3,377.95	1,035.07	44.18
5	2018-19	26.03.2019	143(3) read with Section144C (3) dated 12.11.2021	2,026.31	2,743.03	716.72	35.37
6	2019-20	25.09.2020	143(1) dated 29.03.2021	2,641.43	2,643.86	2.43	NA
Total				13,729.12	17,580.31	3,851.19	

Source: Assessment records of ITD

Returns of the bank filed for AYs 2014-15 to 2018-19 were selected for complete scrutiny whereas AY 2019-20 was processed under summary assessment. Additions made in scrutiny assessments during AY 2014-15 to 2018-19 ranged from 24.55 per cent to 46.07 per cent of the returned income. Additions were mainly on account of transfer pricing adjustments under Section 92C⁹¹, disallowance of expenses under Section 14A incurred for earning exempt income, disallowance of provision for depreciation on investment, etc.

5.3.1.2 Significant Audit observations in 360-degree analysis

Audit observed seven findings of irregular allowance of deductions and computation errors involving underassessment of income of ₹ 244.72 crore and tax effect of ₹ 114.99 crore, including six findings involving underassessment of income of ₹ 244.72 crore and short levy of tax of ₹ 105.87 crore, and one case of error in levy of interest involving tax effect of ₹ 9.12 crore. These observations were issued to DCIT(IT)-2(1)(2), Mumbai, in September 2021 and February 2022. The DCIT(IT)-2(1)(2), Mumbai accepted the audit observations in all the cases and rectified mistakes in six cases, as tabulated in Table 5.46. The Department also informed (August 2023) that an amount of ₹ 247.52 crore has been recovered after taking

⁹¹ Section 92C of the Income Tax Act, 1961 deals with the computation of arm's length price for international transactions or specified domestic transactions between related parties.

remedial action for AY 2015-16, AY 2016-17, and AY 2018-19. The gist of audit observations is given in Table 5.46 below:

Table 5.46: Details of audit observations in respect of D1						(₹ in crore)
S. No.	AY	Assessed under Section/ Date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2015-16	143(3) dated 22.2.2019	Incorrect allowance of deduction towards provision for bad and doubtful debt	98.38	42.56	Accepted (August 2023) and the remedial action taken under Section 154 (March 2022).
2	2016-17	143(3) dated 26.2.2020	Incorrect allowance of deduction towards provision for bad and doubtful debt	101.45	43.89	Accepted (August 2023) and the remedial action taken under Section 147 (May 2022)
3	2016-17	143(3) dated 26.2.2020	Incorrect deduction given for transfer pricing adjustment	36.39	15.74	Accepted (August 2023) and remedial action taken under Section 147 (May 2022).
4	2016-17	143(3) dated 26.2.2020	Mistake in addition of head office expenses	4.69	2.03	Accepted (August 2023) that the remedial action taken under Section 147 (May 2022).
5	2015-16	143(3) dated 22.2.2019	Mistake in addition of head office expenses	1.97	0.85	Accepted (August 2023) and remedial action taken under Section 154 (March 2022).
6	2015-16	143(3) dated 22.2.2019	Mistake in the computation of business income	1.84	0.80	Accepted (August 2023) and remedial action taken under Section 154 (March 2022).
7	2018-19	143(3) dated 12.11.2021	Non-levy of interest under Section 234D.	0	9.12	Accepted (August 2023) and remedial action initiated under Section 154. Further details are awaited (November 2025)
Total				244.72	114.99	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.3.1.3 Incorrect allowance of deduction towards provision for bad and doubtful debts

Audit observed that although the assessments for AYs 2015-16 and 2016-17 were examined under complete scrutiny, the AO, while allowing deduction towards provision for bad and doubtful debts, did not restrict the amount of deduction to the provision of NPA shown under 'Provisions and Contingencies' in the profit and loss account, as discussed below.

Box 5.18

The scrutiny assessment for AY 2015-16 was completed in February 2019, allowing a deduction of ₹ 113.61 crore under Section 36(1)(vii) of the Act towards the provision for bad and doubtful debts. As per the Profit and Loss account, the provision for NPA made during the year was only ₹ 15.23 crore, as shown in Schedule 17 'Provisions and Contingencies'. Thus, the PBDD allowable under Section 36(1)(vii) should have been restricted to ₹ 15.23 crore. However, the Department had allowed a deduction of

₹ 113.61 crore, apparently considering the provision made for standard assets also under the category of provision made for bad and doubtful debts, resulting in an excess allowance of deduction to the extent of ₹ 98.38 crore, involving a short levy of tax of ₹ 42.56 crore.

Similarly, the assessment for AY 2016-17 was finalised after complete scrutiny in February 2020, with the assessed income determined at ₹ 3,121.08 crore. During the year, the assessee made a provision for NPA amounting to ₹ 26.44 crore. However, in the assessment, the Department allowed a deduction under Section 36(1)(viiia) of ₹ 127.89 crore, resulting in an excess allowance of deduction of ₹ 101.45 crore, involving a short levy of tax of ₹ 43.89 crore.

The above observations were brought to the notice of the DCIT(IT)-2(1)(2), Mumbai, in August 2021. In response (August 2023), the Department accepted the audit observations and stated that remedial action had been taken under Section 154 for AY 2015-16 in March 2022 and under Section 147 read with Section 143(3) for AY 2016-17 in May 2022.

Reply of the Ministry is awaited (November 2025).

Audit noted that ITAT Chennai in the case of *Bharat Overseas Bank vs CIT*⁹² held that “a provision on standard assets is not against any debts which had become doubtful. Standard assets are always considered recoverable, and the bank has no doubt of recoverability. The Tribunal opined that when the bank itself has treated such assets as good and recoverable, any provision made on such assets cannot be considered as a provision for bad and doubtful debts. Therefore, the claim of the assessee that provision for standard assets also has to be considered for applying the condition set out under Section 36(1)(viiia) was not in accordance with law”. Further, Para 5.5 of the RBI Master Circular dated 15 July 2015, which addresses Standard Assets of Banks, clearly states under clause (ii) that provisions made for standard assets should not be considered when calculating net NPAs.

5.3.1.4 Incorrect deduction given for transfer pricing adjustment

Audit observed that the TPO while finalising the transfer pricing order did not consider the adjustment made by assessee in its computation of income resulting in short levy of tax, as illustrated below.

Box 5.19

The assessee, during the AY 2016-17, claimed a deduction of ₹ 36.39 crore for adjustments related to transfer pricing, primarily due to sales and marketing support services. The AO referred the case to the TPO under Section 92CA, and the TPO, after considering all aspects of the case, made an upward adjustment of ₹ 63.02 crore to the returned income. While determining the transfer pricing adjustment, the TPO did not take into account the adjustments made by the assessee on their own in their computation in the return of income. Since the TPO had determined the upward adjustment after considering all aspects of the transactions entered into with associated enterprises during the previous year, the

⁹² ITA No.1191/Mds/2012 dated 28.03.2012

deduction claimed by the assessee on their own should have been disallowed in the assessment. This resulted in the under assessment of income of ₹ 36.39 crore, involving a short levy of tax of ₹ 15.74 crore.

The observation was brought to the notice of the DCIT (IT)-2(1)(2), Mumbai, in September 2021. The Department, in reply, while accepting, stated (August 2023) that remedial action was taken under Section 147 read with Section 143(3) in May 2022.

Reply of the Ministry is awaited (November 2025).

5.4 360-degree analysis of assessments of NBFCs

5.4.1 360-degree analysis of assessment of B5

B5, founded in 2007, is assessed under the jurisdiction of PCIT-3 Pune. The Company is a public limited company incorporated under the provisions of the Companies Act, 1956. The Company is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) with effect from 5 March 1998. The Company is engaged in the business of lending and primarily deals in the financing of two and three-wheelers, consumer durables, small business loans, personal loans, mortgage loans, loans against securities, etc. The RBI vide its letter dated 7 October 2010, has re-classified the Company as a 'Loan Company' from an 'Asset Finance Company'. The financial details for FYs 2016-17 to 2019-20, particulars of assessments for AYs 2016-17 to 2019-20 and significant observations noticed in audit of assessments of B5 are detailed below:

5.4.1.1 Financial Highlights of B5

The financial highlights of the Company for FYs 2016-17 to FY 2018-19, as per their Annual Reports, are given in Table 5.47 below.

Table No 5.47: Financial Highlights				(₹ in crore)
Particulars/FYs	2016-17	2017-18	2018-19	2019-20
Borrowings	46,620.98	55,836.46	73,158.71	82,778.84
Interest Expenses on Borrowings	3,354.87	4,123.36	5,938.85	7,857.55
Loans & Advances	55,445.82	75,532.88	95,181.26	1,13,417.08
Interest Income on loans & advances	8,706.69	11,354.89	15,211.13	20,507.72
Profit Before Tax	2,817.52	4,056.36	6,035.30	6,808.13
Provision for Bad & Doubtful Debts	415.59	58.45	502.26	1,575.37
Bad debts written off	402.60	971.73	974.03	*Not available

Source: Annual Report of B5 of respective FYs and ITR of respective AYs

*Note: Case was not selected for PA.

5.4.1.2 Details of Income Tax assessment

Assessments of B5 were selected for 360-degree analysis from AY 2016-17 to AY 2019-20. The Income tax returns of B5 were selected by the ITD for complete scrutiny under Section 143(3) for all the years selected by Audit, as detailed in Table 5.48 below:

Sr. No.	AY	Date of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income
1	2016-17	21.03.2018 (Revised)	143(3) dated 31.12.2018	2,010.77	2,157.10	146.33	7.28
2	2017-18	29.03.2019 (Revised)	143(3) dated 27.12.2019	2,913.38	3,112.37	198.99	6.83
3	2018-19	30.03.2019 (Revised)	143(3) dated 15.03.2021	3,813.88	4,103.09	289.21	7.58
4	2019-20	30.11.2020 (Revised)	143(3) dated 29.09.2021	5,301.77	5,732.81	431.04	8.13
		Total		14,039.80	15,105.37	1,065.57	

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 6.83 per cent to 8.13 per cent of the returned income.

5.4.1.3 Significant Audit observations in 360-degree analysis

Audit observed eight findings of irregular allowance of deductions and expenses including five findings involving underassessment of income of ₹ 746.92 crore and short levy of tax of ₹ 258.40 crore and three findings under systemic deficiencies viz. variation in figures of payments made to related parties and mismatch of figures of bad debts written off, as reported to ITD and to RBI and incorrect allowance of deduction towards CSR expenses. The department has accepted all the audit observations and initiated remedial action under Section 263 in March 2022. Further details are awaited (November 2025) despite the issuance of a reminder [November 2024].

A Summary of the audit observations is given in Table 5.49 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Details of remedial action taken
1	2017-18	143(3) dated 27.12.2019	According to Income Computation and Disclosure Standards (ICDS) - IV, interest in respect of NPA was to be taxed on accrual basis in absence of any protection by virtue of special provision contained in Section 43D.	68.67	23.77	Accepted (April 2024) and remedial action initiated under Section 263 on 30.03.2022. Further details are awaited (November 2025).
2	2017-18	143(3) dated 27.12.2019	Eligibility to claim deduction under Section 36(1)(viii)	0.00	0.00	Accepted (April 2024) and remedial action initiated under Section 263 on

Table 5.49: Summary of the audit observations						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Details of remedial action taken
			was not substantiated as observed from assessment records.			30.03.2022. Further details are awaited (November 2025).
3	2018-19	143(3) read with Section 143(3A) and 143(3B) dated 15.03.2021	According to Income Computation and Disclosure Standards (ICDS) - IV, interest in respect of NPA was to be taxed on accrual basis in absence of any protection by virtue of special provision contained in Section 43D.	84.23	29.15	Accepted (April 2024) and remedial action under Section 263 was considered. Further details are awaited (November 2025).
4	2018-19	143(3) read with Section 143(3A) and 143(3B) dated 15.03.2021	Excess allowance of bad debts in the current year due to incorrect adjustment of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia).	1.10	00.37	Accepted (April 2024) and remedial action under Section 263 was considered. Further details are awaited (November 2025).
5	2019-20	143(3) read with Section 143(3B) dated 29.09.2021	Incorrect allowance of deduction of provision for bad and doubtful debts allowed under Section 36(1) (viiia) in respect of standard assets.	20.03	6.93	Accepted (April 2024) and remedial action under Section 263 was proposed. Further details are awaited (November 2025).
6	2016-17 2017-18 2018-19 2019-20	143(3) dtd. 31.12.2018 143(3) dtd.27.12.2019 143(3) dtd. 15.03.2021 143(3) dtd. 29.09.2021	Variation in the figures of payments made to related parties	0	0	Interim Reply for AY 2016-17 & Accepted for AYs 2017-18 to 2019-20 (April 2024). For AY 2017-18, remedial action initiated under Section 263 on 30.03.2022. For AY 2018-19 and 2019-20 remedial Action under Section 263 was considered. Further

Table 5.49: Summary of the audit observations						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Details of remedial action taken
						details are awaited (November 2025).
7	2017-18 2018-19 2019-20	143(3) dtd.27.12.2019 143(3) dtd. 15.03.2021 143(3) dtd. 29.09.2021	Bad debts written off- Not matching with RBI Data.	497.57	172.20	Accepted for AYs 2017-18 to 2019-20 (April 2024). For AY 2017-18, remedial action initiated under Section 263 on 30.03.2022. For AY 2018-19 and 2019-20 remedial Action under Section 263 was considered. Further details are awaited (November 2025).
8	2016-17 2017-18 2018-19 2019-20	143(3) dtd. 31.12.2018 143(3) dtd.27.12.2019 143(3) dtd. 15.03.2021 143(3) dtd. 29.09.2021	Incorrect allowances of deduction towards CSR expenses	75.32	25.98	Interim Reply for AY 2016-17 & Accepted for AYs 2017-18 to 2019-20 (April 2024). For AY 2017-18, remedial action initiated under Section 263 on 30.03.2022. For AY 2018-19 and 2019-20 remedial Action under Section 263 was considered. Further details are awaited (November 2025).
Total				746.92	258.40	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.4.1.4 Incorrect computation of income due to the absence of a provision in Section 43D of the Income Tax Act in respect of NBFCs

Deduction under Section 36(1)(vii) of the Income Tax Act was made applicable to the NBFCs with effect from AY 2017-18. The provisions of Section 43D were made applicable to two categories of NBFCs, viz., a deposit-taking non-banking financial company and a systemically important non-deposit-taking non-banking financial company, with effect from AY 2020-21⁹³.

As per Section 43D, income by way of interest in relation to NPA on actual credit or receipt basis was not applicable to NBFCs during the period between AY 2017-18 to 2019-20.

⁹³ As per amended Section 43D of the Income Tax Act enforced with effect from 1 April 2018, by the Act No 23 of 2019, income by way of interest in relation to bad and doubtful debts (non-performing assets) is taxable in the previous year in which it is credited to the profit and loss account or received.

Therefore, in the case of NBFCs, income in respect of even NPA was required to be taxed on a mercantile basis during the period between AY 2017-18 and 2019-20.

The scrutiny assessment of M/s B5 for AY 2017-18 was completed in December 2019, determining an income of ₹ 3,112.37 crore. As per note 2(E) – (Revenue Recognition – (i) income from financing activity) of the financial statements for the year ended 31 March 2017, interest income in case of delinquent assets (NPA) was recognised on an actual receipt basis. This indicated that the assessee was not offering any interest income accruing on NPA.

As per Schedule 11 (Movement of NPAs) to the Balance Sheet as on 31 March 2017, additions of Gross NPA during the year were ₹ 759.83 crore. It was noted that accrued interest on NPA was neither offered for tax by the assessee nor was it added back by the Department while finalising the assessment under Section 143(3). This led to the underassessment of income by approximately ₹ 68.67 crore on account of interest accrued on ₹ 759.83 crore [calculated for a period of 9 months at a rate of 12.05 *per cent* (minimum of 4 years of SBI Benchmark Prime Lending Rate)]. This resulted in a short levy of tax amounting to ₹ 23.77 crore.

The audit observation was communicated to the DCIT- Circle 8, Pune, in March 2022. In reply, the DCIT, Circle 8, Pune, accepted the audit observation (April 2024) and stated that remedial action had been initiated under Section 263 in March 2022. Further details regarding remedial action are awaited (November 2025) despite the issuance of a reminder [November 2024].

Due to the absence of a provision in Section 43D of the Income Tax Act, the accrued interest on NPA was neither offered to tax by the assessee nor added back by the Department while finalising the scrutiny assessments, resulting in underassessment of income to that extent.

Reply of the Ministry is awaited (November 2025).

5.4.1.5 Excess allowance of deduction of provision for bad and doubtful debts allowed under Section 36(1) (viiia)

As per para 13 of the Master Direction⁹⁴, provision needs to be made for loss of assets, doubtful assets, and substandard assets by NBFCs. As per the said direction, provision for standard assets is not to be considered as part of the provision for NPA.

Although the assessment for AY 2019-20 was examined under complete scrutiny, the AO, while allowing deduction towards provision for bad and doubtful debts, did not restrict the amount of deduction to the provision of NPA shown under 'Provisions and Contingencies' in the profit and loss account.

Scrutiny assessment of M/s B5 for AY 2019-20 was completed on 29.09.2021, determining total income of ₹ 5,732.81 crore after allowing deduction of ₹ 28.31 crore under Section 36(1) (viiia).

⁹⁴ Master direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, updated as on February 17, 2020

In the revised return of income in Form ITR-06 (Schedule A-P&L account), the assessee had shown an amount of ₹ 502.26 crore as provision for bad and doubtful debts, as debited to the profit and loss account for the financial year 2018-19. Para 11 "Provisions and contingencies" of the Annexure-III disclosed that the provision for bad and doubtful debts of ₹ 502.26 crore comprised the provision for NPA of ₹ 263.07 crore, and the provision for standard assets of ₹ 239.18 crore. Thus, the assessee was eligible for a deduction of ₹ 263.07 crore only to the extent of the provision made against NPA as debited to the P&L account, as against the deduction of ₹ 283.10 crore claimed by the assessee and allowed by the Department. Thus, the deduction of ₹ 20.03 crore (₹ 283.10 crore - ₹ 263.07 crore) allowed against the provision made for standard assets was not in order. The omission resulted in an under-assessment of income of ₹ 20.03 crore, involving a short levy of tax of ₹ 6.93 crore.

The audit observation was communicated to the DCIT, Circle 8, Pune, in March 2022. In reply, the DCIT Circle 8, Pune, accepted the audit observation (April 2024) and stated that remedial action under Section 263 had been proposed and will be completed in due course. Further details regarding remedial action are awaited (November 2025) despite the issue of a reminder [November 2024].

Reply of the Ministry is awaited (November 2025).

5.4.1.6 Excess allowance of bad debts due to short deduction of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viii)

The scrutiny assessment of the assessee for AY 2018-19 was completed in March 2021, determining total income at ₹ 4,103.09 crore after allowing a deduction of ₹ 817.52 crore under Section 36(1)(vii). The audit observed that, while claiming the deduction for bad debts written off, the assessee did not reduce the additional deduction of ₹ 1.10 crore that was allowed during the scrutiny assessment for AY 2017-18. The AO did not examine this issue during the scrutiny assessment for AY 2018-19, resulting in an underassessment of income of ₹ 1.10 crore and a consequent short levy of tax of ₹ 0.37 crore.

The audit observation was communicated to the DCIT Circle 8 Pune in March 2022. In reply, the DCIT, Circle 8, Pune, accepted the audit observation (April 2024) and stated that remedial action under Section 263 had been initiated. Further details regarding remedial action are awaited (November 2025) despite the issue of a reminder [November 2024].

Reply of the Ministry is awaited (November 2025).

5.4.1.7 Co-ordination Issue - Bad debts written off not matching with RBI Data

As per Section 36(1)(vii) of the Income Tax Act, 1961, bad debts are an allowable deduction when they are written off in the books of account of the assessee as irrecoverable. NBFCs are required to comply with various prudential norms, such as capital adequacy, asset classification, provisioning, and others, according to RBI directions.

Audit requested the RBI to share the relevant returns filed by NBFCs for the years 2016-17 to 2019-20, and the data was received on 21 April 2022.

Audit noticed certain discrepancies on comparison of bad debts allowed as per the assessment records of the ITD with the details of bad debts written off provided by the RBI to Audit, as detailed in Table 5.50 below:

Table 5.50: Discrepancies in Bad Debts claimed as per ITR and Bad Debts written off as per RBI Data (₹ in crore)				
AYs	Bad debts claimed by the assessee in the ITR	Bad debts allowed by the Department	Amount of Bad debts written off as per the data received from the RBI	Difference
2017-18	402.60	402.60	265.79	136.81
2018-19	971.73	971.73	732.36	239.37
2019-20	974.03	974.03	852.64	121.39
Total	2,348.36	2,348.36	1,850.79	497.57

Source: Assessment records of ITD

As shown in the table above, there was an under-assessment of income of ₹ 497.57 crore, resulting in a short levy of tax of ₹ 172.20 crore.

The audit observation was communicated to the DCIT, Circle 8, Pune, in May 2022. The DCIT, Circle 8, Pune, in its reply (April 2024), accepted the audit observation and stated that remedial action for all three AYs had been considered. Further details regarding remedial action are awaited (November 2025), despite a reminder issued in November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.1.8 Variation in the figures of payments made to related parties

Section 40A(2a) of the Income Tax Act, 1961 provides that where the assessee incurs any expenditure in respect of which payment has been or is to be made to any person referred to in clause (b) of this sub-Section, and the Assessing Officer is of opinion that such expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities for which the payment is made or the legitimate needs of the business or profession of the assessee or the benefit derived by or accruing to him therefrom, so much of the expenditure as is so considered by him to be excessive or unreasonable shall not be allowed as a deduction.

Audit noted variations in disclosure of transactions with related parties as per the books of accounts of the assessee vis-à-vis the books of accounts of the related party, resulting in underassessment/ overassessment of income.

A comparison of payments made to related parties specified under Section 40A(2)(b) as per clause 23 of the Tax Audit Reports in Form 3CD vis-à-vis notes to financial statements regarding disclosure of related party transactions pertaining to AYs 2016-17 to 2019-20 revealed significant variations, as detailed in Table 5.51 below:

Sl. No.	Related Parties	Jurisdiction	Transactions from TAR – item 23	AY	Payment as per the books of account of the assessee	Receipt as per the books of account of the related party	Difference
1.	B12	DCIT Circle 1(1) Pune	Payment of insurance premiums on Asset/ Vehicles/ Travel	2016-17	0.49	0.52	-0.03
				2017-18	1.06	1.2	-0.14
				2018-19	13.65	12.14	1.51
				2019-20	18.06	17.48	0.58
2.	B13	DCIT Circle 1(1) Pune	Payment of Group insurance premium	2016-17	1.52	251.01	-249.49
				2017-18	1.99	100.74	-98.75
				2018-19	3.02	207.03	-204.01
				2019-20	3.68	191.04	-187.36
			Payment of interest on NCD	2016-17	18.47	23.27	-4.8
				2017-18	29.05	32.14	-3.09
				2018-19	25.56	21.86	3.7
				2019-20	12.16	22.87	-10.71
3.	B9	ITO Wd. 8(1) Pune	Payment of business support charges	2016-17	0	0	0
				2017-18	0	0	0
				2018-19	1.98	17.75	-15.77
				2019-20	1.13	19.75	-18.62

Source: Assessment records of ITD

On this being pointed out in Audit in August 2022, the DCIT Circle 8, Pune accepted (April 2024) the audit observations and stated that remedial action had been initiated under Section 264 for AY 2017-18 and similar action is being considered for other years involved. Further details are awaited (November 2025) despite the issue of a reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

5.4.2 360-degree analysis of assessment of L1

L1, a subsidiary company of L7, is assessed in assessment charge DCIT 2(2)(1) under the jurisdiction of PCIT-2 Mumbai. It is one of the largest Housing Finance Mortgage loan companies in India, having its registered and corporate office in Mumbai. The main objective of the company is to provide long-term financing to individuals for the purchase or construction of houses or flats for residential purposes, and for the repair and renovation of existing houses and flats. The financial details for FYs 2016-17 to 2019-20, particulars of assessments for AYs 2014-15 to 2019-20 and significant observations noticed in the audit of assessments of L1 are detailed below.

5.4.2.1 Financial Highlights of L1

The financial highlights of L1 for FY 2016-17 to FY 2019-20 are given in Table 5.52 below:

Particulars/FYs	2016-17	2017-18	2018-19	2019-20
Borrowings	15,939.25	16,517.05	26,383.91	45,140.43
Interest Expenses on Borrowings	1,179.21	1,120.99	1,741.91	2,333.32

Loans & Advances	1,44,716.71	1,66,162.32	1,92,992.74	2,07,987.97
Interest Income on loans & advances	13,876.71	14,667.03	17,162.80	19,461.95
Profit Before Tax	2,955.77	3,061.87	3,379.55	3,268.99
Provision for Bad & Doubtful Debts	158.68	164.06	182.54	Not available*
Bad debts written off	50.42	23.29	265.66	35.71

Source: Annual Report of L1 of respective FYs and ITR of respective AYs

*Note: Case was not selected for PA.

5.4.2.2 Details of Income Tax assessment

Assessment for AYs 2014-15 to 2019-20 of L1 was selected for 360-degree Audit analysis. The income tax return of L1 was selected for complete scrutiny under Section 143(3) in all these AYs. The assessment details of L1 for AY 2014-15 to AY 2019-20 are given in Table 5.53 below:

Sl. No.	AY	Date of filing of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition Made	Addition as a percentage of the returned income
1	2014-15	28.11.2014	143(3) dated 29.12.2017	1,507.09	1,510.07	2.98	0.19
2	2015-16	30.11.2015	143(3) dated 28.12.2018	1,695.23	1,700.82	5.59	0.33
3	2016-17	23.11.2016	143(3) dated 10.12.2019	2,177.63	2,180.23	2.60	0.12
4	2017-18	30.03.2019	143(3) dated 20.12.2019	2,512.66	2,512.96	0.30	0.01
5	2018-19	30.03.2019	143(3) dated 17.09.2021	2,608.59	2,639.33	30.74	1.18
6	2019-20	29.11.2020	143(3)/144B dated 30.09.2021	2,837.41	2,875.40	37.99	1.34
Total				13,338.61	13,418.81	80.20	

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 0.01 per cent to 1.34 per cent of the returned income.

5.4.2.3 Significant Audit observations in 360-degree analysis

The Audit observed nine findings of irregular allowance of deductions, resulting in an underassessment of income of ₹ 750.02 crore and a short levy of tax of ₹ 142.72 crore. As tabulated in Table 5.54, the PCIT-2 Mumbai accepted one audit observation (January 2023) and stated in its reply (February 2023) that remedial action had been initiated (April 2022) for two observations. Further, remedial action has been completed in three observations whereas the replies are awaited for three observations.

The gist of the audit observations is given in Table 5.54.

Table 5.54: Gist of audit observations						(₹ in crore)
S. No.	AY	Assessed under Section and Date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2015-16	143(3) dated 28.12.2018	Excess allowance of bad debts written off in the current year due to debiting bad debts in the Profit and Loss Account as well as claiming deduction in the computation of income (COI)	29.68	10.09	As per field verification Department has taken remedial action under section 154 (March 2023).
2	2016-17	143(3) dated 10.12.2019	Excess allowance of bad debts written off in the current year due to debiting bad debts in the Profit and Loss Account as well as claiming deduction in the computation of income (COI)	34.58	11.75	As per field verification Department has taken remedial action under section 154 (March 2023).
3	2018-19	143(3) dated 17.09.2021	Excess allowance of bad debts written off in the current year due to incorrect adjustment of closing balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia) in the earlier AY	23.29	8.06	As per the reply (February 2023), reopened under Section 147 in April 2022. Further details awaited (November 2025).
4	2019-20	143(3) dated 30.09.2021	Excess allowance of bad debts written off in the current year due to incorrect adjustment of the closing balance in the provision for bad and doubtful debts allowed under Section 36(1)(viiia) in the earlier AY	265.66	92.83	Reply awaited (November 2025).
5	2017-18	143(3) dated 20.12.2019	Excess allowance of deduction under Section 36(1)(viiia) due to adding deduction claimed under Section 36(1)(viii) to gross total income for computing the amount of deduction.	26.43	9.15	Accepted (January 2023) and remedial action taken under Section 147 in March 2022.
6	2019-20	143(3) dated 30.09.2021	Excess allowance of deduction under Section 36(1)(viiia) due to adding deduction claimed under Section 36(1)(viii) to gross total income for computing the amount of deduction.	31.01	10.84	Reply awaited (November 2025).
7	2017-18	143(3) dated 20.12.2019	Incorrect allowance of bad debts without providing PAN & other details	50.42	NMV	Reply awaited (November 2025).

S. No.	AY	Assessed under Section and Date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
8	2018-19	143(3) dated 17.09.2021	Incorrect allowance of bad debts without providing PAN & other details	23.29	NMV	As per the reply (February 2023), ITD intimated that the case was reopened under Section 147 in April 2022. Further details are awaited (November 2025).
9	2019-20	143(3) dated 30.09.2021	Incorrect allowance of bad debts without providing PAN & other details	265.66	NMV	Reply awaited (November 2025).
Total				750.02	142.72	

Some of the major audit observations are discussed in the following paragraphs.

5.4.2.4 Excess allowance of bad debts

Assessments from AYs 2015-16 to 2016-17 of L1 were finalised after complete scrutiny under Section 143(3) in December 2017 and December 2018, respectively. Although the cases were examined under scrutiny assessment, the claim of double deduction on account of bad debts written off escaped the notice of the AO, resulting in an excess allowance of bad debts written off.

It was observed that bad debts amounting to ₹ 64.26 crore were written off and debited to the Profit and Loss Account, and the same amount was again claimed in the computation of income. Hence, bad debts allowed were twice the eligible amount as detailed in Table 5.55 below:

AY	Bad debts debited to P&L Account	Bad debts claimed in Computation of Income	Total bad debts allowed	Actual bad debts allowable	Excess allowance of bad debts and under assessment	Tax effect
2015-16	29.68	29.68	59.37	29.68	29.68	10.09
2016-17	34.58	34.58	69.16	34.58	34.58	11.75
Total	64.26	64.26	128.53	64.26	64.26	21.84

Source: Assessment records of ITD

This resulted in an underassessment of Income of ₹ 64.26 crore, involving a short levy of tax of ₹ 21.84 crore.

The audit observation was brought to the notice of the DCIT 2(2)(1) Mumbai in April 2022, despite the issuance of reminders in April 2024 and November 2024. As per field verification Audit noticed that the Department has taken remedial action under section 154 (March 2023) for both AYs 2015-16 & 2016-17.

Reply of the Ministry is awaited (November 2025).

5.4.2.5 Excess allowance of bad debts due to non-adjustment of the opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viiia)

Assessments of the assessee for the AYs 2018-19 and 2019-20 were completed under Section 143(3) in September 2021. Although assessments were completed under scrutiny, the AOs did not examine the admissibility of deductions towards bad debts written off vis-à-vis the opening balance of the provision for bad and doubtful debts claimed in earlier years, resulting in an incorrect allowance of deductions. Audit noted that the amount of bad debts written off at ₹ 23.29 crore (AY 2018-19) and ₹ 265.66 crore (AY 2019-20) was less than the opening balance of the PBDD claimed in earlier years at ₹ 158.69 crore (AY 2018-19) and ₹ 138.93 crore (AY 2019-20), therefore rendering the claim of bad debts written off at ₹ 288.95 crore as inadmissible, resulted in excess allowance of bad debts to that extent. This resulted in an under-assessment of income of ₹ 288.95 crore, involving a short levy of tax of ₹ 100.89 crore.

The audit observations were issued to the DCIT 2(2)(1) Mumbai in March 2022 (AY 2018-19) and April 2022 (AY 2019-20). Regarding AY 2018-19, the Department replied in February 2023 that the case was reopened under Section 147 in April 2022. Further details regarding remedial action are awaited (May 2024). The Department's reply in respect of AY 2019-20 is awaited (November 2025), despite reminders issued in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.2.6 Excess allowance of deduction under Section 36(1)(viiia) of Income Tax Act

Although the assessments were completed under scrutiny, the AO did not examine the correctness of the claim made by the assessee under Section 36(1)(viiia)⁹⁵ of the Act resulting in an excess allowance of deduction.

Scrutiny assessment of the assessee for AY 2019-20 was finalised under Section 143(3) in September 2021. The assessee had claimed a deduction under Section 36(1)(viiia) amounting to ₹ 182.54 crore after adding the deduction claimed of ₹ 182.54 crore and ₹ 640.36 crore under Section 36(1)(viiia) and 36(1)(viii), respectively, to the gross total income. The department had allowed the same, whereas, under the provisions of Section 36(1)(viiia), the deduction claimed under Section 36(1)(viiia) should have been added back to the taxable

⁹⁵ As per the provisions of Section 36(1)(viiia), NBFCs are allowed to claim a deduction of an amount not exceeding five *per cent* of the total income (computed before making any deduction under this clause and Chapter VIA) towards provision for bad and doubtful debts made by them.

income for computing the quantum of deduction under this Section. In this case, the deduction claimed under Section 36(1)(viii) was also added to the taxable income to compute the quantum of deduction under Section 36(1) (viiia).

This has resulted in an excess allowance of deduction under Section 36(1)(viiia) of ₹ 31.01 crore with consequent short levy of tax of ₹ 10.84 crore. A similar audit observation was also noticed in AY 2017-18, where the short levy of tax was ₹ 9.15 crore.

The audit observations were brought to the notice of the DCIT 2(2)(1) Mumbai in January 2021 (AY 2017-18) and April 2022 (AY 2019-20).

In case of the audit observation related to AY 2017-18 having a tax impact of ₹ 9.15 crore, the DCIT 2(2)(1) Mumbai accepted the audit observation (January 2023) and stated that remedial action had been taken under Section 147 read with Section 144B in March 2022. The Department's reply regarding AY 2019-20 is still awaited (November 2025), despite reminders issued in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.2.7 Allowance of bad debts without verification of borrower details

Although the assessee Company had claimed bad debts of ₹ 339.37 crore during AYs 2017-18, 2018-19 and 2019-20, PANs of the borrowers whose bad debts exceeded rupees one lakh or more had been written off in the books of account of the assessee and other details were not submitted. The Department had also not called for the same for verification. In the absence of such details, bad debts were allowed without verification of their admissibility.

The audit observation was brought to the notice of the DCIT 2(2)(1) Mumbai in April 2022. The ITO (HQ)(Tech)-2 Mumbai stated in the reply (February 2023) that the Department has initiated remedial action under Section 148 in April 2022 in respect of AY 2018-19. Replies in respect of AYs 2017-18 and 2019-20 are awaited (November 2025) despite the issue of reminders [April 2024, November 2024].

Reply of the Ministry is awaited (November 2025).

5.4.3 360-degree analysis of assessment of S3

S3, incorporated in 1989, is assessed under the jurisdiction of PCIT-2 Kolkata. The Company is a public limited company, incorporated under the provisions of the Companies Act, 1956, since 1992. The Company is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The Company has been engaged in the business of lending and primarily deals in the financing of Infrastructure projects since 1997. S3 transferred its businesses, assets, and liabilities to S30 in October 2019 through a slump sale. The National Company Law Tribunal vide its order on 08 October 2021 admitted S30 under the Corporate Insolvency Resolution Process (CIRP), which was initiated against the S3 Group company on RBI's application filed under Section 227 of the Insolvency and Bankruptcy Code (IBC). The financial details for FYs 2016-17 to 2019-20, particulars of assessments for AYs 2012-13,

2014-15 to 2019-20 and significant observations noticed in the audit of assessments of S3 are detailed below.

5.4.3.1 Financial Highlights of S3

The financial highlights of S3 for FY 2016-17 to FY 2019-20 are given in Table 5.56 below:

Particulars/FYs	2016-17	2017-18	2018-19	2019-20
Borrowings	11,681.76	10,901.44	9,361.85	453.51
Interest Expenses on Borrowings	1,339.24	948.84	1,081.96	45.39
Loans & Advances	8,965.11	10,798.37	9,389.94	0
Interest Income on loans & advances	1,749.40	1,663.53	1,513.52	0.32
Profit Before Tax	148.36	128.28	122.61	(-)17.76
Provision for Bad & Doubtful Debts	34.48	74.62	(-)730.19	0
Bad debts written off	509.79	133.03	733.78	0

Source: Annual Report of S3 of respective FYs

Borrowing consists of long-term borrowings and short-term borrowings.

Interest expenses are taken from Finance Costs.

Loans and Advances consist of long-term loans & advances and short-term loans and advances.

5.4.3.2 Details of Income Tax assessment

Assessments of S3 were selected for 360-degree analysis for A.Y. 2012-13 and AYs 2014-15 to 2019-20 during the performance audit. The income tax returns of S3 were selected for complete scrutiny under Section 143(3) in all the years (except AY 2019-20) selected for the performance audit.

The assessment details of S3 for AY 2012-13, 2014-15 to 2019-20 are given in Table 5.57 below:

Sr. No.	AY	Date of return	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income	Section under which assessed & Date of assessment
1	2012-13	30.11.2012	28.18	55.78	27.6	97.94	143(3) dated 30.03.2015
2	2014-15	30.11.2014	48.14	74.98	26.84	55.75	143(3) dated 27.02.2017
3	2015-16	29.11.2015	4.94	28.56	23.62	478.14	143(3) dated 26.02.2019
4	2016-17	30.11.2016	41.53	56.96	15.43	37.15	143(3) dated 30.12.2019
5	2017-18	29.11.2017	418.73	440.85	22.12	5.28	143(3) dated 29.05.2021
6	2018-19	29.03.2019	163.30	194.82	31.52	19.30	143(3) dated 30.06.2021
7	2019-20	28.09.2020	0	Not Available	Not Available	Not Available	143(1)(a) Date Not Available
Total			704.82	851.95	147.13		

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 5.28 per cent to 478.14 per cent of the returned income.

5.4.3.3 Significant Audit observations in 360-degree analysis

Audit observed 10 cases of irregular allowance of deductions and computation errors resulting in under-assessment of income amounting to ₹ 387.80 crore, with a tax effect of ₹ 95.79 crore, as detailed in Table 5.58 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2015-16	143(3) dated 26.02.2019	Grant of deduction under Section 36(1)(viii) more than the amount transferred to the special reserve.	14.55	4.95	Reply is awaited (November 2025).
2	2016-17	143(3) dated 30.12.2019	Grant of deduction under Section 36(1)(viii) more than the amount transferred to the special reserve.	29.27	10.13	Reply is awaited (November 2025).
3	2017-18	143(3) dated 29.05.2021	Irregular grant of deduction under Section 36(1)(viii).	49.34	11.38	Reply is awaited (November 2025).
4	2017-18	143(3) dated 29.05.2021	Under charge of tax due to the incorrect computation of capital gains by setting off incorrect carry forward of losses.	277.21	63.96	Reply is awaited (November 2025).
5	2014-15	143(3) dated 27.04.2017	The dividend income, which is exempt in the hands of the trust, when passed on to the beneficiary assessee, partakes the character of a taxable income and tax should have been levied thereon.	2.43	0.82	Reply is awaited (November 2025).
6	2014-15	143(3) dated 27.04.2017	The deduction for provision for bad and doubtful debts claimed/allowed under Section 36 (1) (vii) was more than the provisions for bad and doubtful debts created in the books of accounts.	3.40	0.57	Reply is awaited (November 2025).
7	2012-13	143(3)/147 dated 29.12.2017	The deduction for provision for bad and doubtful debts claimed/allowed under Section 36 (1) (vii) was more than the provisions for bad and doubtful debts	1.36	0.44	Reply is awaited (November 2025).

Table 5.58: Details of Audit observations in respect of S3						(₹ in crore)
S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
			created in the books of accounts.			
8	2012-13	143(3)/147 dated 29.12.2017	Incorrect allowance of provision on 'premium on Unsecured subordinate Bonds' as revenue expenditure.	0.88	0.29	Reply is awaited (November 2025).
9	2016-17	143(3) dated 30.12.2019	'Income Received from Long Term Investment' was not offered for taxation.	3.30	1.14	Reply is awaited (November 2025).
10	2016-17	143(3) dated 30.12.2019	Income received from 'Medium and small Infra Fund' was not brought to taxation.	6.06	2.10	Reply is awaited (November 2025).
Total				387.80	95.79	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.4.3.4 Grant of deduction under Section 36(1)(viii) more than the amount transferred to special reserve

Although the assessments were completed under scrutiny, the AO did not examine the correctness of the claim made by the assessee as per the conditions specified under Section 36(1)(viii) of the Act, resulting in incorrect allowance of deduction, which was more than the amount transferred to the Special Reserve during the previous year.

Assessments for AYs 2015-16, 2016-17, and 2017-18 were finalised after complete scrutiny in February 2019, December 2019, and May 2021, at incomes of ₹ 28.56 crore, ₹ 56.96 crore, and ₹ 440.85 crore, respectively.

Audit observed that the assessee had claimed deduction under Section 36(1)(viii) for ₹ 19.59 crore and ₹ 33.09 crore as against ₹ 5.04 crore and ₹ 3.82 crore transferred to special reserve during the previous year for AY 2015-16 and AY 2016-17, respectively. Further, in AY 2017-18, the assessee was allowed a deduction of ₹ 49.34 crore, as claimed under Section 36(1)(viii), although the income under the head 'Profit and gains from business and profession' before allowing deduction under Section 36(1)(viii) was nil. This resulted in an under-assessment of income for ₹ 93.16 crore, involving a tax effect of ₹ 26.46 crore.

This audit observation was issued to DCIT 11(1) Kolkata in March 2021 and May 2023. Reply of the DCIT 11(1) Kolkata awaited (November 2025) despite the issue of a reminder [November 2024].

Reply of the Ministry is awaited (November 2025).

5.4.3.5 Incorrect computation of capital gains due to incorrect set off of losses

As per Section 74 of the Income Tax Act, 1961, where in respect of an AY the net result of computation under the head capital gains is a loss to the assessee, then such loss shall be carried forward to the following AY and if such loss:

- i) Relates to short-term capital assets, can be set off against long-term capital gains as well as short-term capital gains assessable for that AY.
- ii) Relates to long-term capital assets, can be set off against long-term capital gains assessable for that AY.

If such loss cannot be wholly set off, the amount of loss not set off shall be carried forward to the following AY and so on. No loss can be carried forward under this Section for more than eight AYs immediately succeeding the AY for which the loss was first computed.

Assessment for AY 2017-18 was finalised in May 2021 at an income of ₹ 440.85 crore against the returned income of ₹ 418.74 crore. A tax payable of ₹ 85.49 crore on account of capital gains was determined under the normal provisions of the Income Tax Act, 1961.

The audit observed that the assessee had arrived at a gross total income of ₹ 418.74 crore after setting off the brought-forward long-term capital losses of ₹ 156.58 crore and ₹ 120.63 crore, pertaining to AY 2016-17 and AY 2014-15, respectively. However, from the assessment orders under Section 143(3) and under Section 154 for AY 2016-17 and the assessment order for AY 2014-15 under Section 143(3), no such capital loss was allowed to be carried forward for future set off. While completing assessment under Section 143(3) in respect of AY 2017-18, the brought forward long-term capital loss amounting to ₹ 277.21 crore⁹⁶ related to the aforesaid two AYs were allowed to be set off with the current year's long-term capital gains.

This resulted in under-assessment of the income of the assessee for AY 2017-18 by ₹ 277.21 crore with consequent undercharge of tax to the tune of ₹ 63.96 crore.

The audit observation was brought to the notice of the DCIT 11(1) Kolkata in March 2023. Reply from DCIT is awaited (November 2025) despite the issue of a reminder in November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.3.6 Incorrect allowance of deduction towards bad debts

Audit observed from the assessment records for AY 2016-17 that, as per note 7.1 to the annual accounts, the opening balance under the PBDD account was ₹ 144.16 crore, and during the year the assessee had created PBDD for ₹ 47.08 crore as having been debited to the Profit and Loss account, resulting in a closing balance of ₹ 191.24 crore. Further, as per

⁹⁶ ₹ 156.58 crore + ₹ 120.63 crore

note 14 to the accounts, an amount of ₹ 185.18 crore was deleted from the loans and advances (Loan Assets) as a provision for Bad debts/ Advances.

As per Revised Return for AY 2016-17, 'Provision for Non-performing Asset', and 'Provision for Bad and Doubtful Debts' were reduced from the 'Loan Assets' following the decision of the Apex Court in the case of Vijaya Bank vs. CIT (2010) 323 ITR 166 (SC), wherein reduction of the NPAs from the balance sheet is a sufficient condition for the allowability of the same as written off under Section 36(1)(vii). However, the assessee had deleted only an amount of ₹ 185.18 crore instead of the available balance of ₹ 191.24 crore under the provision for bad debts/advances. Thus, the differential amount of ₹ 6.06 crore was required to be disallowed as a provision. The mistake resulted in an underassessment of ₹ 6.06 crore with consequent short levy of tax of ₹ 2.10 crore.

This issue was brought to the notice of the DCIT 11(1) Kolkata, in May 2022. Reply of the DCIT 11(1) Kolkata is awaited (November 2025), despite the issue of a reminder in November 2024. Reply of the Ministry is awaited (November 2025).

5.4.3.7 Excess Allowance of Provision of Bad and Doubtful Debts under Section 36(1)(viiia)

Audit observed that the assessee had created a provision for bad and doubtful debts of ₹ 0.56 crore by debiting it to the P&L account in AY 2014-15. In the computation of income, the assessee added back the amount of ₹ 0.56 crore but claimed ₹ 2.56 crore as a provision for bad and doubtful debts, which the assessing officer further increased to ₹ 3.97 crore and allowed during the scrutiny assessment under Section 143(3).

Since the PBDD was allowed for ₹ 3.97 crore, which was more than the PBDD mentioned in the books of accounts, i.e. ₹ 0.57 crore, the deduction under Section 36(1)(viiia) was to be restricted to ₹ 0.57 crore. This resulted in an under-assessment of the assessee's income by ₹ 3.40 crore, with a consequent undercharge of tax of ₹ 0.57 crore.

This issue was brought to the notice of the DCIT 11(1), Kolkata, in April 2022. Reply of the DCIT, 11(1), Kolkata is awaited (November 2025) despite the issue of a reminder [November 2024].

Reply of the Ministry is awaited (November 2025).

5.4.3.8 Inconsistent assessment while granting exemption to dividend received from sponsored Trust under Section 10(35)

As per Section 10(35A) of the Income Tax Act, 1961, any income referred to in Section 115TA⁹⁷ by way of distributed income received from a securitisation trust by any person being an

⁹⁷ As per Section 115TA of the Act, notwithstanding anything contained in any other provisions of the Act, any distributed income to an investor by a securitisation trust shall be liable to the levy of additional income-tax on the distributed income, at the rate of - a. 25 per cent, if such income is paid to a person being an individual or Hindu Undivided Family (HUF), or b. 30 per cent, if such distributed income is paid to a person other than individual and HUF.

investor of the said trust shall be exempted in computing the total income of that previous year.

The assessee claimed an amount of ₹ 3.04 crore as exemption under Section 10(34)⁹⁸/10(35) in the computation of income for the AY 2014-15. As per P&L Accounts (Schedule 22), the assessee received only ₹ 0.62 crore as 'dividend'. In the assessee's submission to the AO (August 2017), the assessee admitted receiving ₹ 2.43 crore from S3 Growth Trust.

As per the notes forming part of the return and submission made by the assessee during the course of assessment, the company was the sole beneficiary of S3, and the company received ₹ 2.43 crore during the Previous Year from the Trust, which had been earned as dividend income by the trust. The same was claimed as dividend income by the company, being exempt under Section 10(35)⁹⁹ of the Act.

The Hon'ble Supreme Court of India in the case of CIT vs. Smt. Kamalini Khatau¹⁰⁰ held that the Department has an option to assess and recover tax from either the trustees or beneficiaries of a discretionary trust in respect of such income which has been distributed and received by the beneficiary of the trust. In the instant case, the beneficiary, i.e., the assessee company, had received the income from the trust in the capacity of a beneficiary. The dividend income, which is exempt in the hands of the trust, when passed on to the beneficiary assessee, partakes the character of a taxable income. Therefore, the income shown by the assessee of ₹ 2.43 crore as dividend income exempt from tax should have been treated as taxable income for computing the total income of the assessee.

However, the AO did not consider the dividend income transferred to another assessee as taxable income, resulting in an underassessment of income amounting to ₹ 2.43 crore, with a corresponding tax effect of ₹ 0.82 crore.

This issue was brought to the notice of the DCIT 11(1) Kolkata, in April 2022. The response from DCIT 11(1) Kolkata is still awaited (November 2025), despite the issuance of a reminder in November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.4 360-degree analysis of assessment of H10

H10 was incorporated in 2007 and is assessed under the jurisdiction of PCIT-1 Ahmedabad. The company is a public limited company established under the provisions of the Companies Act, 1956. As an NBFC, it is engaged in the business of financing, collection, and insurance services, in addition to marketing and promoting various financial products. The financial

⁹⁸ As per Section 10(34) of the Act, any income earned by a shareholder from a specified investment is exempt from tax.

⁹⁹ As per Section 10(35) of the Act, income received by investors under the schemes of any Mutual Fund is exempt from income tax in the hands of the recipient unit holders.

¹⁰⁰ 74 Taxman 392(SC)(1994) Assessee was the beneficiary of certain trusts and she received certain amounts which she claimed to be not taxable in her hands. ITO rejected the contention and assessed the amounts in assessee's hands. Tribunal held in favor of assessee and HC affirmed Tribunal's order. Further, Hon'ble SC held that the Revenue Department has an option to assess and recover tax from either the trustees or beneficiaries of a discretionary trust in respect of such income which has been distributed and received by the beneficiary of the trust.

details for FYs 2016-17 to 2019-20, particulars of assessments for AYs 2016-17 to 2019-20 and significant observations noticed in audit of assessments of H10 are detailed below.

5.4.4.1 Financial Highlights of H10

The financial highlights of H10 for FY 2016-17 to FY 2019-20 are given in Table 5.59 below.

Particulars/ FYs	2015-16	2016-17	2017-18	2018-19
Borrowings	14,380.83	20,999.96	25,006.55	18,095.65
Interest Expenses on Borrowings	14,40.07	2,049.92	2,092.10	3,333.33
Loans & Advances	24,486.43	32,356.22	43,652.81	54,709.41
Interest Income on loans & advances	30,21.79	4,087.08	5,146.05	6,697.62
Profit before Tax	831.99	1,058.59	1,464.52	1,724.60
Provision for Bad & Doubtful Debts	53.32	75.73	75.27	120.54
Bad Debts written off	116.55	224.81	376.66	516.40

Source: Annual Report of H10 of respective FYs

5.4.4.2 Details of Income Tax assessment

The assessments of the assessee were selected for a 360-degree analysis from AY 2016-17 to AY 2019-20 during the current performance audit. The income tax returns of the assessee were selected for complete scrutiny under Section 143(3) by the ITD for all the years covered in the performance audit. The assessment details of the assessee for AY 2016-17 to AY 2019-20 are given in Table 5.60 below:

Sr. No.	AY	Date of filing of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition made	Addition as a percentage of returned income
1	2016-17	29.03.2018 (Revised)	143(3) dated 19.12.2018	942.41	944.61	2.20	0.23
2	2017-18	29.03.2019 (Revised)	143(3) dated 19.12.2019	1,063.17	1,063.53	0.36	0.03
3	2018-19	30.03.2019 (Revised)	143(3) read with Section 144B dated 23.08.2021	1,544.98	1,545.31	0.33	0.02
4	2019-20	20.06.2020 (Revised)	143(3) read with Section 144B dated 26.09.2021	1,753.92	1,798.55	44.63	2.54
Total				5,304.48	5,352.00	47.52	

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from 0.02 per cent to 2.54 per cent of the returned income.

5.4.4.3 Significant Audit observations in 360-degree analysis

Audit observed six findings involving incorrect assessment of income of ₹ 298.88 crore and tax effect of ₹ 103.80 crore including four findings involving under assessment of income of ₹ 298.85 crore and short levy of tax of ₹ 103.79 crore, one finding involving over assessment of ₹ 0.03 crore and excess levy of tax of ₹ 0.01 crore and one systemic deficiency regarding non-disclosure of recovery of bad debts in ITRs. A summary of the audit observations is given in Table 5.61 below:

S. No	AY	Gist of irregularity	Under assessment	Over assessment	Tax effect	Department's Reply
1	2017-18; 2018-19; 2019-20	Tax treatment of interest on NPA under Section 43D in respect of NBFCs- Non charging of interest on NPA under accrual method	242.03	---	83.78 [Under charge]	Department replied during the Exit Meeting (January 2023) that the matter needs further examination. Further, details are awaited (November 2025).
2	2017-18	Non revision of Form 3CD while filing revised return	32.75	---	11.34 [Under charge]	Reply awaited (November 2025).
3	2018-19	Improper adjustment of opening balance of provision for bad and doubtful debts resulted into incorrect allowance of deduction under Section 36(1)(vii).	---	0.03	0.01 [Over charge]	Reply awaited (November 2025).
4	2016-17; 2017-18; 2018-19; 2019-20	Non-disclosure of recovery of bad debts in the ITRs	---	---	---	Reply awaited (November 2025).
5	2018-19	Provision for bad and doubtful debts allowed in excess of the amount debited to Profit and Loss account	9.86	---	3.74 [Under charge]	Reply awaited (November 2025).
6	2016-17; 2017-18; 2018-19; 2019-20	Related Party Transactions: Rent paid by Subsidiary company (the assessee) to holding company (H4) not offered to tax in its ITR	14.21	---	4.93 [Under charge]	Reply awaited (November 2025).
Total			298.85	0.03	103.79	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.4.4.4 Tax treatment of interest on NPA under Section 43D in respect of NBFCs.

Deduction under Section 36(1)(vii) of the Income Tax Act was made applicable to the NBFCs with effect from AY 2017-18, whereas the provisions of Section 43D¹⁰¹ were made applicable by the Finance Act 2019 with effect from AY 2020-21. Furthermore, NBFCs generally follow a mercantile system of accounting; hence, they are required to recognise interest income on an accrual basis, according to the provisions of the Income Computation and Disclosure Standards – IV (ICDS-IV) on Revenue Recognition.

The assessee, however, did not recognize interest on NPA of ₹ 157.05 crore for AY 2018-19 involving tax of ₹ 54.35 crore, as discussed below:

Box 5.20

In case of H10 for AY 2018-19, under PCIT-1, Ahmedabad, assessment was finalised under complete scrutiny in August 2021 and income was assessed at ₹ 1,545.31 crore.

The audit noticed that although the assessee was recognising revenue receipts on an accrual basis, it was offering interest on NPA on an actual receipt basis. The assessee did not recognise interest on NPA of ₹ 157.05 crore, involving a tax of ₹ 54.35 crore, in contravention of the provisions of ICDS-IV. Thus, accrued interest in respect of additions to NPAs was neither offered to tax by the assessee nor added back by the AO during assessment.

The observation was communicated to DCIT 2(2)(1) Ahmedabad in March 2022. The Department replied during the Exit Meeting (January 2023) that the matter requires further examination. Furthermore, a response is still awaited (November 2025), despite the issuance of reminders in November 2024 and January 2025.

Reply of the Ministry is awaited (November 2025).

Audit noted that despite enforcement of provisions of ICDS-IV on revenue recognition on accrual basis neither NBFCs were offering interest on NPA to tax on accrual basis nor was it being added back by the AOs during assessment.

Reply of the Ministry is awaited (November 2025).

5.4.4.5 Excess allowance of deduction for provision for bad and doubtful debts under Section 36(1)(vii)

Although the amount of provision for bad and doubtful debts should be restricted to the extent it is debited to Profit and Loss Account as per the extant provisions, the assessee was allowed excess allowance of deduction for provision for bad and doubtful debts under Section 36(1)(vii) as discussed below:

¹⁰¹ Section 43D of the Income Tax Act, 1961 specifically provides for taxation of interest income from non-performing loans, having regard to prudential guidelines of Reserve Bank of India / NHB, to be taxed on realization basis or credit to Statement of Profit and Loss, whichever is earlier. This provision is applicable to banks, financial institutions, two categories of NBFCs and HFCs.

In the instant case, assessment of the assessee for AY 2018-19 was completed under Section 143(3) read with Section 143B in August 2021 as complete scrutiny and income was assessed at ₹ 1,545.31 crore.

The audit observed that the assessee had claimed and was allowed a deduction under Section 36(1)(viiia) on account of a provision for bad and doubtful debts at 5 *per cent* of total income, amounting to ₹ 85.13 crore. However, as observed from the ITR and books of accounts, the assessee had debited only ₹ 75.27 crore as PBDD. Hence, as per the CBDT's instructions, the PBDD was required to be restricted to ₹ 75.27 crore. This resulted in an excess deduction of ₹ 9.86 crore, with a tax effect of ₹ 3.74 crore, along with interest under Section 234D.

Audit communicated the observation to the DCIT 2(2)(1) Ahmedabad in February 2022. The Department stated in its reply (May 2024) that remedial action under Section 263 was approved by the PCIT-1 Ahmedabad (December 2023). Further details are awaited (November 2025) despite the issue of reminders [November 2024, January 2025].

Reply of the Ministry is awaited (November 2025).

5.4.4.6 Rent paid by subsidiary company to holding company not offered to tax in its ITR

According to Section 5 of the Income Tax Act, 1961, subject to the provisions of this Act, the total income of any previous year of a person who is a resident includes all income from whatever source derived which (a) is received or is deemed to be received in India in such year by or on behalf of such person; or (b) accrues or arises or is deemed to accrue or arise to him in India during such year; or (c) accrues or arises to him outside India during such year.

Audit noticed, although the assessee had disclosed rent paid to one of its related parties, viz. H4, the concerned related party did not report the rental income in its ITR, resulting in an underassessment of income of ₹ 14.21 crore and a tax effect of ₹ 4.93 crore.

Audit communicated the observation to the DCIT 2(2)(1) Ahmedabad in April 2022 and May 2022. The DCIT's reply is awaited (November 2025), despite the issuance of reminders in November 2024 and January 2025.

Reply of the Ministry is awaited (November 2025).

5.4.5 360-degree analysis of assessment of I21

I21, assessed under Circle 10(1), Delhi, under the jurisdiction of PCIT-4, Delhi is a wholly owned Government of India company set up in January 2006 to provide long-term financial assistance to viable infrastructure projects through the Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle I21, broadly referred to as SIFTI. I21 has been registered as an NBFC-ND-IFC with the Reserve Bank of India (RBI) since September 2013 and follows the applicable prudential norms of the RBI. The financial details for FYs 2015-16 to 2018-19, particulars of assessments for AYs 2016-17 to 2019-20 and significant observations noticed in the audit of assessments of I21 are detailed below.

5.4.5.1 Financial Highlights of I21

The financial highlights of I21 for FYs 2015-16 to 2018-19 as per their Annual Reports are given in Table 5.62 below:

Particulars/FYs	2015-16	2016-17	2017-18	2018-19
Borrowings	32,161.37	31,570.3	33,608.47	14,402.56
Interest Expenses on Borrowings	2,660.95	2,204.61	2,130.43	3,618.61
Loans & Advances	30,698.05	32,462.70	3,085.43	35,136.16
Interest Income on loans & advances	4,210.97	3,695.07	3,500.28	2,347.40
Profit before Tax	964.53	414.06	-1,027.73	403.88
Provision for Bad & Doubtful Debts	68.83	43.09	-	-
Bad debts written off	557.25	658.80	956.55	722.42

Source: Annual Reports

5.4.5.2 Details of Income Tax assessment

Assessments of I21 for AY 2016-17 to AY 2019-20 were selected for 360-degree analysis. ITRs of the assessee were selected for complete scrutiny for AY 2016-17 to AY 2018-19 under Section 143(3) and for AY 2019-20 under Section 143(1). The assessment details of the assessee for AY 2016-17 to AY 2019-20 are given in Table 5.63 below:

Sr. No.	AY	Date of return	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income	Section under which assessed & Date of assessment
1	2016-17	17.10.2016	1,428	1,447.65	19.65	1.38	143(3) dated 28.12.2018
2	2017-18	17.10.2017	804.10	804.61	0.51	0.06	143(3) dated 17.12.2019
3	2018-19	04.10.2018	294.61	294.83	0.22	0.07	143(3) dated 02.09.2021
4	2019-20	31.10.2019	747.58	747.58	0	0	143(1) dated 20.08.2020
Total			3,274.29	3,294.67	20.38		

Source: Assessment records of ITD

Additions made during scrutiny assessment ranged from nil to 1.38 per cent of the returned income.

5.4.5.3 Significant Audit observations in 360-degree analysis

Audit noticed five audit observations involving the under-assessment of the income of ₹ 458.20 crore, with a short levy of tax of ₹ 186.21 crore. As tabulated in Table 5.64, the ACIT Circle 10(1), Delhi accepted audit observation in AY 2017-18 for excess allowance of deduction under Section 36(1)(viii) and took remedial action, whereas reply is awaited in

remaining four observations (November 2025) despite issuance of reminders (April 2023, June 2023, April 2024 and November 2024).

A gist of the audit observations is given in Table 5.64 below:

S. No.	AY	Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2016-17	143(3) Dated 28.12.2018	Incorrect allowance of deduction under Section 36(1)(viii)	15.00	6.91	Reply awaited (November 2025).
2	2016-17	143(3) Dated 28.12.2018	Incorrect allowance of deduction towards bad debts	179.80	88.14	Reply awaited (November 2025).
3	2017-18	143(3) Dated 17.12.2019	Incorrect allowance of deduction towards bad debts	68.83	23.82	Reply awaited (November 2025).
4	2018-19	143(3) Dated 02.09.2021	Excess allowance of deduction for provision for bad and doubtful debts under Section 36(1)(viiia)	182.40	63.13	Reply awaited (November 2025).
5	2017-18	143(3) Dated 17.12.2019	Allowance of excess deduction under Section 36(1)(viii)	12.17	4.21	Accepted (August 2023) and remedial action taken under Section 154 read with Section 143(3) in May 2023.
Total				458.20	186.21	

Major audit observations are discussed in the following paragraphs.

5.4.5.4 Excess allowance of deduction of provision for bad and doubtful debts allowed under Section 36(1)(viiia)

Although the assessment was completed under scrutiny, the AO did not examine the correctness of the claim made by the assessee under Section 36(1)(viiia) of the Act, resulting in an excess allowance of deduction.

In Delhi, Pr.CIT-4 charge, assessment of M/s I21 for AY 2018-19 was completed in September 2021 at an income of ₹ 294.82 crore. The assessee was allowed a deduction of ₹ 208.12 crore under Section 36(1)(viiia)(c) of the Income Tax Act. Audit scrutiny revealed that the assessee had debited an amount of ₹ 208.12 crore for PBDD in the Profit and Loss Account. As the assessee is eligible to claim the deduction under Section 36(vii)(a)(c) to the extent of five *per cent* of the total income computed before making any deduction under this clause and Chapter VIA, the deduction of ₹ 25.71 crore only was allowable to the assessee. This mistake resulted in an under-assessment of ₹ 182.40 crore, involving a short levy of tax of ₹ 63.13 crore.

The audit observation was communicated to the ACIT Circle 10(1), Delhi, in May 2022. A reply is awaited (November 2025), despite reminders issued in April 2023, June 2023, April 2024, and November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.5.5 Excess allowance of bad debts due to short deduction of opening balance in provision for bad and doubtful debts allowed under Section 36(1)(viia)

In Delhi, Pr.CIT-4 charge, scrutiny assessment of the assessee for AY 2016-17 was completed in December 2018 at an income of ₹ 1,447.65 crore. While calculating income under normal provision, the Department allowed bad and doubtful debts under Section 36(1)(vii) amounting to ₹ 539.52 crore, while the opening balance of provision for bad and doubtful debts created under Section 36(1)(viia) was ₹ 179.80 crore as per the financial statement. Thus, deduction of ₹ 359.72 crore (₹ 539.52 crore - ₹ 179.80 crore) towards bad debts written off was to be allowed as per the extant provisions. Allowance of ₹ 539.52 crore instead of deduction of ₹ 359.72 crore resulted in an under-assessment of income of ₹ 179.80 crore, as an excess claim of bad debts under Section 36(1)(vii) resulted in a short levy of tax of ₹ 88.14 crore, including interest.

The audit observation was communicated to the ACIT Circle 10(1), Delhi, in September 2022. Reply of the ACIT is awaited (November 2025) despite the issuance of reminders in April 2023, June 2023, April 2024, and November 2024.

Reply of the Ministry is awaited (November 2025).

5.4.5.6 Incorrect allowance of deduction for special reserve under Section 36(1)(viii)

Audit observed that the AO did not restrict the claim of deduction under Section 36(1)(viii) to the amount transferred to the special reserve in the financial accounts relevant to the assessment year, resulting in an excess allowance of deduction. In the instant case, the assessee was allowed an excess allowance of deduction for special reserve under Section 36(1)(viii), as detailed below:

Box 5.21

In Delhi, Pr.CIT-4 charge assessment of **M/s I21** for the AY 2016-17 was completed in December 2018 at an income of ₹ 1,447.65 crore. Audit scrutiny revealed that the deduction of ₹ 262.49 crore under Section 36(1)(viii) claimed was allowed by the Department. An examination of the financial statement revealed that ₹ 247.49 crore was transferred to the special reserve, up to which the deduction should have been restricted. This mistake resulted in an excess allowance of deduction of ₹ 15.00 crore (₹ 262.49 crore - ₹ 247.49 crore) under Section 36(1)(viii), having a tax effect of ₹ 6.91 crore, including Interest.

The audit observation was communicated to ACIT Circle 10(1), Delhi, in May 2022. Reply from the ACIT is awaited (November 2025), despite the issuance of reminders (April 2023, June 2023, April 2024, and November 2024).

Reply of the Ministry is awaited (November 2025).

5.4.6 360-degree analysis of M/s A15

The Company has been classified as a Systemically Important Non-deposit accepting Non-Banking Financial Company (NBFC-ND-SI) and is registered under Section 45-IA of the Reserve Bank of India Act, 1934 and has been re-classified as 'NBFC-MFI' with effect from December 2014. The assessee is currently under the jurisdiction of PCIT-1, Hyderabad.

The company is engaged in providing financial and other related support services to women organised in groups, with the aim of enhancing their income-generating capabilities in the states of Andhra Pradesh and Telangana, India. The financial details for FYs 2016-17 to 2019-20, particulars of assessments for AYs 2016-17 to 2018-19 and significant observations noticed in audit of assessments of M/s A15 are detailed below.

5.4.6.1 Financial Highlights of A15

The financial highlights of A15 for FY 2016-17 to FY 2019-20 are given in Table 5.65 below:

Particulars/FYs	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Long-term Borrowings	526.36	549.3	497.77	429.94	379.8
Interest expenses on borrowings	75.3	6.46	12.25	10.45	4.98
Loans & Advances	818.47	1,303.31	1,311.99	1,120.2	774.4
Interest income on Loans & advances	71.52	9.72	14.98	14.35	5.08
Profit Before Tax	(-) 42.89	0.15	5.83	2.84	(-)1.02
Provisions made during the year for Bad and doubtful debts	0	0.06	0.11	0	0
Bad debts written off	0.51	1.37	0.12	0	0.02

Source: Financial Statements & ITD Records

5.4.6.2 Details of Income Tax assessment

Assessments of M/s A15 were selected for 360-degree analysis from AY 2016-17 to AY 2018-19. ITRs of M/s A15 were selected by the ITD for complete scrutiny under Section 143(3) for all the years covered in the performance audit; the assessment details are given in Table 5.66 below:

Sr. No.	AY	Date of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income
1	2016-17	31.10.2017 (Revised)	143(3) dated 18.12.2018	(-13.63)	12.62	26.25	192.60
2	2017-18	31.10.2017	143(3) dated 28.12.2019	(-10.80)	(-9.90)	0.90	Not applicable
3	2018-19	22.09.2018	143(3) dated 26.02.2021	(-9.72)	(-9.72)	0	Not applicable
Total				(-34.15)	12.62 (-19.62)	27.15	192.60

Source: Assessment records of ITD

5.4.6.3 Significant Audit observations in 360-degree analysis

Audit observed four findings involving an under-assessment of income of ₹ 313.28 crore and tax effect of ₹ 108.68 crore, including one finding involving under-assessment of income of ₹ 313.28 crore and short levy of tax of ₹ 108.68 crore (positive tax effect of ₹ 0.93 crore and potential tax effect of ₹ 107.75 crore). The DCIT, Circle 1(1), Hyderabad, while accepting all four audit observations, completed remedial action only for the audit observation pertaining to the recovery of bad debts not offered to tax during AYs 2016-17 to 2018-19.

Gist of the audit observations is given in Table 5.67 below:

Table 5.67: Details of Audit observations					(₹ in crore)
S. No.	AY	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	2017-18	Incorrect allowance of carry forward of loss	295.87	102.39	Accepted (August 2022). Details of remedial action taken are awaited (November 2025).
2	2017-18	Irregular cash deposit of Non-permitted Receipts (SBNs) not brought to tax	1.21	0.93	Ministry accepted (November 2025) stating that the mistake was rectified under Section 154 in June 2025.
3	2016-17 to 2018-19	Recovery of bad debts not offered to tax	14.42	4.77	Accepted and remedial action taken under Section 154/263 for all AYs in March 2025.
4	2018-19	Interest on income tax refund not offered to tax	1.78	0.59	Accepted (August 2022). Details of remedial action taken are awaited (November 2025).
Total			313.28	108.68	

5.4.6.4 Incorrect allowance of carry-forward of losses

The audit observed that the AO did not examine the assessments made in earlier years while allowing carry-forward of losses relating to AY 2012-13 to 2016-17, although the carry-forward losses were disallowed in the Assessment for AY 2016-17.

The assessment of the assessee company for the AY 2017-18 was completed after scrutiny in December 2019, determining a loss of ₹ 9.90 crore. The audit observed from the assessment order for AY 2017-18 that the AO allowed the carry-forward of the business losses of ₹ 295.87 crore, pertaining to AYs 2012-13 to 2016-17, claimed by the assessee. Audit further observed from the assessment order for the AY 2016-17 (December 2018) that AO had disallowed the carry forward of losses for AYs 2012-13 to 2015-16 and assessed the total income for AY 2016-17 at ₹ 12.61 crore. Thus, there were no losses to be carried forward to AY 2017-18. The incorrect carry-forward of losses of ₹ 295.87 crore resulted in a potential tax effect of ₹ 102.39 crore.

This was brought to the notice of the DCIT Circle 1(1), Hyderabad, in May 2022. The DCIT accepted the observation in August 2022. Details of remedial action are awaited (November 2025) despite the issuance of reminders (June 2023, April 2024).

Reply from the Ministry is awaited (November 2025).

5.4.6.5 Irregular cash deposit of Non-permitted Receipts (SBNs) not brought to tax

The Ministry of Finance withdrew the legal tender status of the banknotes of ₹ 500 and ₹ 1000, referred to as Specified Bank Notes (SBNs), in November 2016. However, a facility was granted to the holders of SBNs to deposit such SBNs in their accounts maintained with any bank on or before 30 December 2016, so that the equivalent value of the SBNs would be credited to those accounts. The Government further announced that the SBNs will continue to be legal tender during the demonetisation period for the limited purpose of making payments at places like petrol bunks, gas agencies, and similar locations. Thus, except in cases where the SBNs were to be deposited in a bank or exchanged for goods or services at designated places like petrol bunks, in all other cases, such SBNs ceased to be legal tender as of the stated date, 09.11.2016.

The assessment of the assessee for AY 2017-18 was completed in December 2019, determining a loss of ₹ 9.90 crore. The audit observed from point 5.4.3 in the Notes to the financial statements of the assessee that the company had made cash deposits from non-permitted receipts amounting to ₹ 1.20 crore in the bank account during the demonetization period. The non-permitted receipts represent the collection of Specified Bank Notes by the Company from its loan borrowers between 9th November 2016 and 30th December 2016, adjusted against the borrowers' regular loan obligations that had fallen due in the ordinary course of business concerning loans disbursed on or before 8 November 2016.

As the assessee was a finance company providing support services, it was not eligible to avail of the exemption extended under the specified Notification. The assessee accepted SBNs even after 8 November 2016 and construed that they were deposited in the Bank Accounts of the company. Hence, the non-permitted receipt of ₹ 1.21 crore was required to be added to the taxable income of the company as unexplained cash credit under Section 68 of the Income Tax Act, 1961. Omission to do so resulted in a short demand of ₹ 0.93 crore.

This was brought to the notice of the DCIT Circle 1(1), Hyderabad, in May 2022. The Department, in its reply, accepted the observation (August 2022). Details of remedial action are awaited (November 2025) despite the issuance of reminders (June 2023, April 2024).

Reply of the Ministry is awaited (November 2025).

5.4.6.6 Recovery of bad debts not offered to tax

Sub-Section (4) of Section 41 provides that if any recovery is made from bad debts already allowed as a deduction, the same is taxable as profits and gains from business or profession. Form 3CD at Sl. No. 25 provides details of income chargeable to tax under Section 41(4).

A scheme for demerger and merger was executed (April 2015) between two assessees, namely M/s A15, Hyderabad, and M/s S23, Hyderabad, whereby they mutually transferred parts of their businesses.

Audit noticed that in respect of the AYs 2016-17 to 2018-19, the assessee company (M/s A15) received an amount of ₹ 18.09 crore towards recovery of loans that were earlier written off as bad debts, out of which ₹ 14.42 crore was claimed as a deduction in the computation of income. Non-offering of this amount to tax resulted in a short computation of tax of ₹ 4.77 crore.

Similarly, in respect of the other assessee, M/s S23, during the previous year relevant to AY 2017-18, the assessee received amounts towards the recovery of loans that were earlier written off as bad debts. A recovery of ₹ 3.72 crore was made and credited to the Profit and Loss Account, and an amount of ₹ 0.89 crore claimed as a deduction in the computation of income was not disallowed during the scrutiny assessment. This resulted in an under-assessment of income of ₹ 89 lakh, involving a short levy of tax of ₹ 27.46 lakh.

The assessees submitted that a certain part of their recovery was claimed as deductions because the recoveries pertain to loans written off by another assessee in earlier years, and the assessee had not claimed any deduction on these loans. M/s A15 further supported the claim, stating that the bad debts written off by M/s S23 had already been adjusted against a 100 *per cent* provision, which was disallowed in the computation of the income statement in the earlier AYs, and that no deduction was claimed by M/s S23 at the time of writing off the loans. The claims of the assessees in the case of the two assessees were accepted by the Department.

The contention of these two assessees is not acceptable in view of the following reasons:

- (i) Provision for NPAs debited to the Profit and Loss Account is disallowed in the computation of income as per the extant provisions for NBFCs. The bad debts written off, adjusted against provision, are allowed in the computation of income. Further, write-off of bad debts in the Profit and Loss Account is also admissible. Therefore, upon recovery of the bad debts, the amount received on recovery needs to be brought to tax.
- (ii) Audit noticed from the ITRs of M/s S23, for the AYs 2014-15 and 2015-16, that significant amounts were claimed in the Profit and Loss Account towards write off of bad debts (₹ 32.54 crore in FY 2013-14, ₹ 5.73 crore in FY 2014-15).
- (iii) The contention that the bad debts recovered pertain to the other assessee and therefore are not taxable is not acceptable, as once the demerger is effected and businesses are transferred, the recovery made pertaining to loans written off earlier by the other assessee should be offered as income of the present business holder only.

These observations were brought to the notice of the DCIT Circle 1(1), Hyderabad, in May 2022. ITD accepted the audit observations in the case of M/s A15. for the AYs 2016-17,

2017-18 and 2018-19 and completed remedial action vide orders under Section 154 for AY 2016-17 (March 2023), under Section 143(3) read with Section 263 for AY 2017-18 (March 2023) and for AY 2018-19 (March 2024).

In the case of M/s S23, ITO (HQ)1 Hyderabad accepted (November 2025) the audit observation and rectified the mistake under Section 154 in November 2025.

Reply of the Ministry is awaited (November 2025).

5.4.6.7 Interest on income tax refund not offered to the tax

The assessment of the assessee for AY 2017-18 was completed in December 2019, determining a loss of ₹ 9.90 crore. Audit observed that an amount of ₹ 1.78 crore was received towards interest on Income tax refunds during the year, and the same was not offered as income. This resulted in a consequential potential tax effect of ₹ 0.59 crore.

This was brought to the notice of the DCIT Circle 1(1), Hyderabad, in May 2022. The Department, in its reply, accepted the observation (August 2022). Details of remedial action are awaited (November 2025) despite the issuance of reminders (June 2023, April 2024).

Reply of the Ministry is awaited (November 2025).

5.4.7 360-degree analysis of assessment of M/s M8

M/s M8, founded in 1887, is assessed under the jurisdiction of PCIT (Central) Kochi. The Company is a public limited company incorporated under the provisions of the Companies Act, 1956. The Company is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) w.e.f. 13 November 2001. The Company is engaged in the business of lending and primarily deals in gold loans, housing loans, personal loans, SME loans, corporate loans, microfinance, insurance, etc. The financial details for FYs 2017-18 to 2019-20, particulars of assessments for AYs 2016-17 to 2019-20 and significant observations noticed in the audit of assessments of M/s M8 are detailed below.

5.4.7.1 Financial Highlights of M8

The financial highlights of the Company for FYs 2017-18 to 2019-20 as per their Annual Reports are given in Table 5.68 below:

Table 5.68: Financial highlights of M/s M8			(₹ in crore)
Particulars/FYs	2017-18	2018-19	2019-20
Borrowings	14,882.27	18,417.47	26,870.59
Interest Expenses on Borrowings	974.63	1,378.21	1,867.85
Loans & Advances	29,506.80	34,932.93	42,604.17
Interest Income on loans & advances	6,202.13	6,757.01	8,564.40
Profit before Tax	2,844.69	3,076.82	4,057.41
Provision for Bad & Doubtful Debts	-	-	-
Bad debts written off	31.64	25.92	59.92

Source: Annual Reports

5.4.7.2 Details of Income Tax assessment

Assessments of M/s M8, NBFC were selected for 360-degree analysis from AY 2010-11 to AY 2017-18. Pursuant to a search operation initiated by ITD in M8 Group institutions, reassessments of AYs 2010-11 to 2016-17 were concluded under Section 153A and scrutiny assessment for AY 2017-18 was completed under Section 143(3). The assessment details such as gross turnover, date of return, returned income, assessed income and demand raised by ITD in respect of the assessee for AYs 2010-11 to 2017-18 are tabulated in Table 5.69 below:

Sr. No.	AY	Date of return	Section under which assessed & Date of assessment	Returned Income	Assessed Income	Addition made	Addition as a percentage of the returned income
1	2010-11	24.04.2017	147/ 30.11.2017	350.34	374.74	24.4	6.96
2	2011-12	09.03.2017	153A/ 29.12.2018	792.85	819.93	27.08	3.42
3	2012-13	09.03.2017	153A/ 29.12.2018	1,363.21	1,430.71	67.5	4.95
4	2013-14	09.03.2017	153A/ 29.12.2018	1,594.32	1,623.16	28.84	1.81
5	2014-15	09.03.2017	153A/ 29.12.2018	1,214.22	1,358.09	143.87	11.85
6	2015-16	09.03.2017	153A/ 29.12.2018	1,087.46	1,113.56	26.1	2.4
7	2016-17	09.03.2017	153A/ 29.12.2018	1,799.41	1,878.03	78.62	4.37
8	2017-18	30.10.2017	143(3)/ 29.12.2018	1,824.21	1,825.28	1.07	0.06
		Total		10,026.02	10,423.50	397.48	

Source: Assessment records of ITD

Additions made during the scrutiny assessment ranged from 0.06 per cent to 11.85 per cent of the returned income.

5.4.7.3 Significant audit observations in 360-degree analysis

Audit observed eight findings, including five findings involving an under-assessment of income amounting to ₹ 301.27 crore and a short levy of tax of ₹ 104.11 crore, as well as three findings related to discrepancies in related party transactions reported through ITR and TAR due to systemic deficiencies.

Gist of the Audit observations is given in Table 5.70 below:

S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
1	AY 2016-17 153A/	Mismatch in donation paid by the main assessee	0	0	Not Accepted (October 2022)

Table 5.70: Details of Audit observations in respect of M8					(₹ in crore)
S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
	29.12.2018	and accounted by related party – As per the Annual Report of the main assessee, ₹ 14.62 crore was paid to the related party, M/s M21, whereas only ₹ 13.16 crore has been returned by the related party as a donation received from the main assessee.			The ACIT Central Circle 1 Kochi in the reply (October 2022) stated that there was a clerical error in mentioning the name of the recipient, and the differential amount was actually paid to S64. It was further stated that the assessment records of S64 for AY 2016-17 were called for further verification (April 2024). Further details are awaited (November 2025).
2	AY 2011-12 & 2016-17 153A/ 29.12.2018	Discrepancies in transactions between related parties – Interest income received by two related parties from other related parties was not offered for tax.	3.09	0.96	Reply is awaited (November 2025).
3	AY 2017-18 143(3) /29.12.2018	Other Issues relating to Disallowances – Income offered in search proceedings during the AY 2016-17 was claimed by deduction during AY 2017-18 and allowed in the assessment.	291.25	100.77	Not Accepted (October 2022). The ACIT Central Circle 1 Kochi in the reply (October 2022) furnished only the details of the returns filed by the assessee for AY 2016-17 and AY 2017-18. The details regarding the income offered in the search assessment and its subsequent deduction have not been clarified. Rebuttal issued in April 2024.
4	AY 2017-18 143(3) /29.12.2018	Expenses disallowable under Section 40(a)(ia) due to non-deduction of TDS from remuneration paid to related parties - Out of the total remuneration of ₹ 35.80 crore paid to the related parties (Directors), TDS had been deducted only on ₹ 19.80 crore.	4.8	1.66	Not Accepted (October 2022) The ACIT Central Circle 1 Kochi replied (October 2022) that the related parties have offered the amount in the subsequent AY [AY 2018-19], and TDS provision was attracted only on actual payment. Hence, provision under Section 40(a)(ia) was not attracted during AY 2017-18. <i>Reply is not acceptable as the entire amount was debited to the profit and loss account during the previous year, and thus, TDS was required to be deducted on ₹ 35.80 crore in the previous year itself.</i>
5	AY 2014-15 153A/ 29.12.2018	Short accounting of income (RPTs) – Interest on loan received from the main assessee was short	2.12	0.72	Not Accepted (October 2022), stating that there were no discrepancies. Rejoinder issued (April 2024) since the supporting documents (copy of

S. No.	AY/ Section and date of assessment	Gist of irregularity	Under assessment	Tax effect	Department's Reply
		accounted by the related party, Shri M17.			ledgers) furnished by the ACIT Central Circle (1), Ernakulum, in its reply (October 2022) did not match the amounts accounted for in the books of accounts. Further relevant details sought in this regard are still awaited (November 2025).
6	AY 2015-16 153A/ 29.12.2018	Short accounting of income (RPTs) -- Interest on loan received from main assessee was short accounted by the related party, S40.	0.01	0	Not Accepted (October 2022) stating that there were no discrepancies. Rejoinder issued (April 2024) stating that the supporting documents (copy of ledgers) furnished by the ACIT Central Circle (1), Ernakulum in its reply (October 2022) were not sufficient. Further relevant details sought in this regard are still awaited (November 2025).
7	AY 2013-14 153A/ 29.12.2018	Discrepancies noticed in Income Tax Return (ITR) and Tax Audit Report (Form 3CA / Form 3CD) - TDS mismatch between main assessee and related parties (4 cases)	0	0	Reply Awaited (November 2025)
8	AYs 2013-14 to 2015-16 & 2017-18 153A/ 29.12.2018, 143(3)/ 29.12.2018	Discrepancies in transaction with related parties -Though lesser amounts received from main assessee towards interest on loan, the related parties had disclosed higher amounts in their returns (five cases).	0	0	Not Accepted (October 2022) Rejoinder issued (April 2024) stating that the supporting documents furnished by the ACIT Central Circle (1), Ernakulum in its reply (October 2022) were not sufficient. Further relevant details sought in this regard are still awaited (November 2025).
		Total	301.27	104.11	

Some of the major audit observations are discussed in brief in the following paragraphs.

5.4.7.4 Inadmissible claims

In PCIT Central Kochi charge, the assessment of M/s M8 for AY 2017-18 was completed in December 2018 at an income of ₹ 1,825.28 crore. Audit scrutiny revealed that the amount of ₹ 291.25 crore claimed as deduction towards 'Interest provision disallowed in previous years now reversed' pertained to income offered during search proceedings of the earlier AY 2016-17. Hence, the same was not an allowable deduction. Audit observed that both assessments were completed on the same date (29 December 2018) by the same AO. The Department had not

provided a specific reply regarding the treatment of undeclared income offered in the search as income in one assessment year and allowed as a deduction in the subsequent assessment year on the same day, 29 December 2018. The allowance of deduction in AY 2017-18 without verifying the factual position was not in order, resulting in an under-assessment of income of ₹ 291.75 crore and a consequent short levy of tax of ₹ 100.77 crore.

The audit observation was communicated to the ACIT, Central Circle 1, Kochi in March 2022. The ACIT, Central Circle 1, Kochi, in its reply (October 2022), furnished only the details of the returns filed by the assessee for AY 2016-17 and AY 2017-18. The details regarding the income offered in the search assessment and its subsequent deduction have not been clarified. Further details are awaited (November 2025) despite the issue of a reminder (April 2024).

Audit observed that the income offered by the assessee during the search proceedings of AY 2016-17 was irregularly allowed as a deduction in AY 2017-18.

Reply of the Ministry is awaited (November 2025).

5.4.7.5 Short deduction of TDS from remuneration paid to related parties

Clause (ia) of Section 40(a) provides that 30 *per cent* of any sum payable to resident shall be disallowed on which tax at source under Chapter XVII-B has not been deducted.

In Pr.CIT Central Kochi, M/s M8, the main assessee, filed ITR for AY 2017-18, declaring a total income of ₹ 1,824.21 crore (October 2017) and the regular assessment under Section 143(3) was completed (December 2018) at an income of ₹ 1,825.28 crore. Four related parties, namely the Managing Directors/Directors of the Company, filed their return of income for AY 2017-18 in July 2017. The main assessee debited an amount of ₹ 35.20 crore to the Profit and Loss Account, representing remuneration of ₹ 8.80 crore each to its four related parties during the PY relevant to the assessment year 2017-18. However, the assessment records of the related parties for the assessment year 2017-18 disclosed that they had reported ₹ 4.80 crore each, totalling ₹ 19.20 crore only. Further, the Statement of Form 26AS of the related parties for AY 2017-18 revealed that they had received ₹ 4.80 crore each by way of remuneration from M/s M8, and TDS was effected only from the said amount. In Clause 23 of Form 3CD of the main assessee, the remuneration paid to these related parties was reported as ₹ 8.80 crore, whereas, as per clause (e) of Note on Accounts No.32 (vide Page No.171), the remuneration payable to these four related parties was shown as ₹ 4.00 crore each. Thus, out of the total claim of ₹ 35.20 crore, whereas the main assessee had deducted TDS on ₹ 19.20 crore only, but claimed expenses of ₹ 35.20 crore as deductions by debiting ₹ 35.20 crore to the Profit and Loss Account.

The non-deduction of TDS on the differential amount of ₹ 16.00 crore, 30 *per cent* of the ₹ 16.00 crore amounting to ₹ 4.80 crore, was disallowable under Section 40(a)(ia), with tax effect of ₹ 1.66 crore.

The observation was reported to the ACIT Central Circle 1, Kochi, in June 2022. The ACIT Central Circle 1, Ernakulam, in its reply, did not accept the observation (October 2022), stating

that the related parties had offered the amount in the subsequent assessment year (AY 2018-19), and TDS provision was attracted during AY 2017-18. A rejoinder was issued to DCIT, Central Circle 1, Kochi (April 2024), stating that the reply was not acceptable, as the entire amount was debited to the Profit and Loss Account during the previous year; thus, the TDS had to be effected on ₹ 35.20 crore in the previous year itself.

Reply of the Ministry is awaited (November 2025).

5.4.7.6 Discrepancies noticed in Related Party Transactions

5.4.7.6.1 Short accounting of income

Audit noticed mismatch between the amount paid by the main assessee and its related parties and which were required to be examined by AOs under the designated jurisdictions. The details are given in Table 5.71 below:

	Name of the main Assessee	Name of the related party	AY	Nature of transaction	Income paid by the (Main assessee)	Income brought to tax (Related Party)	Difference	Tax effect	Department's reply
1	M8	M17 (Chairman)	2014-15	Interest on loan	7.96	5.83	2.12	0.72	Not Accepted (October 2022) stating that there are no discrepancies. Rejoinder issued (April 2024) stating that supporting documents (copy of ledgers) furnished with the reply (October 2022) did not match the amounts accounted. Further relevant details sought in this regard are still awaited (November 2025).
2	M8	S39 (Director)	2015-16	Interest on loan	7.73	7.72	0.01	0.00	
Total					15.96	13.55	2.13	0.72	

Source: Assessment records of ITD

Audit observed that the AO did not cross examine the details of transactions as per the books of account of the main assessee vis-a-vis the books of account of related party resulting in short levy of tax.

The observation was pointed out to the ACIT Central Circle 1, Kochi in June 2022. The ACIT Central Circle (1), Ernakulam, did not accept the audit observation in October 2022, stating that there were no discrepancies. A rejoinder was issued in April 2024, stating that the

supporting documents (copy of ledgers) furnished by the ACIT Central Circle (1), Ernakulam, in its reply of October 2022, were not sufficient. Further details sought in this regard are still awaited (November 2025).

Reply from the Ministry is awaited (November 2025).

5.4.7.6.2 Other discrepancies in transactions made by related parties

While scrutinising the related party transactions (RPT) of the assessee during PYs relevant to AYs from 2010-11 to 2017-18, discrepancies such as short/non-accounting of interest in transactions between other related parties were noticed in two cases, as detailed below:

(1) In PCIT, Central Kochi, Shri G7, one of the Directors of the NBFC, M/s M8 filed its return of income for AY 2011-12 on 24 September 2011, declaring a total income of ₹ 8.37 crore. The scrutiny assessment under Section 143(3) was completed on 28 March 2014, determining the income at ₹ 12.14 crore. This amount was subsequently rectified under Section 154 on 6 March 2015, increasing the total income to ₹ 14.98 crore. Subsequently, a search operation under Section 132 was conducted by the ITD at the business premises of M8 and the residences of its Directors on 5 August 2016. Based on the search operations, the assessment in the case of Shri G7 for AY 2011-12 was completed under Section 153A on 28 December 2018. While finalising the reassessment under Section 153A, the income of ₹ 12.14 crore, as determined in the regular assessment, was taken into consideration instead of the total income of ₹ 14.98 crore, as determined under Section 154. The short assessment of income of ₹ 2.84 crore has resulted in a short levy of tax of ₹ 0.88 crore.

(2) In PCIT, Central Kochi, M17, the Chairman of the NBFC, M/s M8, filed the return of income for AY 2016-17 on 27/07/2016 declaring a total income of ₹ 12.99 crore. Subsequently, an ITD search operation was conducted under Section 132 at the business premises of M8 and the residences of its directors on 5 August 2016. Based on the search operations, the assessment in the case of M17 for AY 2016-17 was completed under Section 153A on 30 November 2018, accepting the income returned by the assessee. Upon reviewing Form 26AS of M17 for AY 2016-17, it was noted that the assessee received an amount of ₹ 0.25 crore as interest from M23. As per Schedule 7 of the Statement of Computation of Total Income, the TDS deducted from the above payment of ₹ 0.03 crore was taken as a credit during AY 2016-17. However, the interest receipts of ₹ 0.25 crore were not included in the total interest receipts computed by the assessee under the head 'Income from other sources'. The short account of income of ₹ 0.25 crore has resulted in a short levy of tax of ₹ 0.09 crore.

This resulted in a total underassessment of ₹ 3.09 crore (2.84 + 0.25) in both cases, with a revenue impact of ₹ 0.96 crore.

The observations were reported to the ACIT Central Circle 1, Kochi, in June 2022. Reply from the Department is awaited (November 2025), despite the issue of a reminder in April 2024.

Reply from the Ministry is awaited (November 2025).

5.4.7.7 Mismatch in related party Transactions

Audit noticed a mismatch between the amounts shown in the Form 3CD report and the amounts shown in the accounts and computation statements of the related parties as detailed in Table 5.72 below:

S. No	PCIT Charge of the Main assessee	AY	Name of related party	Nature of transaction	Amount paid as per Form 3CD by the main assessee	Income brought to tax by the related party as per the accounts /computation statement	Department's reply
1	PCIT Central Kochi	2014-15	G8	Interest on loan	5.70	8.03	Not Accepted (October 2022)
2	PCIT Central Kochi	2017-18	G7	Interest on loan	8.03	8.49	Rejoinder issued (April 2024) stating that the supporting documents (copy of ledgers) furnished with the reply (October 2022) did not match the amounts accounted for. Further relevant details sought in this regard are still awaited (November 2025).
3	PCIT Central Kochi	2015-16	G7	Interest on loan	7.71	7.72	
4	PCIT Central Kochi	2017-18	M17	Interest on loan	6.50	6.57	
5	PCIT Central Kochi	2015-16	M17	Interest on loan	7.20	7.27	
Total					35.14	38.08	

Source: Assessment records of ITD

The AO did not cross-examine the details of transactions as per the records of the main assessee vis-a-vis the records of related parties, resulting in a short levy of tax. The AOs are not sharing information on payments made by the main assessee to related parties with the respective jurisdictional AOs, resulting in non-verification and the escapement of income, as mentioned above.

The observations were reported to the ACIT Central Circle 1, Kochi, in June 2022. The ACIT Central Circle (1), Ernakulum has not accepted (October 2022) the audit observations stating that there were no discrepancies. A rejoinder was issued (April 2024) stating that the supporting documents (copy of ledgers) furnished by the ACIT Central Circle (1), Ernakulum in its reply (October 2022) were not sufficient. Further relevant details sought in this regard are still awaited (November 2025), despite the issue of a reminder (April 2024).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may review the remaining related-party transactions of significant value that were not examined, as the Audit examination was limited to the records furnished by the ITD in the selected sample for a 360-degree analysis.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

As the recommendation is under examination, progress in this regard would be awaited in Audit.

5.5 Compliance issues and other irregularities

5.5.1 Irregular allowance of deduction for bad debts written off under Section 36(1)(vii)

5.5.1.1 Irregular allowance of deduction towards bad debts written off given without properly adjusting the opening balance available in the provision for bad and doubtful debts account

Audit noticed that ITD does not have any institutional mechanism to monitor the amount of deduction allowed under Section 36(1)(vii) towards provision for bad and doubtful debts in the earlier AY. This amount is not part of the books of accounts. The Department primarily relies on the amount the assessee declares in the return. The problem is compounded when the amount allowed under Section 36(1)(vii) is revised often due to rectification, appeal effect, etc., resulting in re-computation of total income. In such cases, the amount of bad debts allowed in the subsequent year must also be updated. Therefore, determining the amount of bad debts to be allowed in the subsequent year is prone to inaccuracies and non-compliance.

Out of 172 cases of banks and 456 cases of NBFCs who availed deduction towards bad debts, Audit noticed 80 cases where deductions towards bad debts written off were allowed without adjusting the opening balance available in provision for bad and doubtful debts allowed under Section 36(1)(vii) of the Act during assessment for AYs 2010-11 to 2019-20. Details are given in **Annexure 5.1** and Table 5.73 below:

Sr No.	Region	Banks/NBFC	No of Cases	Amount of bad debts allowed	Amount of bad debts allowable	Under assessment of income	Over-assessment of Income	Tax effect
1	Mumbai	Public Bank	5	1,12,784.59	74,349.98	38,434.61	---	13,898.07
		NBFC	8	2,110.76	1,650.44	460.32	---	160.13
		Private Bank	10	44,571.12	43,492.35	1,078.77	---	375.29
2	Delhi	Public Bank	5	14,735.52	10,149.53	4,585.99	---	1,559.81
		NBFC	5	1,255.42	985.92	269.50	---	119.26
3	Kolkata	Private Bank	3	359.67	125.82	233.85	---	81.59
		Public Bank	7	21,124.51	7,611.89	13,512.65	---	5353.32
		Foreign Bank	1	113.59	110.52	3.07	---	1.33
		NBFC	1	1.98	1.69	0.29	---	0.10
4	Chennai	Private Bank	10	3,255.95	2,567.59	688.36	---	238.53
			4	450.47	820.25	----	369.78	127.28
		Public Bank	7	15,145.96	6,763.55	8,382.41	---	2,881.99
			2	3,903.90	9,378.13	----	5,474.23	1,351.06
		NBFC	5	1,260.92	1,188.26	72.66	---	25.15

Table 5.73: Irregular allowance of deduction allowed under Section 36(1)(vii) without properly adjusting the opening balance available in the provision for bad and doubtful debts (₹ in crore)								
Sr No.	Region	Banks/NBFC	No of Cases	Amount of bad debts allowed	Amount of bad debts allowable	Under assessment of income	Over-assessment of Income	Tax effect
5	Kerala	Private Bank	2	529.07	170.80	358.27	---	123.72
6	Ahmedabad	NBFC	2	323.56	325.75	----	2.19	0.77
7	Jaipur	NBFC	2	41.21	0	41.21	---	16.49
8	Bengaluru	NBFC	1	5.54	0	5.54	---	1.94
Total			80	2,21,973.74	1,59,692.47	68,127.50	5,846.20	26,315.83

Source: Assessment records of ITD

(Refer Annexure 5.1)

Audit noted that the Department allowed excess deduction of ₹ 68,127.50 crore and short deduction of ₹ 5,846.20 crore for bad debts written off involving tax effect of ₹ 26,315.83 crore in assessment completed during FY 2017-18 to 2021-22 due to non-maintenance of proper records of deduction allowed towards provision for bad and doubtful debts under Section 36(1)(vii) in the preceding years. Significant irregularities have been discussed under '360-degree analysis of assessments in detail in this Chapter. Three other cases are illustrated below.

Box 5.22: Bad debts allowed without adjustment of opening credit balance in Provision for Bad and Doubtful Debts Account

(a) Charge: PCIT-6 Mumbai
Assessee: M/s L4
AY: 2016-17

Assessment of the assessee was completed after complete scrutiny under Section 143(3) in December 2018. While computing the taxable income, it was seen that the assessee had claimed a deduction of ₹ 119.45 crore towards bad debts without reducing the opening credit balance of ₹ 49.36 crore, which was allowed during scrutiny assessment. This resulted in an underassessment of income of ₹ 49.36 crore with consequent short levy of tax of ₹ 17.08 crore.

Audit observation was brought to the notice of the DCIT 14(1)(1) Mumbai in January 2021. Reply of the DCIT 14(1)(1) is awaited despite issuance of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT-3 Mumbai
Assessee: M/s S10
AY: 2019-20

Scrutiny assessment of the assessee was completed under Section 143(3) in April 2021 at the income of ₹ 1,658.77 crore under normal provisions of the Income Tax Act. Audit observed that the AO, while allowing deduction of ₹ 221.89 crore towards bad debts written off, did not reduce the opening credit balance of ₹ 87.32 crore of deduction allowed under Section 36(1)(vii), which resulted in underassessment of income of ₹ 87.32 crore and short levy of tax of ₹ 30.51 crore.

This was brought to the notice of the DCIT 3(3)(1), Mumbai in March 2022. The Ministry accepted (June 2025) the audit observation and stated that remedial action has been initiated by issuing notice under section 148A(1) of the income tax Act (March 2025). Further details are awaited (November 2025).

(c) Charge: PCIT-1, Chennai

Assessee: M/s A13

AYs: 2014-15, 2015-16, 2016-17, 2017-18 & 2018-19

The assessee had made claims aggregating to ₹ 21,488.25 crore for AYs 2014-15 to 2018-19 as deduction towards bad debts written off under Section 36(1)(vii). As per the relevant statements of income, the bad debts written off pertaining to rural debts were adjusted against the provision account under Section 36(1)(viia), and the bad debts written off relating to non-rural branches were claimed in full. For the AYs 2014-15 and 2015-16, claims for bad debts written off were allowed as such in the scrutiny assessments. For the AYs 2016-17 and 2018-19, claims for bad debts written off were restricted to the provision accounts under Section 36(1)(viia), while it was restricted to non-rural write off in the AY 2017-18. Thus, against the claim of ₹ 21,488.25 crore, a sum aggregating to ₹ 14,537.55 crore was allowed as deduction under Section 36(1)(vii).

Audit noticed discrepancies in adopting the correct figures of the opening balance of the provision account under Section 36(1)(viia) due to various disallowances/additions and consequential appeal giving effect to orders. The eligible amount of deduction under Section 36(1)(vii) worked out to ₹ 6,744.17 crore with the adoption of the correct amount of opening balance of the provision account under Section 36(1)(viia). The incorrect adjustment against the provision account under Section 36(1)(viia) resulted in an excess allowance of deduction of ₹ 7,793.38 crore under Section 36(1)(vii) involving a tax effect of ₹ 2,681.79 crore.

This was brought to the notice of DCIT Corporate Circle 1(1), Chennai in February 2022, followed by issuance of reminders (October 2023, April 2024, June 2024 and December 2024). Remedial action has been taken under section 147 read with section 144B in March 2025 for AY 2017-18. Reply is awaited for AYs 2014-15 to 2016-17 and 2018-19.

Reply of the Ministry is awaited (November 2025).

Audit observed that ITD is allowing bad debts under Section 36(1)(vii) without adjusting the opening balance of the provision for bad and doubtful debts, involving an irregular allowance of a significantly high amount of deduction.

Reply from the Ministry is awaited (November 2025).

5.5.1.2 Incorrect allowance of deduction towards bad debts – other issues

As per the provisions of Section 36(1)(vii) and 36(2)(v) of the Income Tax Act, 1961, banks are eligible to claim a deduction for any bad debts or part thereof that is written off as irrecoverable in the accounts of the assessee for the previous year. Deduction for bad debts

is not allowable unless the amount of debt is actually written off in the books of accounts. As per explanation 1 below Section 36(1)(vii), bad debts do not include any provision for bad and doubtful debts made in the accounts of the assessee.

Audit noticed in respect of 20 cases out of 172 bank cases and 456 NBFCs that deduction for bad debts written off was allowed in contravention of the aforesaid provisions of the Act. This resulted in an under assessment of ₹ 20,630.54 crore, having a tax implication of ₹ 7,143.25 crore. Details are given in **Annexure 5.2** and Table 5.74 below:

Sr No.	Region	Banks/ NBFC	No of Cases	Amount of bad debts allowed	Amount of bad debts allowable	Under assessment of income	Tax effect
1	Mumbai	NBFC	3	307.52	64.26	243.26	83.79
2	Kolkata	Public Bank	4	19,893.76	12,249.88	7,643.88	2,580.81
		NBFC	2	47.65	41.52	6.13	2.13
3	Ahmedabad	NBFC	1	0.35	0.00	0.35	0.14
4	Bengaluru	Private Bank	1	763.56	131.63	631.93	287.07
5	Chennai	NBFC	6	12,102.73	0	12,102.73	4,188.52
6	Kerala	NBFC	3	346.95	344.69	2.26	0.79
Total			20	33,462.52	12,831.98	20,630.54	7,143.25

Source: Assessment records of ITD

(Refer Annexure 5.2)

Two cases are illustrated below:

Box 5.23

(a) Charge: PCIT-8, Mumbai
Assessee: M/s R2
AY: 2015-16

Assessment of the assessee for AY 2015-16 was completed under Section 143(3) in December 2017, determining income at Nil after setting off of the brought forward losses of ₹ 25.37 crore under normal provisions and at ₹ 514.56 crore under special provisions of Section 115JB. The assessee Company was engaged in the business of providing commercial loans and investment activities. Audit observed that the assessee had claimed and was allowed ₹ 179 crore towards loss on sale of loan assignment debited to the Profit and Loss Account. Further, the assessee had an advanced loan of ₹ 336.82 crore to a related party, M/s G9, in FY 2013-14 relevant to AY 2014-15 with accrued interest of ₹ 41.69 crore receivable on the aforesaid loan, resulting in the total outstanding amount of ₹ 378.51 crore.

In AY 2015-16, the assessee assigned this loan to another related party, M/s R13, for ₹ 200 crore thereby incurring a loss of ₹ 179 crore. Audit observed that R13 was neither a banking company nor an NBFC and was incorporated in 1993 with the primary business of real estate. As per RBI guidelines, assignment of stressed loans of Banks and NBFCs to ARCs (Asset Reconstruction Companies) is permissible for continuous flow of liquidity. However, there is no provision to assign loans to private entities and claim the loss as bad debts. As

assignment of loans to any private entity cannot be treated as loan assignment to ARCs, loss suffered on assignment cannot be treated as bad debts for the purpose of computing taxable income. Thus, loss of ₹ 179 crore was not allowable to the assessee. Omission to disallow the above loss resulted in under assessment of income of ₹ 179 crore, involving short levy of tax of ₹ 61.94 crore.

This was brought to the notice of DCIT 15(3)(1), Mumbai in February 2022. Reply of the DCIT 15(3)(1), Mumbai is awaited despite the issue of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT Kolkata-2

Assessee: U2

AY: 2017-18

The assessee filed a return of income for AY 2017-18 in October 2017, declaring a total loss of ₹ 3,033.40 crore. Scrutiny assessment was completed under Section 143(3) in December 2019, assessing loss at ₹ 2,935.38 crore. During the year, the assessee claimed to have written off all the provisions of bad and doubtful debts of ₹ 4,414.68 crore and claimed it as a deduction under Section 36(1)(vii) of the Act. In support of claims of bad debts written off in the books of account, Assessee furnished Schedule 9 of Balance Sheet showing that the amount of provisions created during the year (as per Note 4.1 to Balance Sheet) was reduced from the loans and advances amount in the Balance Sheet.

Scrutiny of loans and advances mentioned in Schedule 9, along with the details of provisions for NPA shown in Note 4.1 of the Balance Sheet, revealed that the assessee had written off ₹ 2,450.55 crore only from the loans and advances. Thus, the assessee was eligible for deduction of ₹ 2,450.55 crore under Section 36(1)(vii), as against ₹ 4,414.68 crore actually allowed, resulting in excess deduction of ₹ 1,964.13 crore. This had resulted in an under assessment of ₹ 1,964.13 crore, involving a tax effect of ₹ 679.74 crore.

The audit observation was brought to the notice of the Circle-5(1), AB, Kolkata in March 2022. In reply from PCIT-2 Kolkata, remedial action initiated under Section 148 in April 2024 (April 2025).

Reply from the Ministry is awaited (November 2025).

5.5.2 Irregular allowance of deduction for provision for bad and doubtful debts under Section 36(1)(viiia)

5.5.2.1 Improper examination while allowing deduction for provision for bad and doubtful debts under Section 36(1)(viiia)

Despite there being clear provision under Section 36(1)(viiia) of the Income Tax Act, the AOs did not examine the claims made by the assessee towards Provision for Bad and Doubtful

Debts resulting in irregular allowance of deduction on account of inadmissible items such as provision for standard assets and non-restriction of the deduction to the specified percentage of Gross Total Income, as applicable in the case of Banks and NBFCs.

Out of 191 cases of banks and 287 cases of NBFCs examined where Department allowed deduction under Section 36(1)(vii-a) towards provision for bad and doubtful debts, Audit observed 52 cases where deduction was allowed without properly following the provisions of the Act and procedures prescribed thereunder that resulted in underassessment of ₹ 2,006.08 crore and overassessment of ₹ 1,047.91 crore involving tax effect of ₹ 1,150.96 crore. Details are given in **Annexure 5.3** and Table 5.75 below.

S. No.	Region	Banks/ NBFC	No. of Cases	Amount of Provision for bad debts allowed	Amount of provision for bad debts allowable	Under assessment of income	Over assessment of income	Tax effect
1	Bengaluru	Private Bank	1	146.63	153.9	---	7.28	2.52
		Public Bank	2	436.46	755.43	---	318.97	187.16
2	Mumbai	Public Bank	1	17,058.47	17,383.31	---	324.84	112.42
		NBFC	15	1,134.47	818.27	316.20	---	109.68
		Foreign Bank	2	241.48	41.65	199.83	---	86.45
3	Delhi	NBFC	3	485.93	26.89	459.04	---	159.76
		Foreign Bank	1	0.97	0.00	0.97	---	0.42
4	Kolkata	Private Bank	2	716.23	389.65	326.58	---	114.01
		Public Bank	3	1,896.28	1,405.56	490.72	---	166.33
		NBFC	6	110.64	39.86	70.78	---	24.55
5	Chennai	Private Bank	1	11.51	0	11.51	---	3.98
		Public Bank	4	6,367.36	6,292.79	74.57	---	25.4
			1	0	396.82	396.82	---	138.66
		NBFC	4	102.47	87.2	15.27	---	5.28
6	Kerala	Private Bank	1	57.63	52.05	5.58	---	1.93
		NBFC	1	17.35	7.78	9.57	---	2.96
7	Ahmedabad	NBFC	3	110.67	89.04	21.63	---	8.18
8	Hyderabad	NBFC	1	3.83	0	3.83	---	1.27
Total			52	28,898.38	27,940.20	2,006.08	1,047.91	1,150.96

Source: Assessment records of ITD

(Refer Annexure 5.3)

Three cases are discussed below:

Box 5.24: Issues relating to allowance of deduction for Provision for Bad and Doubtful Debts under Section 36(1)(viiia)

(a) Charge: PCIT 3, Mumbai

Assessee: M/s T4

AYs 2018-19, 2019-20

Assessments of the assessee for AY 2018-19 and AY 2019-20 were finalised after complete scrutiny under Section 143(3) in May 2021 and September 2021. Audit observed that the provision towards standard assets of ₹ 184.50 crore for 2018-19 and ₹ 43.04 crore for AY 2019-20 was claimed and allowed as a deduction under Section 36(1)(viiia) towards provision made for bad and doubtful debts. Since provision made for standard assets as per RBI Master Circular no. (RBI/2015-16/101)¹⁰² cannot be considered as provision made for NPA, the incorrect allowance had resulted in under assessment of income of ₹ 184.50 crore and ₹ 43.04 crore for AY 2018-19 and AY 2019-20 involving short levy of tax of ₹ 63.85 crore and ₹ 15.03 crore for AY 2018-19 and AY 2019-20 respectively.

The observation was pointed out to DCIT-3(2)(1), Mumbai in February 2022. Ministry accepted (June 2025) the audit observation and stated that remedial action has been initiated by passing order under section 263 of the Income tax Act in March 2024 for AY 2018-19 and AY 2019-20. Further details regarding remedial action taken are awaited (November 2025).

(b) Charge: PCIT Guwahati

Assessee: M/s N1

AYs: 2017-18, 2018-19 and 2019-20

Assessments were completed at an income of ₹ 93.77 crore, ₹ 75.26 crore and ₹ 65.67 crore for AY 2017-18, 2018-19 and 2019-20, respectively. The assessee had claimed and was allowed provision for NPA of ₹ 4.96 crore, ₹ 8.18 crore, and ₹ 13.07 crore for AY 2017-18, 2018-19 and 2019-20 respectively though the allowable amount of PBDD should have been restricted to five *per cent* of the gross total income i.e. ₹ 4.94 crore, ₹ 4.17 crore and ₹ 3.94 crore for AY 2017-18, 2018-19 and 2019-20 respectively. This resulted in under assessment of income of ₹ 0.02 crore, ₹ 4.01 crore and ₹ 9.14 crore with consequential short levy of tax of ₹ 0.008 crore, ₹ 1.39 crore and ₹ 3.16 crore for AY 2017-18, 2018-19 and 2019-20, respectively.

This was brought to the notice of the DCIT Circle-2, Guwahati in February 2022. Ministry accepted the audit observation (January 2025) and stated that the mistake had been rectified under Section 154 (March 2022). As per the field verification, remedial action has

¹⁰² RBI Master circular (RBI/2015-16/101) stipulates that provision for standard assets should not be considered for arriving at net NPAs, which is applicable for substandard assets. Accordingly, provision made for standard assets should not be considered as provision made for bad and doubtful debts for the purpose of restricting deduction allowable under Section 36(1)(viiia) towards provision for bad and doubtful debts.

been taken for all AYs under Section 154 (AY 2017-18) and 147 read with 144B in March 2022 (AY 2018-19 and 2019-20) and March 2024, respectively.

(c) Charge: PCIT-1, Hyderabad
Assessee: M/s S28
AY: 2017-18

Scrutiny assessment for AY 2017-18 was completed in December 2019 at an income of ₹ 56.41 crore. The assessee had claimed and was allowed a deduction of ₹ 3.83 crore at five *per cent* on the total income for PBDD arrived at before setting off of the brought-forward losses. As brought forward losses or unabsorbed depreciation brought forward from previous years need to be adjusted before computing the allowable deduction under Section 36(1) (viiia). This resulted in irregular deduction of provision for NPA, resulting in potential short computation of tax of ₹ 1.27 crore.

The audit observation was brought to the notice of Circle 3(1), Hyderabad, in February 2022. Ministry accepted (September 2025) the audit observation and stated that remedial action has been taken under section 154 of the Income tax Act (June 2025). However, JAO Circle 3(1), Hyderabad did not furnish the computation sheet (November 2025).

5.5.2.2 Non verification of advances given by rural branches while allowing 10 per cent deduction under Section 36(1)(viiia)

Rule 6ABA of Income Tax Rules, 1962 provides that for the purposes of clause (viiia) of sub-Section (1) of Section 36, the aggregate average advances made by the rural branches of a scheduled bank should be computed as per the method given therein.

Audit observed from the assessment records that ITD had not put in place any institutional mechanism to verify the veracity and genuineness of the claims made towards the rural advances admissible under Section 36(1)(viiia) of the Act by the assesseees in their return. The advances given by ineligible branches as per Census 2011 data was taken into account for computing the eligible quantum of deduction under Section 36(1)(viiia) for rural advances. This resulted in irregular allowance of deduction for advances made by the branches which did not qualify as rural branches of the assesseees.

Audit noticed 16 cases of irregular allowance of deduction of rural advances out of 478 cases of banks and NBFCs which were allowed deduction under Section 36(1)(viiia), as detailed in **Annexure 5.4** and Table 5.76 below:

Sr. No.	Region	Category of Bank	No. of Cases	Amount of deduction allowed for provision for bad and doubtful debts on rural advances	Amount of deduction allowable for provision for bad and doubtful debts on rural advances	Under assessment of income	Over assessment of Income	Tax effect
1	Mumbai	Public Bank	1	2,022.31	1,934.20	88.11	---	41.47
		Private Bank	3	904.66	864.57	40.09	---	16.27
2	Chennai	Public Bank	5	5,671.91	1,187.55	4,484.36	----	1,532.42
		Private Bank	3	46.55	0	46.55	---	16.15
			4	23.62	644.36	---	620.74	213.99
Total			16	8,669.05	4,630.68	4,659.11	620.74	1,820.30

Source: Assessment records of ITD

(Refer Annexure 5.4)

Two cases are discussed below:

Box 5.25: Irregular allowance of deduction for Provision for bad and doubtful debts based on rural advances

- (a) **Charge: PCIT 2, Mumbai**
Assessee: I7
AY: 2014-15, 2015-16 and 2016-17

Assessments for AYs 2014-15, 2015-16 and 2016-17 were completed in scrutiny manner in December 2017, December 2017 and December 2019 respectively at income of ₹ 2,317.06 crore, ₹ 2,576.73 crore and ₹ 3,741.37 crore respectively.

Audit test checked the categories of branches from RBI data as per census 2011 and found that two branches viz. Amlah and Sarpavaram were not eligible as rural branches as their population was more than ten thousand. However, the assessee had considered these branches as rural branches. Since these branches were not qualified for deduction under Section 36(1)(viiia) of the IT Act, the assessee was not entitled to claim deduction of ₹ 10.41 crore, ₹ 13.33 crore and ₹ 16.35 crore under Section 36(1)(viiia) of the Act for AYs 2014-15, 2015-16 and 2016-17 respectively resulting in short levy of tax of ₹ 16.27 crore.

The audit observations were brought to the notice of the DCIT 2(3)(1) in October 2018 (AY 2014-15), December 2018 (AY 2015-16) and December 2020 (2016-17). The PCIT-2 Mumbai accepted the audit observation pertaining to AY 2014-15 (March 2021) and stated that remedial action has been taken under Section 143(3) read with Section 147 in December 2019. In respect of AY 2016-17, the PCIT- 2 Mumbai accepted the audit

observation (April 2022) and stated that remedial action has been taken under Section 263 in March 2022. Reply from DCIT 2(3)(1), Mumbai in respect of AY 2015-16 is awaited (November 2025) despite issue of reminders April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

5.5.3 Incorrect allowance of deduction under Section 36(1)(viii)

Although the assessments were completed under scrutiny, the AOs did not examine the correctness of claim made by assessee under Section 36(1)(viii) of the Act resulting in incorrect allowance of deduction more than the amount transferred to Special Reserve during the previous year and on income from business other than specified business.

Audit observed 32 cases out of 202 cases examined in Audit where deduction was allowed in contravention of the provisions under Section 36(1)(viii), resulting in excess allowance of deduction of ₹ 1,431.10 crore with consequent short levy of tax of ₹ 531.18 crore. The details are given in **Annexure 5.5** and Table 5.77 below:

Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Underassessment of Income	Tax Effect
1	Jaipur	NBFC	2	2017-18 & 2018-19	5.04	1.94
2	Bengaluru	Public Bank	1	2017-18	140.28	64.32
3	Chandigarh	Private Bank	1	2012-13	48.75	30.05
4	Chennai	Public Bank	2	2017-18 & 2018-19	73.83	25.55
		Private Bank	1	2016-17	107.22	37.11
		NBFC	4	2012-13 & 2014-15 to 2019-20	132.51	45.57
5	Kerala	Private Bank	1	2015-16	10.68	4.83
		NBFC	1	2016-17	0.15	0.05
6	Delhi	Public Bank	1	2014-15	7.53	2.56
		NBFC	2	2016-17 & 2017-18	27.17	11.12
7	Hyderabad	NBFC	1	2016-17	0.22	0.08
8	Kolkata	NBFC	3	2014-15 to 2017-18	93.16	26.46
9	Mumbai	Public Bank	1	2016-17	426.81	145.07
		Private Bank	3	2014-15 to 2016-17	255.66	94.72

Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Underassessment of Income	Tax Effect
		NBFC	8	2011-12& 2015-16 to 2018-19	102.09	41.75
	Total		32		1,431.10	531.18

Source: Assessment records of ITD

(Refer Annexure 5.5)

Two cases are discussed below.

Box 5.26: Irregularity in allowing deduction under Section 36(1)(viii)**Charge: PCIT-3, Mumbai****Assessee: M/s E1****AY: 2016-17**

Assessment was completed after scrutiny for AY 2016-17 in March 2018 at an income of ₹ 2,211.91 crore. Besides, long-term financing for Indian projects, the assessee was also engaged in providing a range of export credit products like long-term finance for export projects, which do not fulfil the criteria of providing finance for the development of agricultural, industrial or infrastructure facilities in India. The long-term loans and advances provided for export projects comprised 35 *per cent* of the total long-term loans and advances extended by the assessee. As per Section 36(1)(viii), income from loans and advances to export projects would not qualify for deduction under Section 36(1)(viii) as the benefit is not for Indian projects. Only around 65 *per cent* of the income from the total long-term loans and advances would qualify for deduction under Section 36(1)(viii), as can be seen from the financial statements for the previous year relevant to AY 2016-17. It was seen from assessment records that a deduction of ₹ 213.19 crore was allowed against the eligible amount of ₹ 137.44 crore, resulting in underassessment of income of ₹ 75.75 crore and short levy of tax of ₹ 32.51 crore. Audit observed that the assessee did not claim deduction under Section 36(1)(viii) in later years as per the details provided to Audit.

On being pointed out in March 2022, the ACIT 3(1)(1), Mumbai accepted the audit observation (June 2023) and stated that remedial action had been initiated under Section 148A(d) in April 2023. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.5.4 Incorrect allowance of exemptions

Exemptions from tax are provided under different Sections of the Income Tax Act with the objective of promoting investment in the infrastructure sector, promoting agricultural activities, incentivising savings, rural upliftment, investment in priority sectors, boosting exports, etc. The exemptions are provided subject to the fulfilment of prescribed conditions. It is the duty of the AOs to ensure that income claimed as exempt is computed as per the

provisions of the Income Tax Act, 1961, and the assessee has fulfilled all the prescribed conditions while claiming the exemption.

5.5.4.1 Excess deductions allowed under Section 80LA in respect of income of offshore Banking Units

As per Section 80LA of the IT Act, 1961, in the case of a scheduled bank or foreign bank having an Offshore Banking Unit in a Special Economic Zone or being a unit of an International Financial Service Centre includes any income from an Offshore Banking Unit or from any unit of the International Financial Centre, they are eligible for a deduction of 100 *per cent* of such income for the first five years and fifty *per cent* of such income in the next five years.

Audit noticed five cases out of 100 private sector banks which claimed deduction under Section 80LA for offshore units disproportionate to profits earned by bank as a whole. The details are given in Table 5.78 below:

S. No	Name of the Bank/ AY	Amount of exemption claimed under Section 80LA (₹ in crore)	Profit margin claimed for the offshore unit	Profit margin of the bank as a whole	Under assessment	Tax effect	Department's reply
1	Y1 AY 2016-17	76.69	79.85	23.18	54.43	25.05	Ministry accepted the audit observation (September 2025) and stated that remedial action had been taken under section 147, read with section 144B, in March 2022.
2	Y1 AY 2017-18	59.47	30.53	24.51	11.72	4.06	Ministry accepted the audit observation (September 2025) and stated that remedial action had been taken under section 147, read with section 144B, in March 2022.
3	Y1 AY 2018-19	529.30	57.63	16.57	376.54	130.31	Ministry accepted the audit observation (September 2025) and stated that remedial action had been taken under section 147, read with section 144B, in March 2024.
4	I7 AY 2017-18	70.69	81.25	25.18	48.76	23.05	Ministry partly accepted (September 2025) and stated that remedial action has been taken (March 2023) under section 143(3) read with section 263 read with section 144B of the Act.

Table 5.78: Details of excess deduction claimed under Section 80LA							(₹ in crore)
S. No	Name of the Bank/ AY	Amount of exemption claimed under Section 80LA (₹ in crore)	Profit margin claimed for the offshore unit	Profit margin of the bank as a whole	Under assessment	Tax effect	Department's reply
5	I24 AY 2017-18	1.57	64.00	14.42	1.21	0.42	In reply (July 2024) Department stated that scrutiny assessment in the instant case for AY 2017-18 is pending before NeFAC. Further details are awaited (November 2025).
Total		737.72			492.66	182.89	

Source: Assessment records of ITD

It can be seen from the above table that out of ₹ 737.72 crore deduction claimed under Section 80LA in the five cases, ₹ 492.66 crore was found to be excessive, having a tax implication of ₹ 182.89 crore.

Two cases are discussed below.

Box 5.27: Illustrative cases on excess deductions allowed under Section 80LA in respect of income of offshore Banking Units

- a) **Charge: PCIT-2 Mumbai**
Assessee: I7
AY: 2017-18

Assessment of the assessee for AY 2017-18 was finalised after complete scrutiny under Section 143(3) in December 2019, determining income at ₹ 4,841.82 crore. Audit observed that an amount of ₹ 70.69 crore was allowed as claimed under Section 80LA in respect of the income of its Offshore Banking Unit at the IFSC Banking Unit, GIFT City. However, the computation of exempt income claimed disclosed that the percentage of profit to gross income claimed was 81.25 *per cent* for the offshore unit compared to gross profit of 25.18 *per cent* for the bank as a whole. Thus, the exemption claimed was more than the normal profit of the bank to the extent of ₹ 48.76 crore. This had resulted in under assessment of income of ₹ 48.76 crore and short levy of tax of ₹ 23.05 crore, including interest.

This was brought to the notice of DCIT 2(3)(1), Mumbai in December 2020. Ministry partly accepted (September 2025) the audit observation and stated that remedial action has been taken in March 2023 under Section 143(3) read with Section 263 read with Section 144B of the Act while disallowing an amount of ₹ 17.77 crore instead of ₹ 48.76 crore pointed out by Audit. During field verification of Ministry's response (September 2025), the DCIT 2(3)(1) Mumbai did not furnish details of computation of claim of deduction under section 80 LA.

b) Charge: PCIT-2 Mumbai**Assessee: Y1****AY: 2016-17 to 2018-19**

Assessment of the assessee for AYs 2016-17, 2017-18 and 2018-19 was finalised after complete scrutiny under Section 143(3) in December 2018, December 2019 and February 2020 at an income of ₹ 4,281.61 crore, ₹ 5,825.69 crore and ₹ 7,596.61 crore, respectively. As per the accounts of the bank, the assessee claimed and was allowed exemption of ₹ 76.69 crore for AY 2016-17, ₹ 59.47 crore for AY 2017-18 and ₹ 529.30 crore for AY 2018-19 under Section 80LA in respect of income of its Offshore Banking Unit at IFSC Banking unit, GIFT City, Gandhinagar. However, examination of the computation of exempt income revealed that the percentage of profit to gross income claimed was higher compared to the Gross Profit percentage of the bank. Thus, the exemption claimed was more than the normal profit of the bank to the extent of ₹ 442.70 crore for three years (2016-17, 2017-18 & 2018-19). This had resulted in under assessment of taxable income of ₹ 442.70 crore for AY 2016-17, AY 2017-18 and AY 2018-19 and short levy of tax of ₹ 159.43 crore.

This was brought to the notice of the DCIT 2(2)(1) Mumbai in January 2022. Ministry accepted the audit observation (September 2025) and stated that the remedial action has been taken for AYs 2016-17 and 2017-18 under section 147 read with section 144B in March 2022 for both AYs whereas for AY 2018-19 remedial action has been taken under section 147 read with section 144B in March 2024.

5.5.4.2 Incorrect allowance of expenditure under Section 14A against exempt income

Audit observed that though the assessments were examined under complete scrutiny in AYs 2015-16 to 2018-19, the AOs did not examine the incorrect figure adopted for computation of disallowance of expenditure under Section 14A¹⁰³ of the Act against exempt income.

Audit noticed 36 cases out of 1,098 cases wherein the expenses incurred for earning exempt income was not added back as per the provisions of Section 14A read with Rule 8D involving underassessment of ₹ 785.46 crore with consequent short levy of tax of ₹ 293.59 crore. These cases are summarized in **Annexure 5.6** and Table 5.79 below:

¹⁰³ Section 14A of the Income Tax Act, 1961, provides that expenditure incurred on exempt income is not allowable as deduction in computing the total income of the assessee. As per Rule 8D, the disallowance would be equal to the amount of expenditure directly relating to income which does not form part of total income and an amount equal to one *per cent* of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income

Table 5.79: Details of cases where expenses incurred for earning exempt income not added back									
									(₹ in crore)
Sr. No.	Region	Assessee Type	No. of cases	AYs	Exempt Income claimed	Expenses disallowed by ITD	Expense disallowable as per Audit	Underassessment	Tax Effect
1	Ahmedabad	NBFC	5	2015-16 to 2018-19	35.21	0.42	8.19	7.77	1.8
2	Bengaluru	Public Bank	1	2015-16	26.31	0.07	75.61	75.54	25.68
		Private Bank	1	2019-20	0.31	0	158.15	158.15	71.84
3	Chennai	Public Bank	2	2017-18	15.44	10.19	21.41	11.22	3.88
		Private Bank	2	2016-17 & 2018-19	9.89	30.85	34.38	3.53	1.22
		Foreign Bank	1	2016-17	2.42	0	2.42	2.42	0.84
		NBFC	4	2013-14 & 2015-16 to 2016-17	346.46	176.55	408.11	231.56	80
4	Kerala	Private Bank	8	2015-16 to 2019-20	31.24	24.35	108.47	84.12	34.45
		NBFC	2	2015-16 & 2017-18	0	0	11.15	11.15	4.7
5	Delhi	NBFC	3	2016-17, 2017-18 & 2019-20	6.2	0.25	6.05	5.8	2.01
6	Kolkata	NBFC	1	2017-18	9.12	0.64	1.64	1	0.35
7	Mumbai	Public Bank	2	2015-16, 2017-18	40.54	43.06	228.22	185.16	64.08
		Private Bank	1	2015-16	263.95	317.28	323.34	6.06	2.06
		NBFC	3	2015-16 & 2017-18	4.5	0.32	2.3	1.98	0.68
			36		791.59	603.98	1,389.44	785.46	293.59

Source: Assessment records of ITD

(Refer: Annexure 5.6)

Two cases are discussed below.

Box 5.28: Incorrect allowance of expenditure under Section 14A against exempt income

(a) Charge: PCIT-2, Mumbai

Assessee: C4

AY: 2017-18

Assessment for AY 2017-18 was finalised after complete scrutiny in December 2019, determining income at ₹ 3,849.16 crore. In the return of income, the assessee did not add any expenditure under Section 14A, although the assessee had earned exempt income of ₹ 28.50 crore. AO during assessment computed disallowable expenditure under Section 14A at ₹ 18.47 crore at para 4 of the assessment order and added the same in the taxable income.

It was observed that Tax Auditor had reported in Form 3CD that expenditure disallowable under Section 14A was ₹ 28.10 crore. Since the tax auditor had reported that expenditure incurred in earning exempt income was ₹ 28.10 crore, the same should have been adopted

by the Assessing Officer. This had resulted in under-assessment of income of ₹ 9.63 crore, involving short levy of tax of ₹ 4.43 crore.

This was brought to the notice of DCIT 2(1)(1), Mumbai in February 2022. In reply, the DCIT 2(1)(1), Mumbai accepted the audit objection and stated (March 2022) that remedial action under Section 154 would be initiated. Further details regarding remedial action are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT Panaji (erstwhile jurisdiction: PCIT Mangaluru)

Assessee: T15

AY: 2019-20

Assessment of the assessee was completed under Section 143(3) read with Section 144B in September 2021 at income of ₹ 440.61 crore. Audit observed that the expenditure of ₹ 158.15 crore incurred to earn the exempt income was not disallowed. This resulted in underassessment of income of ₹ 158.15 crore and short levy of tax of ₹ 71.84 crore.

This audit observation was brought to the notice of the DCIT-Circle-1(1) Mangalore in August 2022. Reply from DCIT-Circle-1(1) Mangalore is awaited (November 2025) despite issue of reminders in December 2024 and March 2025.

Reply of the Ministry is awaited (November 2025).

5.5.4.3 Excess exemption allowed under Section 10(35A) in respect of income received from Securitisation Trust

Audit observed that although the cases were examined under scrutiny assessments, the AOs did not verify the correctness of exemption claimed under Section 10(35A)¹⁰⁴ resulting in incorrect allowance of exemption due to deduction of lower amount of tax on distributed income.

In four cases, where excess exemption of ₹ 19.68 crore under Section 10(35A) with consequent short levy of tax of ₹ 6.72 crore were allowed, are tabulated in Table 5.80 below:

Sr. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name/AY	Issue in brief	Under assessment	Tax Effect	Reply of the Department
1	Kolkata-WB/ PCIT, Kolkata-	NBFC	M7/ 2015-16	Excess amount of exemption claimed under Section 10(35A) on income received from the Securitisation Trusts due to lower	11.59	3.94	Not Accepted (February 2023) stating that income was exempt under Section 10(35A). Reply of the Department is not tenable as tax due to ITD due to short deduction of tax i.e.

¹⁰⁴ As per Section 10(35A) of Income Tax Act, 1961, any income referred to in Section 115TA by way of distributed income received from a securitisation trust by any person being an investor of the said trust shall be exempted in computing the total income of that previous year.

Table 5.80: Exemption allowed under Section 10(35A)							(₹ in crore)
Sr. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name/AY	Issue in brief	Under assessment	Tax Effect	Reply of the Department
				deduction of tax on distributed income by said Trusts.			₹ 11.59 crore, had been paid to the assessee which was claimed as exempt by the assessee.
2	Kolkata-WB/ PCIT, Kolkata-1	NBFC	M7/ 2016-17	Excess amount of exemption claimed under Section 10(35A) on income received from the Securitisation Trusts due to lower deduction of tax on distributed income by said Trusts.	5.20	1.80	Reply Awaited (November 2025).
3	Kolkata-WB/ PCIT, Kolkata-2	NBFC	M16/ 2017-18	Excess amount of exemption claimed under Section 10(35A) on income received from the Securitisation Trusts due to lower deduction of tax on distributed income by said Trusts.	0.46	0.16	Reply Awaited (November 2025).
4	Kolkata-WB/ PCIT, Kolkata-2	NBFC	S3/ 2014-15	Incorrect grant of exemption to dividend received from sole sponsored trust under Section 10(35) and in deviation from earlier years ITD stand.	2.43	0.82	Reply Awaited (November 2025).
				Total	19.68	6.72	

Source: Assessment records of ITD

One case is discussed below.

Box 5.29

a) In the case of M7 under PCIT-1, Kolkata, assessment for AY 2015-16 was finalised after complete scrutiny in December 2017, determining taxable income at ₹ 134.41 crore. Audit observed that the assessee had claimed and was allowed exemption of ₹ 100.31 crore under Section 10(35A) as income distributed by the Securitisation Trust. Audit scrutiny of certificates issued in respect of income distributed by M24 revealed that total gross interest earned by M24 during the relevant FY was ₹ 134.40 crore. As such, the Securitisation Trust should have distributed an amount of ₹ 88.72 crore to the assessee after deducting Tax on

Distributed income under Section 115TA (SDT) of ₹ 45.68 crore. However, the Securitisation Trust deducted only ₹ 34.09 crore as SDT and paid ₹ 100.31 crore as income distributed. This resulted in a payment of excess income of ₹ 11.59 crore to the assessee. Since the assessee got exemption of ₹ 100.31 crore instead of ₹ 88.72 crore (₹ 134.40 crore - ₹ 45.68 crore) under Section 10(35A), there was an escapement of income of ₹ 11.59 crore, resulting in an undercharge of tax of ₹ 3.94 crore.

This was brought to the notice of the Circle-7(1), AB, Kolkata in April 2022. Circle-7(1), AB, Kolkata while not accepting (February 2023) the audit observation stated that the amount of ₹ 100.31 crore was claimed as exempt as consequent to the levy of distribution tax, the income of the investor received from the securitization trust was to be treated as exempt under Section 10(35A) of the Income tax Act. As such, there is no undercharge of tax of ₹ 3.94 crore.

The reply of the Department is not acceptable, as M24 had deducted the lower amount of tax on distributed interest income, resulting in excess transfer of distributed income, i.e. the difference between the short deduction of tax ₹ 11.59 crore (₹ 45.68 crore - ₹ 34.09 crore). Thus, the tax that should have been paid to the ITD was transferred to the assessee, which was subsequently claimed as exempt income by the assessee. Therefore, the exemption of this tax amount transferred to the assessee under Section 35A was incorrect.

Reply of the Ministry is awaited (November 2025).

5.5.5 Income escaping assessment

Audit observed cases of income escaping assessment due to various reasons such as not offering the opening balance in Foreign Currency Translation Reserve (FCTR) account to tax, not offering the accrued income as per ICDS, etc. These cases are discussed in the following paragraphs.

5.5.5.1 Income in respect of opening balance in Foreign Currency Translation Reserve escaping assessment

Audit observed cases where the revenue was not recognised as per the provisions of ICDS-VI by the assessee, and the accrued income on account of the opening balance of FCTR held by the bank during AY 2017-18 was also not added back by the AO during scrutiny assessment, resulting in income escaping assessment.

Although the extant provisions provide that the opening balance of the FCTR should be offered to tax, Audit noticed seven cases out of 218 cases where the opening balance of FCTR amounting to ₹ 8,794.98 crore was not offered to tax with consequent short levy of tax of ₹ 3,546.79 crore, as detailed in Table 5.81 below:

Table 5.81: Cases where income in respect of Opening Balance of FCTR was not offered to tax							(₹ in crore)
Sr. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name/ AY	Issue in brief	Under assessment	Tax Effect	Reply of the Deptt.
1	Ahmedabad PCIT-1 Ahmedabad	Private Bank	A6/ 2017-18	The Bank held Foreign Currency Translation Reserve (FCTR) having opening balance of ₹ 102.03 crore as on 01.04.2016. The Bank did not offer this reserve to the income as per ICDS-VI stating that the Hon'ble Delhi High Court had struck down ICDS-VI and no ICDS-VI was applicable during the year.	102.03	35.31	Reply is awaited (November 2025)
2	West Bengal PCIT-2, Kolkata	Public Bank	U2/ 2017-18	The assessee had Foreign Currency Translation Reserve (FCTR) balance as on 01 April 2016 of ₹ 435.97 crore and not recognised this in its income computation in any of the past AYs.	435.97	150.88	Department has initiated remedial action under Section 148 in April 2024. Further details are awaited (November 2025).
3	TamilNadu, PCIT-4, Chennai	Public Bank	I5/ 2017-18	Opening balance of FCTR was not offered to tax.	134.34	46.49	The case was reopened under Section 147 to consider the Audit point. However, in the assessment orders passed under Section 147 read with Section 144B dated 31.03.2022, no reasons were stated for not making addition/ disallowance in this regard
4	Chennai, PCIT-1 Chennai	Public Bank	I9/ 2017-18	The opening Balance of ₹ 315.94 Crore as on 01-04-2016 in the FCTR, net of deduction of ₹ 55.59 Crore for the FY 2016-17 relevant to AY 2017-18, amounting to ₹ 260.34 Crore, was not offered to tax.	260.34	90.10	Reply is awaited (November 2025).
5	Mumbai, PCIT-3 Mumbai	Public Bank	U1/ 2017-18	Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)-FCTR issue	107.76	37.29	As per field verification (July 2025) remedial has been taken under section 147 read with section 144 dated 29.03.2022 while disallowing a sum of ₹ 103.90 crore.
6	Mumbai, PCIT-2, Mumbai	Public Bank	S8/ 2017-18	Revenue not recognised as per the provisions of Income Computation	6,056.25	2,598.97	Accepted (March 2022) and issued notice under

Table 5.81: Cases where income in respect of Opening Balance of FCTR was not offered to tax							(₹ in crore)
Sr. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name/ AY	Issue in brief	Under assessment	Tax Effect	Reply of the Deptt.
				and Disclosure Standards (ICDS)			Section 148 in March 2021. Further details are awaited (November 2025).
7	Mumbai PCIT 2, Mumbai	Private Bank	I4/ 2017-18	Revenue not recognised as per the provisions of Income Computation and Disclosure Standards (ICDS)	1,698.29	587.75	Reply is awaited (November 2025).
Total					8,794.98	3,546.79	

Source: Assessment records of ITD

A case is illustrated below.

Box 5.30: Illustrative case on Income in respect of opening balance in Foreign Currency Translation Reserve escaping assessment.

a) Charge : PCIT-1 Chennai

Assessee: I9

AY: 2017-18

Assessment of the assessee for AY 2017-18 was finalized under Section 143(3) in February 2019 at an income of ₹ 4,164.24 crore. It was noticed from Schedule 2-(Reserves & Surplus) to Balance Sheet under the head FCTR that the balance in FCTR as on 01.04.2016 was ₹ 315.94 crore. After making a deduction of ₹ 55.59 crore for the FY 2016-17 relevant to AY 2017-18, an amount of ₹ 260.34 crore should have been offered to tax, in accordance with the Transitional Provisions of ICDS-VI .

The omission had resulted in an underassessment of income of ₹ 260.34 crore with a consequent short levy of tax of ₹ 90.10 crore.

This was brought to the notice of the DCIT Corporate Circle 1(1) Chennai in March 2022. Reply from DCIT Corporate Circle 1(1) Chennai is awaited (November 2025) despite the issue of reminders April 2024, June 2024 and December 2024.

Reply of the Ministry is awaited (November 2025).

5.5.5.2 Interest accrued but not due not offered to tax on accrual basis

CBDT Circular¹⁰⁵ provided that banks must follow the mercantile system of accounting and prepare accounts on an accrual basis under the RBI guidelines and the Indian Companies Act, 1956. CBDT also directed AOs to ensure that this system is strictly followed by the Banks in respect of all sources of income, and interest accrued but not due should be offered to tax.

¹⁰⁵ Circular no. 10/2017, dated 23rd March 2017, on ICDS-IV – Revenue Recognition, has clarified (FAQ-13) & CBDT vide instruction No.17/2008 dated 26 November 2008.

Audit observed that deduction was allowed to the assessee bank towards interest accrued but not due, though CBDT clarified in its Circular No. 10 of 2017 dated 23 March 2017 that income was to be offered for taxation on an accrual basis, as discussed below.

Box 5.31

Charge: Pr.CIT-3, Mumbai

Assessee: U1

AY: 2017-18

Assessment of the assessee for AY 2017-18 was finalised after complete scrutiny in December 2019, determining income at ₹ 5,343.27 crore. Audit observed that the assessee claimed deduction of ₹ 314.72 crore towards interest accrued but not due as on the last day of the PY. In the assessment finalised after scrutiny, no addition was made on this issue, confirming that the claim of the assessee was accepted. However, as clarified by CBDT Circular No. 10 of 2017 dated 23 March 2017, interest income was to be offered on an accrual basis.

Audit observed that in the case of assessment of another public sector bank and its associates under PCIT-2, Mumbai, interest is regularly taxed on an accrual basis and the assessee's claim for deduction for interest accrued but not due is always rejected in the scrutiny assessment, although the matter is under litigation at various stages. It was also observed that in the case of U1, ITAT Mumbai had allowed the deduction to the assessee in the case referred to ITA No.8817/B/92. The Department was requested to confirm whether this decision was accepted or if an appeal was filed in the HC. Reply from the Department is awaited, and the issue needs to be looked at afresh after notification of ICDS, which is applicable from AY 2017-18.

In view of the above, acceptance of assessee's claim for deduction of interest accrued but not due resulted in under assessment of income of ₹ 314.72 crore and short levy of tax of ₹ 108.92 crore.

This was brought to the notice of the ACIT 3(4) Mumbai in December 2020. Ministry while accepting the audit observation intimated Audit (July 2025) that remedial action was taken under section 147 read with section 144B of the Income tax Act (March 2022).

5.5.5.3 Irregular cash deposit of Non-permitted Receipts not brought to tax

Ministry of Finance, Government of India withdrew the legal tender status of the bank notes of the value of ₹ 500 and ₹ 1000 referred to as Specified Bank Notes¹⁰⁶ (SBNs) in November 2016. However, a facility was granted to the holders of SBNs for the deposit of such SBNs in their account maintained with any bank (KYC compliant) without any limit, on or before 30.12.2016, so that the equivalent value of SBNs will be credited to such accounts. Non-permitted receipts represent a collection of Specified Bank Notes by the assessee other

¹⁰⁶ As per the Specified Bank Notes (Cessation of Liabilities) Act, 2017, "Specified Bank Note" means a bank note of the denominational value of five hundred rupees or one thousand rupees of the series existing on or before the 8th day of November, 2016.

than banks from its loan borrowers from 9th November 2016 to 30th December 2016 and adjusted against the borrower's regular loan obligations, which had fallen due in the ordinary course of business in respect of loans disbursed on or before November 8, 2016.

Audit observed that although assessee NBFCs, not eligible to accept SBNs during the demonetisation period, had accepted the same and did not offer the unauthorised deposits for taxation, the AO also did not verify and add back the same during the scrutiny assessment. Audit noticed that in four cases, SBNs were accepted and were not brought to tax during assessment, resulting in underassessment of income of ₹ 110.86 crore with consequent short levy of tax of ₹ 79.60 crore, as given in Table 5.82 below:

Sr. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name/ AY	Issue in brief	Under assessment	Tax Effect	Reply of the Deptt.
1	Ahmedabad PCIT-1, Ahmedabad	NBFC	F2 AY 2017-18	Assessee could not bifurcate the cash as SBN and other denominations deposited in banks during demonetization	38.4	45.68	Reply is awaited (November 2025).
2	Ahmedabad PCIT-1, Ahmedabad	NBFC	M4 AY 2017-18	Unauthorised deposit in bank account during demonetization	0.35	0.36	Proposal for revision under Section 263 was sent by the ACIT on 20.06.22. Further details are awaited (November 2025).
3	Hyderabad PCIT-1 Hyderabad	NBFC	A15 AY 2017-18	Assessee company had made cash deposits from out of non-permitted receipts amounting to ₹ 1.21 crore in the bank account during demonetization period.	1.21	0.93	Ministry accepted (November 2025) stating that the mistake was rectified under Section 154 in June 2025.
4	Lucknow Pr. CIT, Allahabad	NBFC	S24 AY 2017-18	The assessee made cash deposits of ₹ 70.90 crore in its Bank Accounts during demonetization, and they were not verified in the assessment	70.9	32.63	Ministry did not accept (May 2025) the audit observation stating that the issue was restored back to the AO by PCIT under Section 263 on March 23, 2022. The AO reviewed the issue again on March 31, 2023, but did not provide reasons for not drawing any adverse conclusions regarding undeclared cash deposits in the tax return.
Total					110.86	79.60	

Source: Assessment records of ITD

Two cases are discussed below.

Box 5.32

a) Charge: Pr.CIT Allahabad

Assessee: S24

AY: 2017-18

Assessment of the assessee for AY 2017-18 was made under Section 143(3) in December 2019 at the income of ₹ 17.73 crore. As per Note 34 of the Financial Statement, the assessee had made cash deposits of ₹ 70.90 crore (including SBNs of ₹ 0.66 crore) during the demonetisation period. The assessee had also not disclosed the cash deposit in the relevant column of the ITR. Audit observed that the cash deposit of SBNs of ₹ 0.66 crore was not added to the total income of the assessee during the assessment. Audit further observed that cash deposits were made in some of the bank accounts linked with PANs of some of the employees of the assessee. Though the jurisdictional AOs of such employees had shared the information with the AO of the assessee, the AO had not examined the issue during the scrutiny assessment.

The omission of non-adding back to the income of the assessee resulted in a short demand of ₹ 32.63 crore. The audit observation was brought to the notice of the DCIT-1(1), Allahabad in February 2022. Ministry in its reply (May 2025) did not accept the audit observation stating that the issue was restored back to the Assessing Officer by the PCIT vide order under section 263 of the income tax Act 1961 dated 23 March 2022. Subsequently, the issue was examined by the AO during the proceedings under section 143(3) read with section 263 of the income tax Act 1961 dated 31 March 2023 and no adverse inference was drawn in the said order. *Ministry's reply is not tenable as AO has not recorded reasons in the order passed under section 143(3) read with section 263 in March 2023 for drawing no adverse inference in respect of the issue of non disclosure and non examination of cash deposits in the ITR.*

In view of above, the audit observation is reiterated.

5.5.5.4 Other cases of Income escaping assessment

Audit noticed in 28 cases out of 2,378 cases examined that income escaped assessment under various provisions of the Act involving underassessment of ₹ 8,721.05 crore with consequent short levy of tax of ₹ 3,965.46 crore as summarised in **Annexure 5.7** and Table 5.83 below.

Table 5.83: Income not assessed under various provisions of the Act							(₹ in crore)
Sr. No.	Region	Assessee Type	No.	AYs involved	Under-assessment	Tax Effect	Reply of the Deptt.
1	Bengaluru	NBFC	1	2014-15	26.1	13.84	Reply is awaited (November 2025)
2	Chennai	Public Bank	3	2013-14 to 2015-16	7.15	2.37	Reply is awaited (November 2025)

Table 5.83: Income not assessed under various provisions of the Act							(₹ in crore)
Sr. No.	Region	Assessee Type	No.	AYs involved	Under-assessment	Tax Effect	Reply of the Deptt.
3	Kerala	Private Bank	1	2017-18	5.45	1.89	Not accepted (October 2022) Rebuttal issued (April 2024)
		NBFC	2	2017-18	300.23	103.55	Not accepted (October 2022) in one case, and in the other case ITD replied that the matter would be looked into (October 2022). Further details are awaited (November 2025).
4	Delhi	Public Bank	5	2014-15 to 2017-18 & 2019-20	7,770.65	3,632.41	Reply is awaited (November 2025).
5	Hyderabad	NBFC	3	2016-17 to 2018-19	17.09	5.63	Reply is awaited (November 2025).
6	Kolkata	Private Bank	1	2016-17	480.28	166.21	Reply is awaited (November 2025).
		NBFC	10	2012-13; 2015-16; 2016-17; & 2017-18	102.56	34.27	Reply is awaited (November 2025).
7	Lucknow	NBFC	2	2018-19	11.54	5.29	Accepted and remedial action initiated in both the cases (May 2024). Further details are awaited (November 2025).
		Total	28		8,721.05	3,965.46	

Source: Assessment records of ITD

(Refer Annexure 5.7)

An illustrative case is discussed below:

Box 5.33

Charge: Pr. CIT-Central, Kanpur

Assessee: M/s I6

AY: 2018-19

Scrutiny assessment of the assessee, an NBFC, was made under Section 143(3) for AY 2018-19 in February 2021. Audit observed that the assessee had credited the receipts of ₹ 2.71 crore to the Profit and Loss Account but claimed TDS of ₹ 60.20 lakh pertaining to total receipts of ₹ 5.72 crore. While finalising the scrutiny assessment, the Department allowed full TDS credit of ₹ 60.20 lakh as claimed by the assessee, although the concerned receipts of ₹ 5.72 crore were fully offered. This resulted in escapement of income ₹ 3.01 crore involving short levy of tax of ₹ 1.38 crore.

Audit observation was brought to the notice of the DCIT-Central Circle-II, Noida, in April 2022. The DCIT-Central Circle-II, Noida, while accepting the audit observation (May 2024), stated that remedial action was initiated under Section 148A(b) of the Act in May 2024. Further details regarding remedial action are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may reiterate its instructions periodically to sensitise AOs regarding the assessment of items of income and expenditure specific to banks and NBFCs so as to minimise compliance deviations in the assessments to avoid errors of omission and commission.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

As the recommendation is under examination, progress in this regard would be awaited in Audit.

5.5.6 Incorrect allowance of deduction for provisions and expenditure

As per Section 37 of the Income Tax Act, any expenditure, other than capital expenditure, incurred wholly and exclusively for the purpose of business in the previous year is allowable in computing income under the head 'profits and gains from business or profession'. CBDT Instruction No.17 of 2008 dated 26 November 2008 clarified that as per Section 37, an amount debited in the Profit and Loss Account in respect of an accrued or ascertained liability only is an admissible deduction, while any provision in respect of any unascertained liability or a liability which has not accrued, does not qualify for deduction. The Board clarified that contingent liability cannot constitute deductible expenditure for the purposes of the Income Tax Act. The board stated that putting aside money which may become expenditure on the happening of an event would normally not constitute an allowable expenditure under the Income Tax Act. CBDT directed that Assessing Officers should verify such claims as to whether these are admissible as per the Income Tax Act.

As per the RBI circular¹⁰⁷, Banks are allowed to make provisions in respect of fraud accounts, over a period not exceeding four quarters commencing with the quarter in which fraud has been detected. RBI has also directed that a provision for loss on fraud is required to be made as an additional measure in addition to the provision for NPAs created in respect of the impaired assets. In view of the above, it is clear that the amortised loss on fraud provided does not qualify for deduction under Section 37 of the IT Act.

Audit observed in 79 cases out of 2,378 cases examined in audit that the Department had allowed irregular deductions for the provisions and expenditure of ₹ 15,646.01 crore with consequent short levy of tax of ₹ 2,766.55 crore in contravention of provisions of Section 37

¹⁰⁷ RBI Circular No.DBR.No.BP.BC.83/21.01.048/2014-15 dated 01st April 2015 and Circular No. DBR.No.BP.BC.92/ 21.04.048/ 2015-16 dated 18th April 2016.

of the Act and instructions given thereunder. These cases are tabulated in **Annexure 5.8** and Table 5.84 below:

Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Underassessment	Tax Effect
1	Ahmedabad	Private Bank	2	2015-16 & 2016-17	25.94	8.96
		NBFC	1	2018-19	3.18	1.56
2	Jaipur	NBFC	5	2018-19 & 2019-20	16.35	5.70
3	Bengaluru	Public Bank	1	2017-18	49.20	22.40
		Private Bank	1	2019-20	22.55	10.24
		NBFC	5	2016-17 to 2019-20	204.36	96.05
4	Chandigarh	Private Bank	2	2012-13 & 2015-16	5.00	1.69
5	Chennai	Public Bank	5	2017-18 & 2018-19	1,689.35	571.35
		Private Bank	5	2016-17 to 2017-18	392.39	135.91
		NBFC	8	2015-16 to 2018-19	562.39	191.39
6	Kerala	Private Bank	9	2015-16 to 2019-20	11.25	3.48
		NBFC	5	2010-11 & 2015-16 to 2017-18	15.52	5.38
7	Hyderabad	NBFC	3	2015-16 to 2017-18	5.09	1.67
8	Kolkata	Public Bank	2	2017-18 to 2018-19	368.56	127.51
		Private Bank	3	2017-18 & 2018-19	45.02	15.56
		Foreign Bank	1	2014-15	79.11	34.22
		NBFC	9	2012-13; 2014-15; 2015-16, 2016-17 & 2017-18	178.57	59.46
9	Lucknow	NBFC	1	2015-16	1.00	00.45
10	Mumbai	Public Bank	3	2015-16, 2016-17, 2018-19	11,354.37	1,260.92
		Private Bank	1	2014-15	3.22	1.09
		NBFC	7	2014-15 & 2016-17 to 2019-20	613.59	211.56
		Total	79		15,646.01	2,766.55

Source: Assessment records of ITD

(Refer Annexure 5.8)

Two illustrative cases are discussed below:

Box 5.34

(a) Irregular deduction allowed for Non-Performing Investment in shares.

Charge: PCIT-2 Mumbai

Assessee: C4

AY: 2018-19

Assessment of the assessee for AY 2018-19 was made under the faceless assessment scheme after complete scrutiny at an income of ₹ 469.08 crore in April 2021. The computation of income filed by the assessee disclosed that the assessee had claimed a deduction of ₹ 1,101.72 crore towards provision for Non-Performing Investment (NPI) in shares. Since investment in shares is a capital item appearing on the asset side of the balance sheet, any provision created for diminution in value of the asset is not an allowable expense while computing income under the head 'profits and gains from business or profession. The fact that the assessee had added this provision while computing book profit under Section 115JB clearly shows that this is not an allowable expenditure under the normal provisions of the Act. This had resulted in an underassessment of income of ₹ 1,101.71 crore, involving a short levy of tax of ₹ 381.28 crore.

This was brought to the notice of the DCIT 2(1)(1), Mumbai, in February 2022. Reply of the DCIT 2(1)(1), Mumbai, is awaited (November 2025) despite the issue of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

(b) Incorrect claim of provision towards loss on fraud

Charge: PCIT-1, Chennai

Assessee: M/s A13

AY: 2018-19

The assessee filed a return of income admitting a loss of ₹ 8,699.47 crore, and the scrutiny assessment was completed in April 2021, determining a loss of ₹ 6,889.24 crore. In the instant case, the assessee had made a claim of deduction of ₹ 1,428.11 crore towards "loss on fraud" in the statement of income, which was allowed in the scrutiny assessment. Audit noticed from the relevant Annual Report that disclosures were made with regard to the amount provided towards "loss on fraud amortised" in the books of accounts as per RBI Guidelines. The claim represents provisions that were not an admissible deduction under Section 37. Audit also observed that a similar claim of deduction of ₹ 507.90 crore on Loss on fraud on advances was disallowed during assessment for AY 2017-18, but the same was not disallowed in the assessment for AY 2018-19. The incorrect allowance of deduction resulted in an excess allowance of loss of ₹ 1,428.11 crore for the Assessment Year 2018-19, involving a potential tax effect of ₹ 494.24 crore.

This was brought to the notice of the DCIT Corporate Circle 1(1), Chennai, in February 2022. A reply from the DCIT, Corporate Circle 1(1), Chennai is awaited (November 2025) despite the issuance of reminders in October 2023, April 2024, June 2024, and December 2024.

Reply of the Ministry is awaited (November 2025).

5.5.6.1 Incorrect allowance of depreciation on goodwill created on amalgamation

The Finance Act, 2021 clarified that Goodwill is not to be considered as an Intangible Asset. The Bengaluru Bench of the ITAT in the case of United Breweries Ltd (September 2016) held that the taxpayer, being the amalgamated company, cannot claim depreciation on assets acquired under the scheme of amalgamation more than the depreciation allowable to the amalgamating company.

Audit observed one case of irregular allowance of depreciation on goodwill, resulting in short levy of tax for ₹ 58.99 crore, as illustrated below:

Box 5.35: Illustrative case on incorrect allowance of depreciation on goodwill

Charge: PCIT-6, Mumbai

Assessee: C11

AY: 2014-15, 2016-17, 2017-18 and 2018-19

Assessments of C11 under PCIT-6, Mumbai, for AYs 2014-15, 2016-17, 2017-18 and 2018-19 were completed under Section 143(3) in December 2017, December 2019, December 2019 and July 2021, respectively. It was observed that depreciation of ₹ 74.90 crore, ₹ 42.23 crore, ₹ 31.67 crore and ₹ 23.75 crore was allowed during AYs 2014-15, 2016-17, 2017-18 and 2018-19, respectively, on goodwill created on account of the amalgamation of C27. Since depreciation is not allowable on goodwill, it resulted in underassessment of income of ₹ 74.90 crore, ₹ 42.23 crore, ₹ 31.67 crore and ₹ 23.75 crore during AYs 2014-15, 2016-17, 2017-18 and 2018-19 with consequent short levy of tax of ₹ 25.46 crore, ₹ 14.35 crore, ₹ 10.96 crore and ₹ 8.22 crore respectively resulting in aggregate short levy of tax for ₹ 58.99 crore.

Audit observations were brought to the notice of the DCIT 14(1)(2), Mumbai in March 2019, March 2021, March 2021 and December 2021, respectively. Ministry has accepted (November 2025) the audit objections for all AYs and stated that remedial action has been taken by passing order under 147 read with Section 144B of the Income Tax Act in May 2023 for AY 2014-15 and in February 2025 for AY 2016-17 and AY 2017-18 and Section 143(3) read with Section 263 in March 2025 for AY 2018-19.

Recommendation:

CBDT may identify non-admissible items of expenditure specific to banks and NBFCs for dissemination amongst AOs to ensure allowance of expenditure on eligible claims.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

As the recommendation is under examination, progress in this regard would be awaited in Audit.

5.5.7 Incorrect computation of Book Profit under Section 115JB

As per the provisions of Section 115JB of the Income Tax Act, where the tax computed under normal provisions is less than the tax payable on book profits under special provisions of Section 115JB, the assessee would be liable to pay tax on book profits as per special provisions. Explanation below Section 115JB provides for adjustments to be made to the net profit for arriving at the book profit for the purpose of this Section. There is no provision under Section 115JB to allow deduction based on actual payment in respect of provisions created in the books of accounts in earlier years.

Audit noticed that in 29 cases out of 2,378 cases examined, deductions for inadmissible bad debts and other expenses were allowed while computing book profit, involving underassessment of book profit of ₹ 1,24,644.73 crore and overassessment of book profit of ₹ 985.05, involving tax of ₹ 22,585.34 crore. Details are summarised in **Annexure 5.9** and Table 5.85 below:

Sr. No.	Region	Assessee Type	No. of cases	AYs involved	Under assessment	Over assessment	Tax Effect
1	Chennai	Private Bank	1	2018-19	35.15	---	12.16
		Public Bank	5	2014-15 to 2018-19	12,015.04	---	1,957.54
2	Kerala	Private Bank	3	2018-19 to 2019-20	293.13	---	57.37
3	Delhi	Public Bank	3	2015-16 & 2018-19	10,646.89	---	1,326.38
4	Chandigarh	NBFC	2	2015-16 & 2016-17	50.86	---	13.77
5	Lucknow	NBFC	1	2019-20	40.99	---	9.59
6	Mumbai	Public Bank	8	2015-16 to 2019-20	87,004.69	---	17,163.69
			1	2018-19	---	985.05	210.22
		Private Bank	2	2018-19	12,496.44	---	1,526.14
		NBFC	3	2017-18 to 2019-20	2,061.54	---	308.48
		Total	29			1,24,644.73	985.05

Source: Assessment records of ITD

(Refer Annexure 5.9)

Audit noted cases where adjustments required to be made to net profit for arriving at book profit were not made, resulting in incorrect computation of book profit. Audit also noted cases where assessment was completed under normal provision at loss, although Minimum Alternate Tax [MAT] was leviable under Section 115JB of the Act.

Two cases are discussed below.

Box 5.36

a) Charge: PCIT-7, Delhi

Assessee: O2

AY: 2018-19

Assessment of the assessee for AY 2018-19 was completed under Section 143(3) in March 2021 determining loss of ₹ 4,898.15 crore under normal provisions of the Act. Audit observed that the assessee had debited ₹ 9,498.08 crore to Profit and Loss account as provision for bad and doubtful debts. Also, the Department disallowed ₹ 27.94 crore under Section 14A under normal provisions. But, while computing the book profit for computation of MAT under Section 115JB, the same were not added back. On additions of the amount claimed as provision for bad and doubtful debts and disallowance made under Section 14A, the assessee would have been liable to pay tax under Section 115JB. The mistake resulted in underassessment of income of ₹ 3,637.17 crore under Section 115JB, involving short levy of tax of ₹ 994.12 crore, including interest.

This was brought to the notice of the Circle 19(1), Delhi in June 2022. Reply from the Circle 19(1), Delhi is awaited despite issue of reminders in April 2023, April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

b) Charge: PCIT-1, Chennai

Assessee: A13

AYs: 2014-15 to 2018-19

In the case of M/s A13, the assessee's claim of deduction towards "provision for bad debts written off" was allowed in the computation of book profits under Section 115JB, as noticed from the assessment records of AYs 2014-15 to 2017-18. However, Audit observed from the relevant Annual Reports that the sums claimed as deductions did not pertain to any provision account withdrawn/credited to the Profit and Loss Account and hence, did not qualify to be claimed as a reduction in the computation of book profits. Further, it was observed that the book profits under Section 115JB were omitted to be computed for AY 2018-19. The errors resulted in the omission/incorrect computation of book profits under Section 115JB, amounting to ₹ 12,015.04 crore, involving an aggregate tax effect of ₹ 1,957.54 crore.

This was brought to the notice of DCIT Corporate Circle 1(1), Chennai, in February 2022. For AY 2017-18, remedial action has been taken under Section 147 read with Section 144B in March 2025. Reply from the DCIT, Corporate Circle 1(1), Chennai, is awaited for AYs 2014-15 to 2016-17 and 2018-19, despite reminders issued in October 2023, April 2024, June 2024, and December 2024.

Reply of the Ministry is awaited (November 2025).

5.5.8 Incorrect computation and allowance of Long-Term Capital Loss/Gains

Audit observed four cases in the Mumbai region where long-term capital loss/gain of ₹ 1,553.83 crore was incorrectly computed and allowed by the Department, involving positive tax effect of ₹ 102.17 crore and potential tax effect of ₹ 255.18 crore as given in Table 5.86 below:

Sr. No.	Region	PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
1	Mumbai	PCIT-6, Mumbai	NBFC	I2	2017-18	109.25	25.21 (Potential)	Reply is awaited. (November 2025)
2	Mumbai	CIT (IT)-2, Mumbai	Foreign Bank	S11	2018-19	80.08	17.32 (Positive)	Accepted (July 2025) and remedial action initiated under Section 147 (August 2024).
3	Mumbai	PCIT 2, Mumbai	Private Bank	I4	2016-17	367.75	84.85 (Positive)	Accepted (February 2022) and remedial action initiated under Section 263. Further details are awaited (November 2025).
4	Mumbai	PCIT 2, Mumbai	Private Bank	I4	2015-16	996.75	229.97 (Potential)	Accepted (March 2022) and remedial action initiated under Section 263 in March 2021. Further details are awaited (November 2025).
Total						1,553.83	357.35	

Source: Assessment records of ITD

Audit observed that Long Term Capital Loss/gain was irregularly allowed on transfer of shares to wholly owned subsidiary and incorrect adoption of sale consideration of land for computing Long Term Capital Gains.

One case is illustrated below:

Box 5.37

Charge: CIT (IT)-2, Mumbai

Assessee: M/s S11

AY: 2018-19

Assessment for AY 2018-19 was completed under Section 143(3) read with Section 144(C) in November 2021, determining income ₹ 4,631.56 crore. The Audit observed from the Tax Audit Report that the assessee had sold land for ₹ 52 crore during the year, while adopting a stamp duty value of ₹ 132.08 crore. However, the AO, while computing long-term capital gains, adopted sale consideration at ₹ 52 crore instead of ₹ 132.08 crore as per Section 50C¹⁰⁸ of the IT Act. The omission resulted in under-assessment of the income of ₹ 80.08 crore, leading to a short levy of tax of ₹ 17.32 crore.

This was brought to the notice of the DCIT(IT)-4(2)(2), Mumbai, in March 2022. Department accepted the audit observation (July 2025) and stated that remedial action was initiated under Section 147 (August 2024). Further details regarding remedial action are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.5.9 Incorrect allowance of deduction under Section 44C to Foreign Banks

CBDT vide instruction No.17/2008 dated 26 November 2008 directed that the AO should carefully examine the claim for Head Office expenses in the light of these provisions, as also the relevant clause(s) of the applicable DTAA, before allowing claims towards Head Office expenses.

Audit noticed eight cases¹⁰⁹ of incorrect deduction of ₹ 1,470.35 crore under Section 44C¹¹⁰ to foreign banks with consequent short levy of tax of ₹ 636.07 crore, as given in Table 5.87 below:

Sr. No.	Region	PCIT Charge	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
1	Mumbai	CIT (IT)-3 Mumbai	J3	2017-18 & 2018-19	48.98	21.19	Reply is awaited (November 2025).
2	Mumbai	CIT (IT), Mumbai-2	D1	2016-17	4.69	2.03	Accepted and intimated Audit (August 2023) that the remedial action taken

¹⁰⁸ Section 50C provides that where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, being land or building or both, is less than the value of adopted or assessed or assessable by any authority of State Government for the purpose of payment of Stamp duty in respect of such transfer, the value of adopted or assessed or assessable shall be deemed to be full value of the consideration received or accruing as a result of such transfer.

¹⁰⁹ J3 AY 2017-18 & AY 2018-19 (₹ 48.98 crore), D1 AY 2016-17 (₹ 4.69 crore), D1 AY 2015-16 (₹ 1.97 crore), C1 AY 2014-15 to AY 2018-19 (₹ 1,415.79 crore)

¹¹⁰ Section 44C of the Act provides that non-resident companies having a permanent establishment in India are entitled to claim Head Office expenditure of an amount equal to five *per cent* of the adjusted total income or the amount of expenditure in the nature of head office expenditure, whichever is less, incurred by the assessee as is attributable to the business or profession of the assessee in India.

Table 5.87: Incorrect allowance of deduction under Section 44C to Foreign Banks							(₹ in crore)
Sr. No.	Region	PCIT Charge	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
							under Section 147 (May 2022).
3	Mumbai	CIT (IT), Mumbai-2	D1	2015-16	1.97	0.85	Accepted. (August 2023). Remedial action taken under Section 154 (March 2022).
4	Mumbai	CIT (IT), Mumbai-2	C1	2014-15	245.62	106.25	Not accepted (January 2022). Rebuttal issued (April 2022).
5	Mumbai	CIT (IT), Mumbai-2	C1	2015-16	264.68	114.50	Not accepted (January 2022). Rebuttal issued (April 2022).
6	Mumbai	CIT (IT), Mumbai-2	C1	2016-17	291.63	126.16	Not accepted (January 2022). Rebuttal issued (April 2022).
7	Mumbai	CIT (IT), Mumbai-2	C1	2017-18	316.66	136.99	Not accepted (April 2022). Rebuttal issued (August 2022).
8	Mumbai	CIT (IT), Mumbai-2	C1	2018-19	296.12	128.10	
Total					1,470.35	636.07	

Source: Assessment records of ITD

The Department did not accept five cases at S.No. 4 to 8 of Table 5.87 in CIT(IT) Mumbai – 2 charge stating that deduction towards head office expenses is allowable even though the assessee has not debited the expenses in the books of accounts. The reply of the Department is not acceptable as head office expenses claimed by assessees was disallowed during assessments for AYs 2016-17, 2017-18 and 2018-19 in other similar cases of foreign banks (H8 and S11) on the ground that there was no sufficient evidence on records to prove that expenses incurred towards head office expenses were attributable to Indian branches.

Further, CIT(IT)-2 Mumbai charge has accepted audit observations in two cases at serial nos. 2 and 3 tabulated above and completed the remedial action.

Audit observed that deduction towards head office expenses was allowed although assessee had neither paid the sum of head office expenses attributable to Indian operations to its head office nor debited any such expenditure in its books of accounts, resulting in an irregular allowance of expenses under Section 44C of the Act.

Two illustrative cases are discussed below.

Box 5.38

- a) Charge: CIT (IT)-3 Mumbai
Assessee: J3
AYs: 2017-18 to 2018-19**

The assessee is a non-resident banking company, incorporated in the United States of America and carries out banking activities through its branches in India. Assessment for AY 2017-18 under Section 144C(3) read with Section 143(3) was completed in June 2021,

determining income of ₹ 1,791.96 crore. Similarly, for AY 2018-19, assessment under Section 143(3) read with Section 144C(3) was completed in November 2021, determining income of ₹ 2,024.60 crore. The assessee had claimed and was allowed deductions under Section 44C amounting to ₹ 21.80 crore and ₹ 27.17 crore for AY 2017-18 and 2018-19, respectively. Audit observed that the assessee had not debited such expenses in its books of accounts, prepared for the Indian branches. Further, as the assessee had not debited any expenditure to the Profit and Loss Account for Head Office expenses, no deduction was allowable as an expense under Section 44C of the Act. This had resulted in under assessment of income of ₹ 21.81 crore and ₹ 27.17 crore, involving short levy of tax of ₹ 9.43 crore and ₹ 11.75 crore during AY 2017-18 and 2018-19, respectively.

This was brought to the notice of the DCIT(IT)-3(3)(1), Mumbai, for confirmation of facts and comments in February 2022. Reply of the DCIT(IT)-3(3)(1), Mumbai, is awaited (November 2025) despite the issue of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

b) Charge: CIT(IT)-2 Mumbai

Assessee: C1

AYs: 2014-15 to 2018-19

The assessments of the assessee for AY 2014-15 to 2018-19 were completed after scrutiny, as detailed below:

AY	Assessed under Section	Date of Assessment	Assessed Income (₹ in crore)
2014-15	144(3)/143(3)	23.01.2018	5303.52
2015-16	144(3)/143(3)	06.02.2019	5,562.72
2016-17	144(3)/143(3)	03.02.2020	5,625.38
2017-18	144(3)/143(3)	28.06.2021	6,009.20
2018-19	144(3)/143(3)	22.11.2021	5,618.59

Audit observed that deduction of ₹ 1,414.71 crore towards Head Office expenses during AYs 2014-15 to 2018-19 was claimed and allowed. C1 has a Permanent Establishment (P.E.) in India, and its books of accounts are audited under the provisions of Section 44AB of the Act. As the accounts are prepared as per the relevant Accounting Standards, it is essential that all the expenses relating to the operation of the permanent establishment are accounted for in the books of accounts of the Indian Branch. The audit noted that although Head Office expenses were not debited to the profit and loss account, they were claimed and allowed as a deduction while computing the income of PE in India. The irregular allowance of deduction under Section 44C during the period AY 2014-15 to 2018-19 resulted in underassessment of income of ₹ 1,414.71 crore, involving short levy of tax of ₹ 612 crore.

Audit observation was brought to the notice of the DCIT(IT)-2(1)(1), Mumbai (August 2021 to February 2022). CIT(IT)-2 Mumbai charge has not accepted audit observations of C1 for AY 2014-15 to 2018-19 (January 2022 to April 2022) stating that as provided in Section 44C of IT Act and Article 7 of OECD of Model Commentary 2017 provides for allowability of general administrative expenses incurred by foreign head office in so far as such expenses relates to their business or profession in India. Further, the OECD Commentary also states that the appropriate charge will be deducted in determining profits attributable to permanent establishment. Thus, it claimed that such expenses were allowable.

CIT(IT)-2 Mumbai's reply is not acceptable, as the assessee has a permanent establishment in India and is required to prepare books of accounts, including all expenses incurred on behalf of the permanent establishment. In this case, C1 has not debited any expenses in its books of accounts relating to head office expenses; however, it claimed these expenses while computing taxable income. Since the expenses are not part of the books of accounts, the claim of the assessee was to be disallowed. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may examine the inconsistency in allowance of deduction under Section 44C to foreign banks and issue necessary instructions to the AOs to ensure uniformity in assessments of similar cases.

In response, the Ministry stated (March 2025) that there is no ambiguity in the statutory provisions under Section 44C of the Income Tax Act that require further clarification. However, CBDT is in the process of examining the details of the cases pointed out by the Audit and will take necessary action, as deemed fit.

As the details are under examination, Audit will await further progress made in this regard (November 2025).

5.5.10 Irregular set off and carry forward of losses

Section 72(1) of the Act provides for the carry-forward and set-off of losses, subject to the conditions specified in the Act. Section 72A(1)(b) of the Act provides for carry forward and set off of accumulated losses and unabsorbed depreciation allowance in case of corporate restructuring, viz., amalgamation, demerger, etc, in case of a banking company referred to in Section 5(c) of the Banking Regulation Act, 1949.

Audit observed irregular set-off and carry-forward of losses in 23 cases out of 2,378 cases examined, involving an underassessment of income of ₹ 2,293.35 crore and a consequent short levy of tax of ₹ 510.09 crore, as summarised in **Annexure 5.10** and Table 5.88 below:

Table 5.88: Irregularities in set off/ carry forward of losses						(₹ in crore)	
Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Underassessment	Tax Effect	
1	Ahmedabad	NBFC	2	2015-16 & 2019-20	111.25	47.54	
2	Bengaluru	NBFC	4	2017-18 to 2018-19	284.31	120.63	
3	Chennai	Public Bank	1	2017-18	2.94	1.02	
		Private Bank	1	2015-16	53.25	18.1	
4	Delhi	NBFC	2	2017-18 & 2019-20	68.45	27.97	
5	Hyderabad	NBFC	2	2017-18 & 2019-20	302.38	104.20	
6	Kolkata	Public Bank	1	2010-11	42.87	13.25	
		NBFC	6	2015-16 to 2017-18	311.30	74.09	
7	Mumbai	NBFC	3	2016-17 to 2018-19	302.63	103.29	
		Private Bank	1	2019-20	813.97	0	
Total			23		2,293.35	510.09	

Source: Assessment records of ITD

(Refer Annexure 5.10)

he audit observed that brought-forward losses were allowed to be set off against income without verification of the amounts available for set-off, as per the earlier assessment orders.

Two illustrative cases are discussed below:

Box 5.39: Illustrative cases of Incorrect set-off of losses of amalgamating companies

a) Charge: PCIT-8 Mumbai

Assessee: R9

AYs: 2016-17, 2017-18 and 2018-19

Assessee is registered with the National Housing Bank, and its principal business activity is to provide housing finance. Assessments for AYs 2016-17, 2017-18 and 2018-19 were completed under Section 143(3), 143(3) and 143(3) read with Section 144B in December 2018, December 2019 and August 2021, determining income of ₹ 18.95 crore, loss of ₹ 96.48 crore and income of ₹ 106.40 crore, respectively.

Audit scrutiny of records revealed that in 2016, the assessee company had acquired accumulated losses of ₹ 302.63 crore by amalgamating the credit business of I40 through a scheme of amalgamation approved by the NCLT. As per the scheme of amalgamation, the credit business division (i.e., investing in financially distressed companies) of I40 was demerged from the company and amalgamated with the assessee company. Thus, by

acquiring the said business division, the assessee also acquired the accumulated losses related to the said business. The assessee claimed set-off of the brought-forward losses from I40 (i.e. amalgamating company) against its positive income in the AY 2016-17 and AY 2018-19, and the loss remaining to be set off was carried forward to subsequent years. Since the provisions of Section 72A¹¹¹ are not applicable to NBFCs, the allowance of set-off of accumulated losses of I40 to the assessee company was not in order. Further, as per Section 72A(2), accumulated losses of the amalgamating company shall be allowed to the amalgamated company provided that the amalgamated company continues the business of the amalgamating company for a minimum period of five years from the date of amalgamation. The Section further stipulates that in a case where any of the conditions mentioned above are not complied with, the set off of loss made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with. The omission resulted in incorrect allowance of set-off of losses of ₹ 105.36 crore in AY 2016-17 and ₹ 158.38 crore in AY 2018-19, with consequential short levies of tax of ₹ 36.46 crore and ₹ 54.81 crore in AY 2016-17 and AY 2018-19, respectively. Further, the remaining accumulated loss of ₹ 38.88 crore, with potential tax implications of ₹ 12.01 crore, was also required to be disallowed from being carry forward to the future year. The total tax effect amounted to ₹ 103.29 crore.

The rationale for amalgamation submitted before NCLT was that the assessee company, R9, has the capabilities to expedite and enable the recovery of corporate loans, and the acquisition of the credit business of I40 was a commercial decision and would result in economies of scale. However, it was observed that the assessee had written off the entire investments (in the distressed companies) which were acquired by it under the scheme of amalgamation. It was further observed that the assessee did not make any further investment in any distressed company and continued with its existing home financing business. Further, the Profit and Loss account and the Notes to the accounts related to segment information in the Annual report showed that the assessee had discontinued the credit division business, which was acquired through amalgamation. On this ground also, the assessee was not eligible to claim carry forward of losses of the credit division of I40.

The audit observation was brought to the notice of the DCIT 8(1)(1) Mumbai in March 2022. Reply of the DCIT 8(1)(1), Mumbai, is awaited (November 2025) despite the issue of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

¹¹¹ Section 72A of the Income-Tax Act, 1961, contains provisions relating to carry-forward and set-off of accumulated loss and unabsorbed depreciation allowance in case of re-organisation of business by way of amalgamation or demerger, etc. Although the provisions of Section 72A of the Act specifically provides for carry forward of accumulated losses in case of amalgamation of banking companies, such benefit was not available to NBFCs. Therefore, any accumulated losses of a NBFC will lapse upon amalgamation.

b) Charge: PCIT-3 Bengaluru**Assessee: H9****AYs: 2017-18 and 2018-19**

Assessments of the assessee for AYs 2017-18 and 2018-19 were completed under Section 143(3)/144(13)/144B and 143(3)/143(3A)/143(3B) in January 2022 and April 2021 at income of ₹ 18.28 crore and ₹ 280.24 crore, respectively. Audit observed that set-offs of the brought-forward losses of ₹ 74.31 crore for AY 2017-18 and ₹ 63.58 crore for AY 2018-19 were allowed in excess, without verification of the amounts available for set-off, as per the assessment orders of earlier AYs. This had resulted in excess set-off of carry-forward of losses, resulting in short levy of tax of ₹ 40.63 crore for AY 2017-18 and ₹ 30.15 crore for AY 2018-19.

This audit observation was brought to the notice of the DCIT, Circle-3(1)(1), Bengaluru, in August 2022.

Ministry accepted the audit observation and stated (July 2025) that remedial action is under process. Further details regarding remedial action are awaited (November 2025).

5.5.11 Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty, etc.

Section 4(1) of the Income Tax Act, 1961, provides that income tax is chargeable for every AY in respect of the total income of the previous year of an assessee, according to the rates prescribed under the relevant Finance Act. The Income Tax Act, 1961 provides for the levy of interest¹¹² for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 115JAA of the Act allows credit in respect of tax paid under Section 115JA/115JB. Tax credit determined under Section 115JAA is allowed as a set off in the previous year in which tax is payable on the total income under normal provisions of the Act.

5.5.11.1 Mistake in computation of income, tax and interest

Audit noticed 66 cases out of the sampled cases related to mistakes in the computation of income, levy of tax, surcharge, interest, etc. This led to an amount of tax amounting to ₹ 2,211.94 crore, as summarised in **Annexure 5.11** and Table 5.89 below:

¹¹² Section 234A of the Act provides for levy of interest on account of default in furnishing return of income at specified rates and for specified time period. Section 234B of the Act provides for levy of interest on account of default in payment of advance tax at specified rates and for specified time period. Section 234C of the Act provides for levy of interest on account of default in payment of instalments of advance tax at specified rates and for specified time period. Section 244A (1) of the Act provides that where refund of any amount becomes due to the assessee under the Act, he shall, subject to the provisions of this Section, be entitled to receive, in addition to the said amount, simple interest thereon calculated in prescribed manner.

Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Under-assessment ¹¹³	Over-assessment	Tax Effect
1	Ahmedabad	Private Bank	1	2012-13	0	---	6.79
		NBFC	6	2012-13; 2017-18 to 2019-20	0	---	2.83
2	Bengaluru	Private Bank	2	2018-19	0	---	73.46
		NBFC	2	2018-19	0	---	44.85
3	Chandigarh	Private Bank	1	2015-16	0	---	0.12
		NBFC	2	2015-16	0	---	207.26
4	Chennai	Public Bank	1	2018-19	0	---	6.51
		Private Bank	6	2015-16 to 2018-19	0	---	158.53
		NBFC	2	2012-13 & 2016-17	0	---	1.98
5	Kerala	NBFC	1	2015-16	0	---	0.59
6	Delhi	Public Bank	3	2013-14, 2014-15, 2018-19	0	---	19.59
		Foreign Bank	1	2013-14	0	---	2.34
		NBFC	12	2013-14 to 2019-20	12.64	---	33.28
7	Kolkata	Foreign Bank	1	2018-19	0	---	5.31
		NBFC	7	2012-13, 2016-17 to 2017-18	1.39	---	1.36
			1	2015-16	--	0.25	0.10
8	Mumbai	Public Bank	2	2017-18 & 2019-20	349.61	0 ¹¹⁴	719.02
			2	2016-17 & 2018-19	---	0 ¹¹⁴	519.47
		Private Bank	3	2018-19	0	---	147.73

¹¹³ Audit observed cases where errors had a direct impact on the amount of tax demand required to be paid by the assessee in such cases, as income was assessed correctly underassessment is reflected as zero in the table (refer box 5.40 (a)).

¹¹⁴ Over-assessment issue pertains to the disallowance of foreign tax credit, which was admissible to the assessee.

Sr. No.	Region	Assessee Type	Number of cases	AYs involved	Under-assessment ¹¹³	Over-assessment	Tax Effect
		Foreign Bank	4	2017-18 & 2018-19	0	---	243.79
		NBFC	4	2016-17 to 2019-20	89.24	---	16.97
9.	Jaipur	NBFC	2	2017-18 to 2018-19	0	---	0.06
	Total		66		452.88	0.25	2,211.94

Source: Assessment records of ITD

(Refer Annexure 5.11)

Five Illustrative cases are discussed below:

Box 5.40: Illustrative cases on mistakes in the computation of income, tax and interest**a) Charge: PCIT-Panaji****Assessee: T15****AY: 2018-19**

The Assessment for the AY 2018-19 was completed after scrutiny in September 2021, determining income at ₹ 1,548.68 crore under normal provisions of the Act. Audit observed that the assessee had claimed MAT credit of ₹ 53.66 crore (₹ 5.03 crore pertaining to AY 2014-15 and ₹ 48.63 crore pertaining to AY 2016-17) under Section 115JAA. A review of the assessment records revealed that for AY 2014-15 and AY 2016-17, the assessments were concluded under normal provisions of the Act, and as such, there was no MAT credit available for set off in the said AYs. This resulted in incorrect allowance of MAT credit of ₹ 53.66 crore under Section 115JAA of the Act with a resultant short levy of tax of ₹ 53.66 crore.

Audit observation was brought to the notice of the DCIT-Circle-1(1) Mangalore in August 2022. Reply from DCIT, Circle-1(1), Mangalore, is awaited (November 2025) despite reminders issued in December 2024 and March 2025.

Reply of the Ministry is awaited (November 2025).

b) Charge: PCIT-3, Bengaluru**Assessee: H9****AY: 2018-19**

Assessment of the assessee for AY 2018-19 was completed after scrutiny in April 2021. The audit observed that the assessee had claimed non-existent MAT credit under Section 115JAA, amounting to ₹ 29.64 crore, for the AYs 2008-09 to 2015-16, which was erroneously allowed by the AO. This resulted in incorrect allowance of MAT credit of ₹ 29.64 crore with resultant short levy of tax of ₹ 44.66 crore, including interest under Sections 234B and 234C.

This audit observation was brought to the notice of the DCIT, Circle-3(1)(1), Bengaluru in August 2022. Ministry accepted (July 2025) the audit observation and stated that remedial action is under process. Further details are awaited (November 2025).

c) Charge: PCIT-Panchkula

Assessee: H5

AY: 2015-16

Assessment of the assessee for AY 2015-16 was completed after scrutiny in December 2017. Audit observed that the assessee had claimed carry forward of MAT Credit of ₹ 205.07 crore pertaining to AY 2014-15 during AY 2015-16. It was observed from records of AY 2014-15 that MAT credit was not admissible, as tax was paid under normal provisions in AY 2014-15. Therefore, the MAT credit of ₹ 205.07 crore pertaining to AY 2014-15 was required to be disallowed from being carried forward to future AYs.

Audit observation was brought to the notice of the ACIT Circle Panchkula in August 2022. Ministry did not accept (January 2025) the audit observation stating that the assessee had not claimed any MAT credit in AY 2015-16. *The Ministry's reply is not acceptable as the observation relates to excess carry forward of MAT credit, which is to be examined, and appropriate remedial action is required to be taken to avoid the possibility of inadmissible utilisation of MAT credit in future. Further action in this regard would be awaited in Audit.*

d) Charge: PCIT-1, Madurai

Assessee: M/s T3

AY: 2018-19 and 2019-20

In AY 2018-19 and 2019-20, the assessee had claimed MAT credit of ₹ 35.57 crore and ₹ 5.56 crore, aggregating to ₹ 41.13 crore, brought forward from AY 2015-16 and the same was allowed in the respective scrutiny assessments. Audit observed that no MAT credit was available for AY 2015-16 due to additions made to income in the scrutiny assessment order passed in December 2017 and the subsequent CIT(Appeals) giving effect order passed in March 2019. However, without considering the effect of additions made in assessment/giving-effect order, MAT credit pertaining to AY 2015-16 was incorrectly allowed under Section 115JAA in the assessments completed for AYs 2018-19 and 2019-20. The incorrect MAT credit of ₹ 41.13 crore was required to be withdrawn.

Audit observation was brought to the notice of the ACIT Circle 2(1) Trichy in March 2022. In reply (July 2025), remedial action has been taken for AY 2018-19, and recovery of ₹ 35.57 crore has been made. Details regarding the remedial action taken for AY 2019-20 are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

e) Charge: CIT(IT)-4 Mumbai**Assessee: S9****AY: 2017-18**

Assessment of the assessee for AY 2017-18 was completed in December 2019 at the income of ₹ 710.71 crore. Taxable income comprised business income of ₹ 270.50 crore (taxable rate 40 per cent) and income from other sources of ₹ 440.21 crore (taxable rate 10 per cent). Audit observed that tax amounting to ₹ 144.36 crore only was levied as against the leviable amount of ₹ 161.04 crore. This mistake resulted in a short levy of tax of ₹ 16.68 crore.

This audit observation was brought to the notice of the DCIT(IT)-4(2)(2) in February 2022. In its reply DCIT IT -4(2)(2) did not accept the audit observation (March 2025) stating that audit did not verify the computation of income filed along with the original return of income (filed on 30.11.2017), wherein the assessee had offered income from other sources of ₹ 440.21 crore, which included interest of ₹ 7.74 crore earned by head office and interest of ₹ 69.21 crore on ECB loan, both chargeable at the rate of 10 per cent under the India-Japan Double taxation Avoidance Agreement (DTAA); and interest of ₹ 363.26 crore on ECB loan, taxable at the rate of 5 per cent under Section 194LC of the Income Tax Act and hence, there was no mistake in computation of tax. *A rebuttal was issued to DCIT IT 4(2)(2) (April 2025) stating that the reply is not tenable as it is based on the computation of income furnished with the original return of income filed on 30.11.2017. However, the assessment order dated 17.12.2019 passed under Section 143(3) clearly shows that the assessee had also filed a revised return of income on 28.06.2018. Accepting the revised return of income, the assessing officer had passed an assessment order under Section 143(3) on 17.12.2019, which clearly stated in para 4 that the entire income from other sources of ₹ 440.21 crore is taxable at the rate of 10 per cent under the India-Japan DTAA.*

Reply of the Ministry is awaited (November 2025).

5.5.11.2 Penalty not added while computing taxable income

Section 37 of the Income Tax Act, 1961 provides for an allowance for the deduction of any expenditure incurred for business purposes while computing income under the head 'profits and gains from business or profession'. As per Explanation 1 below, Section 37, any expenditure incurred for any purpose which is an offence, or which is prohibited by law, shall not be deemed to have been incurred for the purpose of business, and no deduction shall be allowed for such expenditure. A tax auditor in his report under Section 44AB in Form 3CD is also required to disclose separately at S.No.21 the amount of fine or penalty incurred during the year for violation of provisions of any law.

Audit noticed irregular allowance of expenditure incurred towards penalties imposed by the RBI in five banks, involving seven cases out of 220 public sector and private sector banks examined, with a tax effect of ₹ 6.11 crore, as summarised in Table 5.90 below:

Sr. No.	Region	PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
1	Bengaluru	PCIT-2 Bengaluru	Public Bank	S15	2019-20	2.00	0.92	Not Accepted (January 2023). Rebuttal issued in May 2024.
2	Kerala	PCIT, Kochi-1	Private Bank	T11	2016-17, 2018-19 & 2019-20	5.04	1.77	Reply awaited (November 2025)
3	Kerala	PCIT, Kozhikode	Private Bank	T13	2019-20	4.00	1.25	Reply awaited (November 2025)
4	Mumbai	PCIT-2, Mumbai	Public Bank	C4	2016-17	4.79	1.66	Accepted (March 2022) and remedial action initiated under Section 154. Further details awaited (November 2025).
5	Mumbai	PCIT-1, Pune	Public Bank	B8	2016-17	1.50	0.51	Not accepted (December 2021). Rebuttal issued (September 2022). Further reply is awaited (November 2025).
				Total		17.33	6.11	

Source: Assessment records of ITD

One case is illustrated below.

Box 5.41

Charge: PCIT-2, Mumbai

Assessee: C4

AY: 2016-17

Assessment of C4, under PCIT-2, Mumbai, for AY 2016-17 was completed after complete scrutiny in December 2018, determining taxable income at ₹ 4,177.23 crore. It was observed from S.No. 21 of the Tax Audit Report in Form 3CD that the assessee had incurred a penalty imposed by the RBI amounting to ₹ 4.79 crore. However, this amount was not added back while computing business income. This had resulted in under-assessment of income to the extent of ₹ 4.79 crore, involving a shortlevy of tax of ₹ 1.66 crore.

Audit observation was brought to the notice of the DCIT 2(1)(1) in February 2022. In reply (March 2022), DCIT 2(1)(1) accepted the audit observation and stated that remedial action under Section 154 would be initiated. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

5.5.11.3 Arithmetical errors in the computation of income and tax

Audit noticed arithmetical errors¹¹⁵ in computation, including errors of irregular allowance of penalty imposed by RBI, errors in Income tax computation sheet due to non-consideration of

¹¹⁵ Section 143(3) of the Income Tax Act, 1961, provides that the AOs, shall by an order in writing, make an assessment of the total income or loss of the assessee and determine the sum payable by him or refund of any amount due to him on the basis of such assessment after taking into account such evidence as the assessee may produce and such other evidence as the AO may require on specified points, and after taking into account all relevant material which he has gathered.

disallowances made as per the assessment order, application of incorrect rate of tax, incorrect levy of surcharge, irregular allowance of inadmissible MAT credit and excess allowance of foreign tax credit. Such errors were noticed in 32 cases out of 2,378 cases examined in the audit involving underassessment of income of ₹ 928.71 crore and overassessment of income of ₹ 952.41 crore, involving tax effect of ₹ 547.45 crore as summarised in **Annexure 5.12** and Table 5.91 below.

Sr. No.	Region	Assessee Type	No.	AYs involved	Under-assessment ¹¹⁶	Overassessment	Tax Effect
1	Ahmedabad	Private Bank	1	2016-17	---	0	2.62
2	Chandigarh	NBFC	2	2016-17 & 2017-18	---	33.23	21.49
3	Chennai	Private Bank	2	2014-15, 2018-19	0	---	54.19
			1	2016-17	---	4.32	1.43
		NBFC	1	2017-18,	---	0	21.87
4	Kerala	Private Bank	1	2018-19	0.98	---	0.34
		NBFC	1	2015-16	0.27	---	0.12
6	Delhi	Public Bank	3	2014-15; 2018-19 & 2019-20	25.93	---	89.43
			3	2016-17, 2017-18 & 2019-20	60.57	---	6.46
		NBFC	3	2017-18 & 2018-19	25.98	---	16.47
			1	2017-18	---	1.36	0.59
7	Kolkata	NBFC	2	2012-13	1.56	---	0.51
8	Mumbai	Public Bank	2	1997-98 & 2018-19	689.51	---	240.82
			4	2015-16 to 2018-19	100.42	---	75.67
		NBFC	3	2014-15 to 2015-16 & 2019-20	23.49	---	8.76
			2	2016-17 & 2019-20	---	913.50	6.68
		Total	32		928.71	952.41	547.45

Source: Assessment records of ITD

(Refer Annexure 5.12)

¹¹⁶ Audit observed cases where errors had a direct impact on the amount of tax demand required to be paid by the assessee in such cases, as income was assessed correctly underassessment is reflected as zero in the table.

One case is discussed below:

Box 5.42: Illustrative cases on arithmetical errors in the computation of income and tax

Charge: PCIT-2, Mumbai

Assessee: D3

AY: 2018-19

Assessee filed a return of income on 29.9.2018 for the AY 2018-19 claiming a loss of ₹ 274.58 crore. Assessment was completed under the faceless assessment scheme in the month of April 2021. In the assessment order, the following additions were made.

S. No.	Nature of addition	₹ in crore
1	Para 4 Addition under Section 14A	3.91
2	Para 5 Bad debts disallowed	581.66
3	Para 6 Broken Period Interest	41.01
4	Para 7 Interest on Perpetual Debt Instrument	23.78
5	Para 8 Interest on NPA	37.55
6	Penalty	1.60
	Total Addition	689.51

It was observed from the computation sheet generated in ITBA, consequent upon completion of the assessment on 19.4.2021, that the addition made in the assessment order was not at all considered. Instead, the loss of ₹ 274.58 crore claimed by the assessee in the return was accepted. Further advance tax and TDS paid by the assessee amounting to ₹ 161.49 crore were refunded to the assessee along with interest of ₹ 16.15 crore under Section 244A. In the absence of complete uploading of the assessment order in the system, the computation of taxable income made at the end of the assessment order could not be seen in the audit. In the computation sheet generated in ITBA, adjustments made to the returned income at the time of assessment were not considered. This had resulted in an under-assessment of income of ₹ 689.51 crore, involving a tax effect of ₹ 238.63 crore.

This was brought to the notice of the DCIT 2(1)(1) in February 2022.

Ministry accepted the audit observation and stated (September 2025) that the remedial action had been taken under section 154 of the Income Tax Act (November 2024).

5.5.12 Audit observations on Related Party Transactions

Audit selected cases for a 360-degree analysis on a PAN-India basis to ascertain whether the credibility/genuineness of various transactions, such as income and expenses, loans and advances, sundry debtors and sundry creditors, interest payments, etc., given to or received from related assesseees was examined. The audit analysed whether the details reflected in the records of the main assessee selected in the sample were verified vis-à-vis the records of the related parties while completing these assessments.

Audit identified 915 cases of related parties in respect of 278 assessments of major assesseees with a view to ascertain the genuineness of the claims of various expenses made by the main assesseees and the veracity of the same vis-à-vis details as per records of related parties.

5.5.12.1 Non-production of records

Of the 915 cases/ related party transactions identified for verification, Audit could examine and verify only 637 cases/ transactions as 278 cases/ transactions were not produced to the Audit. Details of non-production of cases/ transactions for verification are given in **Annexure 5.14**. Audit observed various shortcomings like non-intimation of related party transactions with the jurisdictional Assessing Officers of related parties, difference in amount shown as paid in the books of accounts of the main assessee in comparison with amount recorded by the related party in their books of accounts, difference in loan amount shown in the books of accounts of main assessee vis-à-vis amount shown in the books of accounts of related party etc.

Audit noticed a total of 77 audit observations with a potential tax effect of ₹ 38.97 crore in respect of cases selected for 360-degree analysis (main assesseees) and 41 audit observations having a tax effect of ₹ 14.84 crore in respect of related parties, as detailed in **Annexure 5.13** and Table 5.92 below.

Sl No.	Region	No of cases selected for 360-degree analysis by FAOs	No of Related Party transactions selected by FAOs	No. of Cases/ transactions verified	No. of Cases/ transactions not verified	AQ issued to the main assesseees		AQ issued to related parties	
						No of observations	Tax Effect	No of observations	Tax Effect
1	Ahmedabad	14	39	25	14	02	Nil	07	6.13
2	Bengaluru	33	61	42	19	02	0.59	Nil	Nil
3	Hyderabad	15	29	28	01	02	1.12	Nil	Nil
4	Chandigarh	26	117	117	0	14	32.68	Nil	Nil
5	Kerala	51	133	129	04	17	1.66	26	8.71
6	Lucknow	28	95	01	94	01	0.48	Nil	Nil
7	Kolkata	17	81	17	64	02	2.44	Nil	Nil
8	Delhi	42	59	25	34	Nil	Nil	08	Nil
9	Mumbai	60	301	253	48	37	Nil	Nil	Nil
	Total	286	915	637	278	77	38.97	41	14.84

Source: Assessment records of ITD

(Refer Annexure 5.13)

Out of the observations tabulated above, five significant cases are discussed in para 5.5.12.2 below.

5.5.12.2 Co-ordination within the Income Tax Department

Audit noted variations in disclosure of value of transactions made in the records and documents of the main assessee vis-à-vis that of related parties.

Five cases are highlighted below.

Box No. 5.43: Illustrative cases on co-ordination within the Income Tax Department

(a) Charge: Pr.CIT-2, Bengaluru

Assessee: M/s J5

AY: 2014-15, 2018-19

In this case, the returns of income for AYs 2014-15 and 2018-19 were filed at an income of ₹ 80.13 crore (March 2016) and a loss of ₹ 1,035.66 crore (August 2018), respectively. The scrutiny assessments for AYs 2014-15 and 2018-19 were completed under Section 143(3), determining income of ₹ 86.69 crore (December 2017) and loss of ₹ 1,035.66 crore (September 2021), respectively. Audit observed that payments of ₹ 3.00 crore towards 'service charges' and ₹ 21.35 crore towards professional services' were made to its related parties, viz. J6 and J7 in AYs 2014-15 and 2018-19, respectively. However, the related parties had accounted for only ₹ 2.89 crore and ₹ 19.75 crore in AY 2014-15 and AY 2018-19, respectively, in their books of account, resulting in a total income of ₹ 1.71 crore escaping assessment with a potential tax impact of ₹ 0.58 crore.

The observations were issued to the DCIT, Circle-4(3(1), Bengaluru (August 2022). The reply of the DCIT, Circle-4(3(1), Bengaluru, is awaited (November 2025) despite the issue of reminders in December 2024 and March 2025.

Reply of the Ministry is awaited (November 2025).

(b) Charge: Pr. CIT (Central), Kanpur

Assessee: M/s I6

AY: 2018-19

In this case, the return of income for AY 2018-19 was filed at an income of ₹ Nil (October 2018). The scrutiny assessment for the AY 2018-19 was completed under Section 143(3), accepting returned income as such (February 2021).

Scrutiny Assessment of the assessee for AY-2018-19 was completed under Section 143(3) on 20.02.2021. Audit observed that the assessee had shown the closing balance of loans of ₹ 16.28 crore given to Associate company M/s I39 as on 31.03.2018 under Schedule No. 2.11, but as per the related party disclosure by M/s I39, the loan of ₹ 16.74 crore was shown as an outstanding liability as on 31.03.2018. Thus, there was a difference of ₹ 0.46 crore in the loan account, which needs examination.

The observation was issued to the DCIT Central Circle-II, Noida, in April 2022. While accepting the audit observation, the DCIT Central Circle-II, Noida (October 2024), stated that remedial action was initiated under Section 148. Further details regarding remedial action are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

(c) Charge: Pr. CIT-4, Delhi
Assessee: M/s R1
AY: 2017-18

Scrutiny assessment for the AY 2017-18 was completed under Section 143(3) at an income of ₹ 8,167.74 crore (December 2019) against the returned income of ₹ 7,580.76 crore. As per Clause 23 of the Form 3CD, R1 made a payment of ₹ 30.65 crore on account of monitoring fees to R1.

Audit noticed that as per para 28.3 (Related Party Transaction) of Significant Accounting Policies of R12, an amount of ₹ 5.09 crore was disclosed as income received under "Services rendered from R1 (Holding Company)". This resulted in an under-assessment of the income of ₹ 25.56 crore in respect of monitoring fees for R12. The observation was communicated to the DCIT Circle 10(1), Delhi, in June 2022. A reply from the DCIT Circle 10(1), Delhi, is awaited (November 2025) despite the issue of reminders in April 2023, April 2024, and November 2024.

Reply of the Ministry is awaited (November 2025).

(d) Charge: CIT(IT), Mumbai
Assessee: M/s S11
AY: 2015-16 to 2018-19

Returns of income of the assessee for AYs 2015-16, 2016-17, 2017-18 and 2018-19 were filed at income of ₹ 4,250.42 crore (November 2015), ₹ 609.68 crore (November 2016), ₹ 3,966.26 crore (November 2017) and ₹ 2,819.32 crore (November 2018) respectively. The scrutiny assessment for AYs 2015-16, 2016-17, 2017-18 and 2018-19 was completed at income of ₹ 5,360.11 crore (January 2019), ₹ 1,435.30 crore (February 2020), ₹ 6,394.68 crore (October 2021) and ₹ 3,127.18 crore (November 2021) respectively.

A comparison of payments made by S11 on account of service charges and interest on fixed deposit to its related party, namely S46, during the period from AY 2015-16 to 2018-19, as shown in Clause 23 of the Form 3CD, vis-à-vis the Form-3CEB filed by S46 revealed the following variations:

Sr. No.	AY	Nature of transaction	As per Form 3CD of S11	As per Form 3CEB of S46	Difference
1	2015-16	Service charges paid	95.60	1.39	94.21
2	2015-16	Interest on fixed deposits	1.00	0.99	0.01
3	2016-17	Service charges paid	32.41	1.13	31.28
4	2017-18	Service charges paid	32.18	0	32.18
5	2018-19	Service charges paid	37.37	0	37.37
Total			198.56	3.51	195.05

The variations seen in the audit, which reflect possible escapement of income, were communicated to DCIT(IT)-4(2)(2), Mumbai, charge of the related party in March 2022. Reply from DCIT(IT)-4(2)(2), Mumbai charge is awaited (November 2025) despite the issue of reminders in April 2024 and November 2024.

Reply of the Ministry is awaited (November 2025).

(e) Charge: PCIT-2, Mumbai

Assessee: M/s H4

AY: 2014-15 to 2016-17

Returns of income of the assessee for AYs 2014-15, 2015-16 and 2016-17 were filed at income of ₹ 12,595.28 crore (November 2014), ₹ 15,265.95 crore (November 2015) and ₹ 19,228 crore (October 2016) respectively. Scrutiny assessments for AYs 2014-15, 2015-16 and 2016-17 were completed under Section 143(3), determining income of ₹ 12,981.77 (December 2019), ₹ 16,013.07 crore (February 2019) and ₹ 20,659.15 crore (December 2018) respectively.

A comparison of payments made by H4 on account of support services to its Related Party, namely A24 assessed under DCIT Circle 2(1)(1), Ahmedabad, disclosed variations between the information as per clause-23 of the Form-3CD and the information furnished in the ITR filed by A24 during the AYs 2014-15 to 2015-16. The details are shown below:

Sr. No.	AY	As per Form 3CD of H4	Amount as shown in the return of the recipient	Difference
1	2014-15	429.80	388.45	41.34
2	2015-16	398.31	407.30	-8.98
3	2016-17	464.22	428.48	35.74
Total		1,292.33	1,224.23	68.10

The variations seen in the audit, which reflect possible escapement of income, were communicated to DCIT Circle 2(1)(1), Ahmedabad, being the AO in charge of the related party in April 2022. Reply from DCIT Circle 2(1)(1), Ahmedabad is awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may issue instructions for sharing details of related party transactions with the jurisdictional Assessing Officers and for strengthening the cross-verification of transactions made in the records and documents of the main assessee vis-à-vis those of related parties.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

As the recommendation is under examination, progress in this regard would be awaited in the Audit.

Chapter 6

Internal Control, Co-ordination Issues and Monitoring Mechanism

Audit ascertained whether a proper internal control system, monitoring, and Co-ordination mechanisms exist within the Department and with external Departments to ensure appropriate, timely action and quality assessments. Internal controls refer to the mechanisms, rules, and procedures implemented by the Department to ensure the correctness of information gathered, promote accountability, and prevent wrong claims during various proceedings under the provisions of the Act. Co-ordination and timely sharing of vital information is essential for cross-verifying information of related assesseees to prevent possible revenue leakages.

Audit noted that the Department did not have an institutional mechanism in place for verifying the claims of assesseees concerning the genuineness of claims of rural advances made by the assesseees in their Income Tax Return. Audit observed irregularities in 21 cases where deduction of provision for bad and doubtful debts was allowed without verification of eligibility for reasons such as inconsistency in allowing deduction for rural advances based on census data for the same assessee across different AYs, allowance of deduction under Section 36(1)(viiia) without restricting the same to the amount of provisions made in the books and advances given by non-eligible rural branches were irregularly allowed as deduction under Section 36(1)(viiia). Audit observed instances of short deposit of tax by related parties involved in transactions with the main assessee, as evident from records of the main assessee, which were not communicated to Jurisdictional Assessing Officers (JAOs). Information on the write-off of bad debts/ loans written off in borrowers' financial statements was not communicated to the JAOs of the borrowers. Neither did the assessee disclose nor did the Tax Auditors certify vital information on recovery against bad debts, the deduction for bad debts, provision for bad and doubtful debts, etc., in the prescribed columns of ITR and TAR, respectively. Non-disclosure by the assessee and non-certification by the Tax Auditors of such significant details involves the associated risk of incorrect allowance of deduction and income escaping assessment.

Audit observed instances where, though regular disallowances were made on various grounds during AY 2017-18 and AY 2018-19, similar disallowances were not made during the scrutiny assessment for AY 2019-20 under the faceless assessment scheme as discussed in para 6.1.3 of this chapter. The conclusion of assessments without considering tax treatment of similar claims in earlier assessment years, and allowance of DIT relief without verification, is indicative of weaknesses in assessment procedure and internal controls.

Out of the sampled cases examined in the Audit, the Department conducted an Internal Audit in 290 cases. Audit observed irregularities in 123 instances involving the tax effect of ₹ 3,773.39 crore in cases that the Internal Audit also checked. Audit observed discrepancies in data provided by RBI on recovery made against bad debts written off as reported by Schedule Commercial Banks (SCBs) to RBI vis-à-vis data furnished by Tax Auditors in Form 3CD to ITD. Further, the Audit observed cases where the amount reported as recovered to NHB was not reported in the Tax Audit Report. Audit also observed discrepancies in bad debts written off as reported by SCBs to RBI and the NHB vis-à-vis bad debts claimed in the return by the assesseees and those allowed to the assesseees.

ITD does not have a monitoring mechanism for examination and regulation of claims of deduction allowed under Section 36(1)(viiia) towards provision for bad and doubtful debts allowed in previous years. The need for a monitoring mechanism becomes more significant in cases where the amount allowed under Section 36(1)(viiia) is revised due to re-computation of income consequent to rectification, appeal effect, etc, as the amount of bad debts allowed in subsequent years also needs to be revised accordingly. Due to the non-availability of data on deductions in the previous year, the amount of bad debts allowed is prone to inaccuracies and non-compliance.

The summary of the issues noticed is as follows.

Para No.	Gist of issues	Total cases Examined	Cases where the Audit noticed irregularities
6.1	Internal Control Issues		
6.1.1	Issues relating to deduction for provision for bad and doubtful debts under Section 36(1)(viiia)	478	21
6.1.2	Quality of assessments	2,378	60
6.1.3	Inconsistencies in the computation of income in assessments completed under the Faceless Assessment Scheme	Internal Control	2
6.1.4	Effectiveness of Internal Audit	290	123
6.2	Co-ordination issues with the other regulatory bodies		
6.2.1	Recovery against bad debts written off, as per Form 3CD not matching with the RBI Data	353	58
6.2.2	Recovery against bad debts written off, as per Form 3CD not matching with the NHB Data	40	15
6.2.3	Bad debts written off- as per Form 3CD not matching with RBI/NHB Data	2,378	125
6.3	Monitoring mechanism in ITD		
6.3.1	Lack of a monitoring system and non-maintenance of the record of deduction allowed under Section 36(1)(viiia) for adjustment against future claims of bad debts written off	628	80

Para No.	Gist of issues	Total cases Examined	Cases where the Audit noticed irregularities
6.3.2	Monitoring of claims of deduction towards bad debts written off and provision for bad and doubtful debts	Monitoring Issues	Monitoring Issues
6.3.3	Non-sustainability of additions made in the scrutiny assessment	Monitoring Issues	41
	Total		525

6.1 Internal Control Issues

Internal controls can help improve operational efficiency by improving the accuracy and timeliness of information availability. Some of the issues relating to internal control noticed during the Performance Audit are discussed below.

6.1.1 Issues relating to deduction for provision for bad and doubtful debts under Section 36(1)(viiia)

Audit observed from the records available in assessment folders that the Department had not put in place any institutional mechanism to verify the claim of the assessee with reference to the genuineness of the claim of rural advances made by the assessee in their return.

Audit noticed in 21 cases of nine assessee out of 478 cases¹¹⁷ examined that the inadmissible deduction for provision made for bad and doubtful debts was irregularly allowed without verification of its eligibility, as detailed in Table 6.1 below:

Sr. No.	Region/ Charge	Name of Assessee/ AY	Sector	Gist of Issue	Short/ Excess Allowance	Reply of the Department
1	Ahmedabad/ PCIT-1, Ahmedabad	A6, AY 2012-13, 2015-16, 2016-17	Private Bank	Deduction relating to rural advances of ₹ 576.49 crore made by the assessee was allowed without any verification of its eligibility.	576.49 (Excess allowance)	Accepted for AY 2015-16 and 2016-17 (May 2022). Further details awaited (November 2025). The reply for AY 2012-13 is awaited (November 2025).
2	Mumbai/ PCIT-2, Mumbai	Y1, AY 2018-19	Private Bank	Disallowance of the assessee's claim for deducting ten per	96.76 (short allowance)	The reply is awaited (November 2025).

¹¹⁷ The total number of cases where provision for bad and doubtful debts was allowed is as per the toolkit data.

Table 6.1: Observations relating to the deduction allowed for provision made for bad and doubtful debts (₹ in crore)						
Sr. No.	Region/ Charge	Name of Assessee/ AY	Sector	Gist of Issue	Short/ Excess Allowance	Reply of the Department
				cent of rural advances by stating that Explanation 2 to Section 36(1)(vii) elaborates and explains that there should only be one account for provision for bad and doubtful debts under clause (vii) of sub-section 36(1).		
3	Chennai/ PCIT-4, Chennai	I5, AY 2014-15, 2015-16, 2016-17, 2017-18 & 2018-19	Public bank	In the scrutiny assessment of AY 2019-20, it was held that the rural branch population data were not reliable as they were not based on the Census 2011 data, and the deduction relating to rural branches under Section 36(1)(vii) was disallowed. As the same Census Data applies to the AYs 2014-15 to 2018-19, a similar disallowance was required to be made.	4,484.38 (Excess allowance)	Remedial action under Section 147 for the Assessment Years 2014-15 and 2015-16 is barred by limitation on 31-03-2022. The reply is awaited for AY 2016-17 to AY 2018-19 (November 2025).
4	Chennai/ PCIT-1, Chennai Charge	E4, AY 2017-18 & 2018-19	Private Bank	Test Check of the population details of the rural branches revealed that the population as per the 2011 Census Data was more than	35.17 (Excess allowance)	The reply is awaited (November 2025).

Sr. No.	Region/ Charge	Name of Assessee/ AY	Sector	Gist of Issue	Short/ Excess Allowance	Reply of the Department
				10,000; hence, such branches do not qualify as "rural branches" and were not eligible for deduction for rural advances under Section 36(1)(vii) for the AYs 2017-18 and 2018-19. Moreover, for the AY 2017-18, as the bank had been notified as a commercial bank with effect from 23.12.2016 by the RBI, the period for which the rural advances are to be reckoned for deduction is four months (December 2016 to March 2017) and not the entire previous year, as claimed by the bank.		
5	Chandi-garh/ PCIT Faridabad	B10, AY 2016-17	NBFC	Assessee claimed and was allowed an inadmissible deduction for provision for bad and doubtful debts.	18.97 (Excess allowance)	The reply is awaited (November 2025).
6	Chandi-garh/PCIT Faridabad	I16, AY 2016-17	NBFC	Assessee claimed and was allowed an inadmissible deduction for provision for bad and doubtful debts.	0.05 (Excess allowance)	JAO stated (March 2022) that the deduction was not allowable, but due to time barring, no remedial action could be taken.

Sr. No.	Region/ Charge	Name of Assessee/ AY	Sector	Gist of Issue	Short/ Excess Allowance	Reply of the Department
7	Chennai/ PCIT-1, Madurai	T6, AY 2014-15 to 2018-19	Private Bank	Although the deduction under Section 36(1)(vii) read with explanation 2 under Section 36(1)(vii) is required to be restricted to the amount of provisions made in the books of accounts without bifurcating the same as pertaining to rural and non-rural branches; the restriction was made with reference to provisions towards bad and doubtful debts (as per books) made by the rural branches only while ignoring the provisions made by the non-rural branches.	620.73 (short allowance)	The reply is awaited (November 2025).
8	Chennai/ PCIT-4, Chennai	I5, AY 2019-20	Public bank	While re-computing the deduction under Section 36(1)(vii) during the assessment, a deduction was allowed at 7.5 <i>per cent</i> instead of at the applicable rate of 8.5 <i>per cent</i> of the Gross Total Income, resulting in a short allowance.	396.82 (short allowance)	The reply is awaited (November 2025).

Sr. No.	Region/ Charge	Name of Assessee/ AY	Sector	Gist of Issue	Short/ Excess Allowance	Reply of the Department
9	North Eastern Region/ PCIT- Guwahati	N1, AY 2018-19 to 2019-20	NBFC	Assessee claimed and was allowed an inadmissible deduction for provision for bad and doubtful debts.	13.15 (Excess allowance)	Accepted for AY 2018-19 and 2019-20. Remedial action taken for both AYs under Section 147 r.w.s 144B in March 2024.

Audit noted that the Department had not established any institutional mechanism to verify claims regarding deductions for provision for bad and doubtful debts under Section 36(1)(viiia). Furthermore, deductions were allowed for rural advances given by ineligible branches, which resulted in inconsistent allowance of deduction under Section 36(1)(viiia) in the case of the same assessee across different AYs.

Two cases are discussed in **Annexure 6.8**.

Recommendation:

CBDT may put in place a proper institutional mechanism for verification of claims of deductions based on aggregate rural advances and their eligibility under the provisions of Section 36(1)(viiia) of the Act.

Ministry stated in its reply (May 2025) that a new rule based on the relevant recommendation/suggestion is currently under consideration of the CASS Committee 2025. *As the recommendation is under consideration, details of action taken in this regard will be awaited in the Audit.*

6.1.2 Quality of assessments

Assessing Officers are required to follow the provisions of the Income Tax Act, Income Tax Rules and procedures laid thereunder, and instructions issued by CBDT from time to time while finalising income tax assessments. Additions made in the assessment, ignoring clear provisions in the Act, are bound to be struck down in the appeal process. Compliance issues involving tax implications are discussed in detail in Chapter 5. Some control weaknesses observed during the performance audit that have no tax implications are discussed below.

6.1.2.1 Mismatch in allowing credit for taxes paid

An Assessing Officer is required to examine all the information and records available with him while finalising the assessment and determine taxable income and tax liability as per the provisions of the Act.

Audit observed one case of irregular allowance of tax credit during assessment without considering the taxes paid, as reflected in the Department's OLTAS¹¹⁸ data, which was indicative of internal control deficiencies. The case is discussed below:

Return filed by M/s T8 under PCIT Srinagar Commissionerate was assessed after complete scrutiny for AY 2012-13, AY 2015-16, and AY 2017-18 in March 2015, December 2017, and December 2019 with net demand of ₹ 10.09 crore, ₹ 112.86 crore and ₹ 22.73 crore respectively. Assessment for AY 2016-17 was assessed after a summary assessment, determining a refund of ₹ 258.95 crore. In all the years, credit for taxes paid allowed in the assessment was less than the taxes paid shown in OLTAS. Details are given in Table 6.2 below.

AY	Gist of Issue	Reply of the Department
2012-13	The Department allowed taxes paid of ₹ 403.91 crore, against ₹ 426.89 crore shown in OLTAS, resulting in a mismatch of ₹ 22.98 crore.	The reply is awaited (November 2025).
2015-16	The Department allowed taxes paid of ₹ 301.18 crore, against ₹ 656.79 crore (up to September 2018) shown in OLTAS, reflecting a mismatch of ₹ 355.60 crore.	The reply is awaited (November 2025).
2016-17	The Department allowed taxes paid of ₹ 455.02 crores, against ₹ 485.88 crores as depicted in OLTAS, resulting in a mismatch of ₹ 30.86 crores.	The reply is awaited (November 2025).
2017-18	The Department allowed taxes paid of ₹ 146.26 crore, against ₹ 170.04 crore as depicted in OLTAS, resulting in a mismatch of ₹ 23.78 crore.	The reply is awaited (November 2025).

The short allowance of tax credit for taxes already paid by the assessee in AYs 2012-13, 2015-16 to 2017-18 resulted in an overcharge of tax.

Reply of the Ministry is awaited(November 2025).

6.1.2.2 Issues relating to the computation of book profits under the special provisions of Section 115JB

The explanation below Section 115JB¹¹⁹ provides for adjustments to be made to net profit to arrive at book profit for the purpose of this Section. Audit observations regarding irregularities

¹¹⁸ Online Tax Accounting System (OLTAS) is a system for collection, accounting and reporting of the receipts and payments of direct taxes from all categories of taxpayers, online through a network of bank branches.

¹¹⁹ Section 115JB of the IT Act prescribes that where the tax computed under normal provisions is less than the tax payable on book profits under special provisions of Section 115JB, an assessee would be liable to pay tax on book profits as per special provisions.

in the computation of book profit having tax impact have been discussed in detail in para no. 5.5.7 of Chapter 5.

Audit noticed that in five¹²⁰ cases under PCIT-1 Jaipur, one case¹²¹ under PCIT-2 Jaipur and one case¹²² under PCIT-1, Ahmedabad provisions made for standard assets and provisions for bad and doubtful debts were not added back while computing book profits under Section 115JB. Further, in Ahmedabad region, the aforementioned provisions were added back to the assessee's returned income during AY 2017-18, however the same remained to be added back in AY 2018-19. Details of irregularities in the computation of book profit are given in Table 6.3 below.

Sl. No.	PCIT charge	NBFC	AY	Assessed under Section/ Date of assessment	Details of Items debited to Profit and Loss Account	Amount debited in Profit and Loss Account towards provision for NPA and provision for standard assets etc.
1.	PCIT-1 Jaipur	A5	2017-18	143(3) 22.12.2019	Provision for NPA and Standard Assets	22.37
2.	PCIT-1 Jaipur	A19	2017-18	143(3) 21.12.2019	Provision for NPA and Standard Assets	3.82
3.	PCIT-1 Jaipur	E2	2017-18	143(3) 15.12.2019	Provision for NPA	3.87
4.	PCIT-1 Jaipur	E2	2018-19	143(1) 25.12.2019	Provision for NPA, Standard Assets and Contingent Provision for other advance	6.64
5.	PCIT-1 Jaipur	E2	2019-20	143(1) 29.05.2020	Provision for NPA, Standard Assets and Contingent Provision for other advance	8.80
6.	PCIT-2 Jaipur	N3	2017-18	143(3) 23.12.2019	Provision for Standard Assets, Sub-Standard Assets and Bad and Doubtful Debts	0.14
7	CIT-1 Ahmedabad	G4	2018-19	143(3) 27.09.2021	Provision for NPA	6.87
		Total				52.51

¹²⁰ A5 AY 2017-18, A19 AY 2017-18, E2 AY 2017-18 to 2019-20

¹²¹ N3 AY 2017-18

¹²² G4 AY 2018-19

Incorrect computation of book profit to the extent of ₹ 52.51 crore by allowing inadmissible reduction for computation of book profit under Section 115JB viz. provision for standard assets, provision for NPA, contingent provision for other advances etc. indicates procedural inadequacies within the Department.

The audit observations were brought to the notice of the Department in February¹²³ 2022 and March 2022¹²⁴. *In Jaipur region the Department replied (February 2022) in respect of two cases¹²⁵ stating that the objection raised is under consideration, and if found acceptable, remedial action will be taken as per the Income Tax Act. The Department's reply in the remaining cases is awaited (November 2025).*

Recommendation:

CBDT may evolve a system of monitoring unascertained liabilities such as provision for standard assets, provision for non performing assets and provision for bad and doubtful debts as shown in the computation of income and Schedule MAT of ITR to ensure correct computation of book profit under special provisions of the Act.

Ministry stated in its reply (May 2025) that a new rule based on the relevant recommendation/suggestion is currently under consideration of the CASS Committee 2025. *As recommendation is under consideration details of action taken in this regard will be awaited in Audit.*

6.1.2.3 Lack of Co-ordination with other jurisdictional officers

A well-laid internal control system, monitoring, and Co-ordination mechanism within the Department and with external Departments is essential to ensure appropriate, timely action and quality assessments. Audit noted that the information on related party transactions with the main assessee was neither communicated to the jurisdictional AOs of the related parties for cross verification of information on same claim made by borrowers in their ITR and TAR nor did jurisdictional AO of main assessee verify it for correctness of the claims resulting in short levy of tax of ₹ 14.84 crore in 41 cases, as discussed in para 5.5.12.2 of this report.

Audit observed a lack of co-ordination within the Department in 11 cases of six main assessees as it could not be ascertained whether the AOs communicated the details of loans written off against borrowers to the jurisdictional AOs of the borrowers for verification of taxation of income arising out of cessation of liability as given in Table 6.4 below.

¹²³ PCIT-1 Jaipur

¹²⁴ PCIT-2 Jaipur and CIT-1 Ahmedabad

¹²⁵ A5 (AY 2017-18), A19 (AY 2017-18).

Table 6.4: Issues relating to lack of Co-ordination with other jurisdictional officers					
Sr. No	Region/ Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Department's reply
1	Kolkata / PCIT, Kolkata-1	M7, AY 2015-16 [Section 143(3) dated 20.12.2017] and AY 2016-17 [Section 143(3) dated 21.12.2018]	NBFC	Short deposit of tax of ₹ 17.25 crore (₹ 11.59 crore for AY 2015-16, ₹ 5.20 crore for AY 2016-17) by the related party involved in a transaction with the assessee, as evidenced from records not communicated to the jurisdictional assessment charges for recovery. These issues were pointed out to the Department in April 2022.	The reply is awaited (November 2025).
2	Kolkata / PCIT, Kolkata-3	M16, AY 2017-18 Section 143(3) dated 16.12.2019	NBFC	Short deposit of tax of ₹ 0.46 crore for AY 2017-18) by the related party involved in a transaction with the assessee, as evidenced from the records not communicated to the jurisdictional assessment charges for recovery. This issue was pointed out to the Department in April 2022.	The reply is awaited (November 2025).
3	Bengaluru/ PCIT- Panaji/Circle-1(1) Mangalore	T15, AY 2019-20, Section 143(3)/144B dated 29.09.2021	Private Bank	Bad debts amounting to ₹ 895.19 crore were claimed as written off, out of which ₹ 763.55 crore was allowed during AY 2019-20 as a deduction but was not communicated to Jurisdictional AOs of the borrowers for verification of amounts offered to taxation.	The reply is awaited (November 2025).
4	Bengaluru/ PCIT- 2/CIRCLE- 4(3)(1)	J5, AYs 2016-17 to 2019-20 Section 143(3)/144B dated 28.12.2019 [AY 2017-18]	NBFC	Bad debts written off amounting to ₹ 2,945.62 crore (₹ 39.95 crore for AY 2016-17, ₹ 122.11 crore for AY 2017-18, ₹ 140.30 crore for AY 2018-19 and ₹ 2,643.26 crore for AY 2019-20) allowed and claimed as deduction was not communicated to Jurisdictional AOs for verification of amounts offered to taxation by the borrowers.	The reply is awaited (November 2025).

Sr. No	Region/ Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Department's reply
5	Bengaluru/ PCIT-3 Bengaluru	H9, AYs 2014-15 & 2016-17 Section 143(3)/144C(5) dated 26.11.2018 (AY 2014-15) & Section 143(1) dated 12.08.2017	NBFC	Bad debts written off amounting to ₹ 180.40 crore (₹ 82.97 crore for AY 2014-15, ₹ 97.43 crore for AY 2016-17) allowed and claimed as deductions were not communicated to Jurisdictional AOs for verification of amounts offered to taxation by the borrowers.	The reply is awaited (November 2025).
6	Chandigarh / PCIT, Panchkula	H5, AY 2017-18 Section 143(3) dated 11.12.2019	NBFC	Confirmation of the loan outstanding at the end of the year was not sought at the time of assessment.	Department Intimated (November 2025) that action has been taken under section 147 read with Section 144B in March 2024.

One illustrative case of a lack of coordination within the Department is discussed in **Annexure 6.9**.

Though the PANs of borrowers were available on records produced, the Audit did not find any instance of the Assessing Officers communicating details of borrowers or coordinating with the jurisdictional Assessing Officers to cross-verify the details of loans written off in the borrowers' books of accounts. Timely sharing of information relating to write-off of bad debts by the lenders for the money lent to the borrowers will ensure that the income arising from cessation of liability is brought to tax in the hands of the borrowers.

Recommendation:

CBDT may institutionalise a Standard Operating Protocol for co-ordination between the jurisdictional Assessing Officers to monitor the tax liability of the borrowers on account of write-off.

In its reply (November 2024), the Ministry stated that the recommendation is under examination. *Further details are awaited (November 2025).*

6.1.2.4 Incomplete submission of information in ITR-6 and Tax Audit Report

The format of ITR-6 for filing income tax returns by companies and Form 3CD supporting the Tax Audit Report has been designed by the CBDT, keeping in view the information required by the Department for completing the assessment in a transparent manner. The various columns in ITR-6 and the Tax Audit Report in Form 3CD are intended to capture vital information to assist the Assessing Officers in arriving at the correct taxable income.

Audit observed 23 instances out of 2,378 cases where the assessee did not furnish the information as prescribed in the ITRs and Tax Audit Report forms, as shown in Table 6.5 below:

Sr. No	Region	Charge	Name of Assessee/AY	Sector	Gist of Issue	Reply of the Department
1	Gujarat	PCIT 1 Ahmedabad	A6 AY 2016-17; (143(3) read with section 144C(3) dtd.28.01.2020	Private Bank	Bad debts of ₹ 3,163.94 crore claimed by the assessee were not shown in the ITR.	The reply is awaited (November 2025).
2	Gujarat	PCIT 1 Ahmedabad	A6 (AY 2011-12 (143/147 dtd.15.11.2018) ; AY 2012-13 (143/147 dtd.15.11.2018) ; AY 2015-16 (143/263 dtd.02.02.2018) & AY 2016-17 (143/144C(3) dtd.28.01.2020)	Private Bank	The recovery of bad debts amounting to ₹ 947.41 crore (₹ 325.22 crore for AY 2011-12, ₹ 291.84 crore for AY 2012-13, ₹ 169.86 crore for AY 2015-16 and ₹ 160.49 crore for AY 2016-17) was not shown in the prescribed column in the ITRs for all four years.	The reply is awaited (November 2025).
3	Lucknow	PCIT – Bareilly	T7, AY 2017-18; (143(3) dated 06.11.2019)	Private Bank	In the Computation of Income the assessee claimed PBDD of ₹ 29.52 crore which was neither passed through the P&L account nor shown under column 40 of the ITR.	The reply is awaited (November 2025).
4	Jaipur	PCIT-1 Jaipur	A5 AY 2018-19 (143(3) dated 19.03.2021) & 2019-20 (143(1) dated 11.11.2020)	NBFC	Details of PAN as required in serial number 23 of Form 3CD about related party transactions specified under Section 40A(2)(b) were not furnished by the tax auditors.	The reply is awaited (November 2025).

Table 6.5: Incomplete submission of details in ITR-6 and Tax Audit Report						
Sr. No	Region	Charge	Name of Assessee/AY	Sector	Gist of Issue	Reply of the Department
5	Ahmedabad	PCIT-1, Ahmedabad	H10, AY 2016-17 (143 dtd.19.12.2018) ; AY 2017-18 (143 dtd.19.12.2019) ; AY 2018-19 (143/144B dtd.23.08.2021) ; AY 2019-20 (143/144B dtd.26.09.2021)	NBFC	Recovery against bad debts amounting to ₹ 526.72 crore (₹ 51.74 crore for AY 2016-17, ₹ 75.28 crore for AY 2017-18, ₹ 152.83 crore for AY 2018-19 and ₹ 246.87 crore for AY 2019-20) was not disclosed separately in the ITR at S.No 20 of Part- A of Schedule BP under Deemed income under Section 41.	Remedial action under Section 263 was approved by the PCIT-1 Ahmedabad on 21.12.2023. Further details are awaited (November 2025).
6	Ahmedabad	PCIT-1, Ahmedabad	G4 AY 2018-19, 143(3) dated 27.09.2021	NBFC	Recovery against bad debts was not disclosed separately in the ITR at S.No 20 of Part-A of Schedule BP under Deemed income under Section 41.	DCIT Gandhinagar did not accept the audit observation stating (February 2023) that the assessee had already offered Bad debt recovery under other income in Part A-P&L, Item No. 2(x) of ITR. Therefore, it was not mandatory to mention recovery in Sr. No. 20 of Schedule BP. The reply is not acceptable as filing Part A-OI of ITR is mandatory for those liable to audit under Section 44AB, in which Sr. No. 14 specifically asks for details of deemed income under Section 41.
7	Jaipur	PCIT-1 Jaipur	E2, AY 2016-17 (143(1) dated 25.05.2017) & AY 2019-20 (143(1) dated 29.05.2020)	NBFC	Details of PAN as required in serial number 23 of Form 3CD about related party transactions specified under Section 40A(2)(b) was invalid/ incorrect.	The Department accepted (November 2025) and stated that it was an clerical error.
8	Jaipur	PCIT-1 Jaipur	E2, AY 2017-18 (143(3) dated 15.12.2019), AY 2018-19 (143(1) dated 25.12.2019) & AY 2019-20	NBFC	Recovery against bad debts was not shown at Sr.No.25 of the TAR in respect AYs 2017-18, 2018-19 and 2019-20 though it was	The reply is awaited (November 2025).

Table 6.5: Incomplete submission of details in ITR-6 and Tax Audit Report						
Sr. No	Region	Charge	Name of Assessee/AY	Sector	Gist of Issue	Reply of the Department
			(143(1) dated 29.05.2020)		credited to the P&L account.	
9	Jaipur	PCIT-1 Jaipur	A19, AY 2017-18 [143(3) dated 21.12.2019] & AY 2018-19 [143(3) dated 03.03.2021]	NBFC	Recovery against bad debts for AY 2018-19 and capital expenditure were not shown in TAR at Sr.Nos. 25 and 21 respectively.	As per the reply from DCIT Circle 1, Jaipur (February 2022), for AY 2017-18, the objection was found to be factually correct and noted for future reference. For AY 2018-19, Accepted (October 2025). Further details awaited (November 2025).
10	Jaipur	PCIT-1 Jaipur	E2, AY 2017-18 [143(3) dated 15.12.2019]	NBFC	The business code was '0807-NBFC' in the ITR, whereas in Form 3CD, it was '13018-Financial Intermediation Services' and '13006-Financial Intermediation Services'. To ensure correct reporting of income and correct assessment, proper categorization is necessary.	The reply is awaited (November 2025).
11	Lucknow	CIT-Allahabad	S24, AY 2017-18 [143(3) dated 28.12.2019]	NBFC	In ITR for AY 2017-18, the deduction for bad debts was shown wrongly under column 41- Other Provisions of Part A- P&L of ITR-6 instead of column 39- Bad debts. Depiction of bad debts under other provisions involved risk of non-examination of claim allowed during assessment.	The reply is awaited (November 2025).
12	Lucknow	CIT-Allahabad	S24, AY 2017-18 [143(3) dated 28.12.2019]	NBFC	In the Computation of Income the assessee claimed PBDD which was neither passed through the P&L account nor shown under column 40 of the ITR.	The reply is awaited (November 2025).

Assesseees are not disclosing or reporting vital information on recovery against bad debts, the deduction for bad debts written off, the deduction for provision for bad and doubtful debts, etc., in ITR and TAR. The AOs also did not call for the same during the assessment. It is crucial to furnish accurate particulars in the ITR and TAR as the AOs rely heavily on the information certified/disclosed by the Tax Auditors and assesseees and further to ensure correct reporting and correct assessment of taxable income.

Furnishing the requisite information in the prescribed columns would go a long way in assisting the Department in allowing claims of deduction to eligible assessee.

Even though most of the cases were assessed under scrutiny, In absence of documentary evidence in the assessment records, Audit could not ascertain whether the AOs had called for information related to inaccurate disclosure of claims, deductions and taxable amount while completing the assessments.

Reply of the Ministry is awaited (November 2025).

6.1.2.5 Other issues under the quality of assessment

Audit noticed 15 instances of lapses on the part of AOs, such as a lack of proper verification of information relating to cash deposits, not exercising due diligence while allowing deductions claimed for bad debts and exemptions, etc. Some of the issues noticed relating to the quality of assessments are given in Table 6.6 below:

Sr. No.	Region/ PCIT Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Reply of the Department
1	Kerala, PCIT-Kozhikode	T13 (AY 2017-18) Section 143(3) dated 18.12.2019	Private Bank	Non-adherence to Rule 8D of IT Rules while determining disallowance under Section 14A – The provisions applicable prior to AY 2017-18 were considered for the computation of disallowance under Section 14A in AY 2017-18	The audit objection was communicated to DCIT Circle 1(1) & TPS, Thrissur in April 2022. Reply of the DCIT is awaited (November 2025).
2	Kerala, PCIT-Kozhikode	T14, (AY 2017-18) Section 143(3) dated 29.12.2019	NBFC	No information was furnished against the notice issued regarding a cash deposit of ₹ 0.67 crores during the demonetisation period, but no action was taken. Information received from ITO Mangalore regarding Cash deposits during the demonetisation period was not examined during the assessment.	The audit objection was communicated to DCIT Circle 1(1) & TPS, Thrissur in May 2022. Not accepted by Ministry (November 2025).

Table 6.6: Issues related to Quality of Assessments					
Sr. No.	Region/ PCIT Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Reply of the Department
3	Ahmedabad, PCIT-3, Ahmedabad	S14 (AY 2010-11 and AY 2011-12) Section 143(3)/147 dated 06.12.2017 (AY 2010-11 and AY 2011-12),	NBFC	Though the source of the cash deposit was not examined, the deduction was allowed. The assessee had received funds of ₹ 3.81 crore from 01.04.2009 to 12.08.2010 relevant to AYs 2010 and 2011-12 from six parties that were neither existent nor traceable as per the reasons recorded for initiating the proceeding. This resulted in the amount of ₹ 3.81 crore escaping assessment, involving a tax effect of ₹ 1.29 crore.	The audit objection was communicated to ITO Ward 4(1)(1), Ahmedabad in February 2022. Reply of the DCIT is awaited (November 2025).
4	Mumbai, PCIT-3, Mumbai	S5 (AY 2017-18) Section 143(3) dated 18.12.2019	NBFC	The loans and advances of ₹ 219.26 crore given to the subsidiary company M/s S43 were diverted to the 23 borrowers, resulting in loans becoming NPA. S5 created a provision for NPA, enabling S5 to claim more deductions under Section 36(1)(viiia).	The audit objection was communicated to DCIT Circle 3(3)(1), Mumbai in May 2022. Reply of the DCIT is awaited (November 2025).
5	Chandigarh, PCIT, Jalandhar	M19 (AY 2016-17) Section 143(3) dated 27.12.2018	NBFC	While filing Form 15CA ¹²⁶ for AY 2016-17 regarding foreign remittances of ₹ 30.56 crore disbursed as dividends to various companies, PAN or recipients' details were not furnished.	The audit objection was communicated to DCIT Circle 1, Jalandhar in August 2022. Reply of the DCIT is awaited (November 2025).
6	Kerala, PCIT Kozhikode	E7 (AY 2017-18) Section 143(3) dated 29.12.2019	NBFC	Irregularity in the computation of tax liability was computed at the rate of 29 per cent instead of the applicable rate of 30 per cent, resulting in a short levy of tax.	The audit objection was communicated to DCIT Circle 1(1) & TPS, Thrissur, in April 2022. Reply of the DCIT is awaited (November 2025).
7	Delhi, PCIT-7 Delhi	P3, (AY 2017-18) Section 143(3) dated 24.12.2019	NBFC	Incorrect adoption of assessed income in the ITNS while computing tax demands resulted in overassessment of income.	The audit objection was communicated to DCIT Circle 19(1) Delhi in July 2022. Reply of the DCIT is awaited (November 2025).

¹²⁶ Form 15CA is filed for remittance made by a person for payments to non-resident not being a company, or to a foreign company.

Table 6.6: Issues related to Quality of Assessments					
Sr. No.	Region/ PCIT Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Reply of the Department
8	Chandigarh, PCIT, Jalandhar	M2 (AY 2017-18) Section 143(3) dated 31.12.2019	NBFC	Audit noted that one of the grounds for the selection of the case for limited scrutiny was an abnormal increase in cash deposits. However, the assessee had shown 'Nil' income against the sale of products/goods in the ITR at Sr.No.1(A)(i) of Part A-P&L. Further, no addition has been made during scrutiny assessment on account of an unexplained cash deposit resulting in the escapement of income.	The audit objection was communicated to ITO Ward 4(3), Jalandhar in May 2022. Department replied (November 2025) that remedial action has been taken under Section 147 read with Section 144B in March 2025.
9	Hyderabad, PCIT-2, Hyderabad	J2 (AY 2015-16) Section 143(3) dated 29.12.2017	NBFC	While completing the scrutiny assessment, the AO adopted returned income declared in the original return instead of that declared in the revised return, resulting in overassessment of income.	The audit objection was communicated to DCIT Circle 2(1), Hyderabad in April 2022. Reply of the DCIT is awaited (November 2025).
10	Bengaluru, PCIT-2 Bengaluru	K3 (AY 2016-17) Section 143(1) dated 22.07.2017	NBFC	Though disallowance of ₹ 42.85 crore and ₹ 22.93 crore was made under Section 14A and towards Guarantee commission under Section 40a(iiib) ¹²⁷ during AY 2015-16 and AY 2017-18, respectively, the return of the assessee for AY 2016-17 was not selected for scrutiny assessment. Thus, the amount of ₹ 33.31 crore claimed under Section 14A and ₹ 16.04 crore claimed as Guarantee commission escaped examination during assessment resulting in incorrect allowance of expenditure of ₹ 49.35 crore involving tax effect of ₹ 19.77 crore.	The audit objection was communicated to DCIT Circle 4(3)(1), Bengaluru in August 2022. Reply of the DCIT is awaited (November 2025).

¹²⁷ Under Section 40(a)(iib) of the Income Tax Act, any amount paid by way of royalty, licence fee, service fee, privilege fee, service charge or any other fee or charge, by whatever name called, which is levied exclusively on or which is appropriated, directly or indirectly from a State Government undertaking by the State Government, is not allowed as deduction.

Table 6.6: Issues related to Quality of Assessments					
Sr. No.	Region/ PCIT Charge	Name of Assessee/AY/ Assessment Details	Sector	Gist of Issue	Reply of the Department
11	Ahmedabad, PCIT-1 Ahmedabad	A6 AYs 2011-12, 2015-16 and 2016-17 Section 143(3)/147 dated 15.11.2018 [AY 2011-12], Section 143(3)/263 dated 02.02.2018 [AY 2015-16], Section 143(3)/144C(3) dated 28.01.2020 [AY 2016-17]	Private Bank	DIT Relief under Section 90/91 was allowed without verifying the evidence of tax payment. No proof of payments was submitted for AY 2011-12, AY 2015-16 and AY 2016-17 for the amount of ₹ 199.44 crore.	The audit objection was communicated to DCIT Circle 1(1)(1), Ahmedabad in January and February 2022. Reply is awaited (November 2025).
12	Ahmedabad, PCIT-1 Ahmedabad	A6 (AY 2016-17) Section 143(3)/144C(3) dated 28.01.2020	Private Bank	In the case of two borrowers, G10 and T26, bad debts amounting to ₹ 385.01 crore, allowed to be written off during AY 2016-17, were more than the NPA of ₹ 363.72 crore outstanding against them as of 1.4.2016. Thus, the excess allowance of bad debts of ₹ 21.29 crore resulted in a tax effect of ₹ 7.37 crore, as also discussed under para 5.2.3.2 of this report.	The audit objection was communicated to DCIT Circle 1(1)(1), Ahmedabad, in February 2022. Reply is awaited (November 2025).

Other issues under the quality of assessment in four cases are discussed in **Annexure 6.10**.

Incorrect interpretation of provisions of the Act, arithmetical errors in computing income and tax, completion of assessment without examining the assessee's legacy issues, and non-detection of misuse of provisions of the Act to claim deductions under the Act, among other weaknesses, underline weaknesses in the assessment procedure and internal controls of ITD.

Recommendation:

CBDT may like to issue instructions to the AOs to investigate during scrutiny assessments multiple layers of financial transactions relating to loans and advances made by the financial institutions to their related parties so as to mitigate the probable risk of such loans and advances being used as a colorable device for claim and allowance of deduction towards provision for bad and doubtful debts and subsequently as bad debts written off.

6.1.3 Irregularities in the computation of taxable income in the assessment made under the faceless scheme

The Government introduced an e-assessment scheme with effect from 1st April 2018 under the newly introduced sub-section (3A) of Section 143 of the Act to impart greater efficiency, transparency, and accountability by eliminating the interface between the AO and the assessee during proceedings. The objective was to optimise resource utilisation through economies of scale and functional specialisation.

Audit observed that, in some cases where additions were made on legacy issues during earlier years, they were not examined for taxability and allowability of items/claims in assessments made after scrutiny under the faceless assessment scheme. Although regular additions were made on various grounds during AY 2017-18 and AY 2018-19, no additions were made on claims of a similar nature on the same grounds during the assessment for AY 2019-20, completed after scrutiny under the faceless assessment scheme. The details are given below in Table 6.7:

S. No.	Region/ PCIT Charge	Assessee Name/Bank/NBFC/ AY/ Assessment Details	The issue of which addition was made in the scrutiny assessment	Disallowances made in the assessment orders pertaining to			Amounts to be disallowed in AY 2019-20 based on previous year assessments as per the Audit	Reply of the Department
				AY 2017-18	AY 2018-19	AY 2019-20		
1	PCIT-2 Mumbai Charge	S8 (Public Sector Bank) AY 2019-20 143(3) dated 29.09.2021	Interest accrued but not due	2,148.35	3,370.34	0	21.19	In reply (June 2022), DCIT-2(2)(1), Mumbai, accepted the audit observation and stated (July 2023) that the assessment for AY 2019-20 was reassessed under Section 143(3) read with Section 263 in March 2023.
			Broken Period Interest paid	981.17	2,804.95	0	2,475.93	
			Disallowance under Section 14A	95.49	125.54	0	150.63	
			Amortisation of premium paid on HTM securities	799.08	1,771.72	0	Information was not made available	
			Interest income on NPA	62.2	177.62	0	Information was not made available	
			Claim of bad debts under Section 36(1)(vii)	26,469.63	46,648.49	0	17,058.50	
			Recovery in written-off accounts	246.09	246.51	0	116.63	
			Income from foreign branches	3,008.57	1,997.29	0	2,668.19	

Table 6.7: Complete scrutiny under faceless assessment scheme							(₹ in crore)	
S. No.	Region/ PCIT Charge	Assessee Name/Bank/NBFC/ AY/ Assessment Details	The issue of which addition was made in the scrutiny assessment	Disallowances made in the assessment orders pertaining to			Amounts to be disallowed in AY 2019-20 based on previous year assessments as per the Audit	Reply of the Department
				AY 2017-18	AY 2018-19	AY 2019-20		
			Interest on Perpetual Debt Instruments (IPDI)	788.43	1,207.58	0	Information was not made available	
			Total	34,599.01	58,350.04	0	22,684.07	
2	Mumbai PCIT-2 Mumbai	Y1 (Private Bank) AY 2019-20 Section 144/ 144B dated 29.09.2021	Section 14A	11.16	3.16	0	Information was not made available	Accepted by Ministry (September 2025). Remedial action initiated under Section 148A(1). Further details are awaited (November 2025).
			Section 35D	12.62	12.62	0	Information was not made available.	
			Disallowance of brokerage paid on Investment	0.0016	0.0022	0	Information was not made available.	
			Broken period interest on HTM securities	190.17	190.43	0	Information was not made available	
			Amortisation of premium on HTM	43.99	112.37	0	Information was not made available	
			Commission on Bank Guarantee	29.05	16.69	0	Information was not made available	
			Interest on Non-Performing Assets	53.17	24.77	0	Information was not made available	
			Provision of rural advances	62.06	96.76	0	Information was not made available	
			Amount paid on Perpetual Bonds	155.13	583.29	0	Information was not made available	
			ESOP	280.31	505.63	0	Information was not made available	
			Total	837.66	1,545.72	0		

The inconsistency in additions made on various grounds without justification is indicative of a deficiency in the internal control mechanism of the Department and may jeopardise the stand of the Department in the appellate proceedings in respect of the earlier years.

The audit observations were issued to PCIT-2 Mumbai in March 2022. In reply (June 2022) to one case, DCIT- 2(2)(1), Mumbai accepted the audit observation and stated (July 2023) that the assessment for AY 2019-20 was reassessed under Section 143(3) read with Section 263 in March 2023. Reply of the PCIT-2, Mumbai, in the case of Y1 is awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

One case of irregularity in assessment completed under the faceless scheme is discussed in **Annexure 6.11**.

Audit noted that additions made in respect of items such as loss on amortisation of premium on investments, depreciation on goodwill, broken period interest on HTM securities, recovery in written off accounts etc. during the assessments made in the earlier years were not made, as was done in earlier AYs, in the scrutiny assessment completed under the faceless assessment scheme. The inconsistent stand adopted by the Department during faceless assessment scheme vis-a-vis assessment completed in earlier years resulted in irregular allowance of deduction to the assessee.

Recommendation:

CBDT may ensure that assessments completed in earlier years of the respective banks and NBFCs may be examined while completing the assessments under faceless scheme.

The Ministry in its reply (November 2024) stated that the recommendation is under examination.

As the recommendation is under examination, action initiated/taken by the Ministry in this regard may be intimated to Audit. Further details are awaited (November 2025).

6.1.4 Effectiveness of Internal Audit

Internal Audit, being an integral part of the internal control system, plays a significant role in ensuring compliance with the prescribed rules, regulations, and guidelines. Consequently, it is known as control of all controls. It is an independent management function which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.

The scope¹²⁸ of scrutiny by Internal Audit has been enlarged and has been made coterminous with that of the Receipt Audit. During the Performance Audit, information on Internal Audit

¹²⁸ As outlined in paras 1.2 and 1.3 of Audit Manual 2019 of ITD, and includes verification of the arithmetical accuracy, non-application or wrong application of relevant legal provisions, Orders not passed in conformity with the binding judicial pronouncements/ precedence and Orders not passed in conformity with Circulars and Instructions issued by the CBDT with the aim to ensure prevention of detection

conducted in respect of units selected as samples was sought with the objective to derive assurance (a) whether the Internal Audit is effective in providing reasonable assurance to the CBDT and Senior Management regarding the achievement of objectives relating to compliance, assessment and other inter-related activities, as determined by CBDT and (b) whether Internal Audit is playing an effective role in enhancing the quality of assessments.

The details of the internal Audit conducted in the units selected as a sample in respect of seven states during FYs 2017-18 to 2020-2021 are given in Table 6.8 below:

Sl. No.	Region	Sector	No. of cases where internal audit				No. of Audit observations issued in respect of Col. [4]	Tax effect in respect of Col. [8] (₹ in crore)	No. of Audit observations issued in respect of cases seen in Internal Audit Col. [5]	Tax effect in respect of Col. [10] (₹ in crore)
			Details were provided by ITD	Was conducted	Information was not available	Was not conducted				
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
1	Mumbai	Public Sector Bank	38	7	19	12	54	38,286.66	4	845.84
		Private Sector Bank	48	8	26	14	51	4,884.23	5	452.96
		Foreign Bank	90	36	35	19	20	1,059.29	6	384.68
		NBFCs	463	119	265	79	114	729.00	24	103.86
2	Ahmedabad	Private Sector Bank	4	3	NIL	1	5	25.74	2	7.78
		NBFCs	34	9	15	10	18	131.36	2	0.40
3	Jaipur	NBFCs	38	0	6	32	0	0	0	0
4	Hyderabad	NBFCs	37	20	7	10	3	51.20	10	113.80
5	Chandigarh	Private Sector Bank	4	0	0	4	0	0	0	0
		NBFCs	71	12	38	21	10	0	0	36.54
6	Chennai	Public Sector Bank	17	2	8	7	34	10,188.44	7	979.28
		Private Sector Bank	28	1	27	0	29	1,129.68	0	0
		Foreign Bank	7	4	0	3	2	1.18	1	0.75

of mistakes and errors committed during the assessment, recovery, and maintenance of records by the Assessing Officers, TROs and Administrative Officers and to ensure appropriate remedial action in cases of loss of revenue or relief to the assessee in case of overcharge/ over assessment.

Sl. No.	Region	Sector	No. of cases where internal audit				No. of Audit observations issued in respect of Col. [4]	Tax effect in respect of Col. [8] (₹ in crore)	No. of Audit observations issued in respect of cases seen in Internal Audit Col. [5]	Tax effect in respect of Col. [10] (₹ in crore)
			Details were provided by ITD	Was conducted	Information was not available	Was not conducted				
		NBFCs	147	29	88	30	25	4,267.33	5	650.83
7	Kerala	Private Sector Bank	30	25	0	5	45	237.59	33	183.14
		NBFCs	54	15	33	6	37	121.95	24	13.53
Total			1,110	290	567	253	447	61,113.65	123	3,773.39

Note: Information regarding the effectiveness of the internal Audit was not received from Delhi, Gwalior, Kolkata, Bengaluru, and Lucknow.

Source: Inputs from ITD

Out of a total of 2,378 sample cases examined in the Audit, details about internal Audit were provided only in 1,110 cases. Out of 1,110 cases, the Department had conducted internal audit only in 290 cases, while in 253 cases, internal audit had not been conducted. With respect to 567 cases, the Department could not confirm whether internal audit was conducted or not. The audit observed shortcomings in 123 cases, amounting to ₹ 3,773.39 crore, out of 290 cases where the Department conducted internal Audit. CIT (Audit), Jaipur, in 11 cases pertaining to PCIT-1, Jaipur, replied (December 2022) that 11 cases included six scrutiny and five summary assessment cases, and no summary assessment case was assigned to internal audit. In six scrutiny cases, the internal audit is still pending.

Reply of the Ministry is awaited (November 2025).

Though 123 cases were examined by Internal Audit Parties of the Department, the irregularities as pointed out by the Receipt Audit were not noticed by them. This is indicative of weaknesses in the internal control mechanism, which require further strengthening and streamlining of the internal audit system.

Recommendation:

CBDT may

- (i) streamline the functioning of Internal Audit in consonance with changes in the scope of assessment, time limit for completion of assessment and reduction in the period for reopening of assessment in recent years.
- (ii) ensure timely completion of Internal Audit of high-risk assessment cases of Banks, Deposit-taking NBFCs, systemically important non-deposit-taking NBFCs, etc., so that remedial measures are taken before the cases, where irregularities or mistakes are pointed out by Internal Audit, become time-barred.

In response, the Ministry stated (September 2024), “(i) Necessary changes have been made in the Internal Audit procedure in the Department with issuance of Instruction No.2 of 2024 dated 09.09.2024, keeping in view the introduction of the faceless assessment scheme in the Department with effect from 13.08.2020 and other developments in the last few years.

Necessary directions have been issued in Instruction No. 2 of 2024 issued by CBDT, which, *inter-alia*, provides for the following:

- a) Timely completion of internal audit during the financial year itself;
- b) Reduced timelines for submissions of reply to audit objections; and
- c) Timely initiation of remedial measures.”

Ministry’s reply regarding necessary changes having been made in the Internal Audit procedure in the Department with issuance of Instruction No. 2 of 2024 dated 09.09.2024, after the issue is noted in Audit. However, the irregularities pointed out by Receipt Audit in the assessment cases of banks and NBFCs that escaped notice of Internal Audit Parties may be reviewed to ensure finalisation of error-free assessments of banks and NBFCs.

6.2 Co-ordination issues with the other regulatory bodies

6.2.1 Recovery against bad debts written off as per Form 3CD not matching with RBI Data

As per sub-Section 4 of Section 41 of the Income Tax Act, 1961, recovery made against bad debts written off in earlier years is required to be offered to tax in the year of recovery. As per the RBI Circular, all the Scheduled Commercial Banks (SCBs) are required to furnish an Annual report to the RBI giving details of the total amount recovered against advances written off in a financial year.

As per Clause 25 of Form 3CD, the tax auditor is required to provide details of income offered to tax under Section 41(4) in the Tax Audit Report furnished under Section 44AB. The Guidance Note on Tax Audit under Section 44AB issued by the Institute of Chartered Accountants of India (ICAI) explains the methodology of disclosures¹²⁹ to be made in the Tax Audit Report for IT purposes.

Data on recoveries made against bad debts written off as reported by SCBs to RBI during FYs 2015-16 to 2019-20 was sought from RBI, which was furnished to Audit in February 2022. A comparison of the data provided by RBI with the data furnished by Tax Auditors in Form 3CD revealed significant discrepancies, as shown in **Annexure 6.1** and Table 6.9 below:

¹²⁹ The Tax Auditor should obtain a list containing all the amounts chargeable under Section 41 with the accompanying evidence, correspondence, etc. He should, in all relevant cases, examine past records to satisfy himself about the correctness of the information provided by the assessee. The Tax Auditor must state the profit chargeable to tax under this Section. This information must be given irrespective of the fact whether the relevant amount has been credited to the Profit and Loss Account or not. The computation of the profit chargeable under this clause is also to be stated.

Table 6.9: Recovery against bad debts not offered to tax						(₹ in crore)
Sl. No.	Region	Sector	No. of Cases	Recovery as reported to RBI	Recovery reported in Form 3CD	Difference
1	Chennai	Public Bank	6	941	0	941
		Private Bank	12	477	0	477
2	Mumbai	Public Bank	10	2,227	972	1,255
		Private Bank	2	2,006	791	1,215
		Foreign Bank	8	408	0	408
3	Delhi	Public Bank	8	6,619	147.52	6,471.48
		Foreign Bank	1	53	0	53
4	Kerala	Private Bank	3	32	0	32
5	Bengaluru	Public Bank	2	1,540	187.83	1,352.17
Total			52	14,303.00	2,098.35	12,204.65

(Refer Annexure 6.1)

Audit observed that 52 bank cases out of 353 bank cases examined in Audit, as listed in the above Table, had offered only ₹ 2,098.35 crore to tax compared to an actual recovery of ₹ 14,303.00 crore, as reported to RBI by these banks. The total amount not offered to tax worked out to ₹ 12,204.65 crore. In 40 cases, as detailed in **Annexure 6.1**, the Tax Auditors reported the amount as Nil in the Statement of Particulars, which is required to be furnished under Section 44AB (Form 3CD).

On the issue related to non-matching of RBI data with the particulars furnished in Tax Audit Report (Form 3CD), in Mumbai region, PCIT-2 Mumbai, while accepting the audit observation, suggested (June 2022) that CBDT may think of devising change in audit format for banks / or separate auditor verified report which would collate and contrast information reported by banks/NBFCs to RBI and to the Income Tax Department. Reply of the Department is awaited (November 2025) in the remaining cases tabulated above.

One case of discrepancy in the amount of recovery reported to RBI and in Form 3CD is discussed in **Annexure 6.12**.

6.2.1.1 Audit further noted that in 39 bank cases out of 353 cases examined, the amount of recovery as reported to RBI matched with the amount of recovery shown in Form 3CD as detailed in **Annexure 6.2** and Table 6.10 below.

Sl. No.	Region	Sector	No of Cases	Recovery as reported to RBI	Recovery reported in Form 3CD	Difference
1	Delhi	Foreign Bank	15	69.00	69.00	0
		Public Bank	5	1,978.00	1,978.00	0
2	Mumbai	Private Bank	10	4,534.00	4,534.00	0
		Public Bank	8	8,952.00	8,952.00	0
3	Chennai	Private Bank	1	47.00	47.00	0
Total			39	15,580.00	15,580.00	0

(Refer Annexure 6.2)

In view of 39 cases highlighted by Audit in the Table above wherein the recovery reported to the RBI vis-à-vis Form 3CD certified by the Tax Auditor, are matching, the Ministry needs to review the cases for taking remedial action where such details are non-matching with the amount of recovery reported to RBI, as discussed in Para 6.2.1.1 above of this report.

Recommendation:

CBDT may examine the discrepancies in the amounts of recovery reported to the RBI compared to the Form 3CD to identify the reasons for the mismatch and take remedial action in such cases where underreporting of the taxable amount to the ITD is noticed.

Reply of the Ministry is awaited (November 2025).

6.2.1.2 Audit observed discrepancies in data provided by RBI on recovery made against bad debt written off as reported by SCBs to RBI vis-à-vis data furnished by Tax Auditors in Form 3CD. In the six cases listed in Table 6.11, out of 353 cases examined, Audit noticed that the recovery shown in Form 3CD was more than the recovery amount shown in RBI data.

S.No.	Region	Sector	Name of Bank	AY	Recovery as reported to RBI	Recovery reported in form 3CD	Difference
1	Ahmedabad	Private Bank	A6	2017-18	180	181.9	1.9
2	Chennai	Public Bank	I5	2016-17	7	7.56	0.56
3	Chennai	Public Bank	I5	2017-18	1	6.79	5.79
4	Delhi	Foreign Bank	A16	2016-17	0	27.18	27.18
5	Delhi	Foreign Bank	A16	2017-18	0	43.81	43.81
6	Mumbai	Public Bank	U1	2017-18	19	200	181
Total					207	467.24	260.24

6.2.2 Recovery against bad debts written off as per Form 3CD not matching with the NHB Data

The National Housing Bank (NHB) is the regulatory authority of the Housing Finance Companies (HFCs). Para 44 of the NHB direction¹³⁰ stipulates that HFCs should furnish various reports in prescribed schedules to the NHB. Audit sought the data from the NHB on recovery made against bad debts written off, as reported by the HFCs to the NHB, during FYs 2015-16 to 2019-20, that was furnished to Audit in May 2022. Comparison of the data provided by the NHB with data furnished by Tax Auditors under Clause 25 of Form 3CD revealed significant discrepancies in 15 out of 40 HFC cases in Mumbai. Details of these cases are given in **Annexure 6.3** and Table 6.12 below:

Region	No. of cases	AY	Amount Recovered under Section 41(4) as per Tax Audit Report	Amount Recovered under Section 41(4) as per NHB
Mumbai	2	2015-16	0	96.94
	1	2016-17	0	0.87
	3	2017-18	0	0.95
	5	2018-19	0	12.61
	4	2019-20	0	26.52
Total	15		0	137.89

(Refer Annexure 6.3)

Audit observed 15 cases out of 40 HFCs examined in Audit in Mumbai where an amount of ₹ 137.89 crore reported as recovered to NHB was not reported in the Tax Audit Report.

One case of discrepancy in the amount of recovery against bad debts reported to NHB and as disclosed in Form 3CD is discussed in **Annexure 6.13**.

Recommendation:

CBDT may take appropriate action after examining differences in data on recovery of bad debts written off reported to RBI and in TAR to ascertain whether banks did not account for the recoveries against bad debts in their books, or if the Tax Auditor failed to report the same in Form 3CD.

Reply of the Ministry is awaited (November 2025).

6.2.3 Bad debts written off not matching with RBI/NHB Data

As per Section 36(1)(vii) of the Income Tax Act, 1961, bad debts written off as irrecoverable are an allowable deduction. Further, RBI Circular¹³¹ prescribes that all Scheduled Commercial

¹³⁰ Notification No. NHB.HFC.DIR.1/CMD/2010, 10th June, 2010

¹³¹ Circular no. DOS. No. BC/4/22.05.001/97 dated 24th February 1997

Banks (SCBs) are required to furnish an Annual Report to the RBI, giving details of the total amount of bad debts written off during the year. NHB direction also stipulates that HFCs should furnish various reports in prescribed schedules to the NHB.

Data on recoveries made against bad debts written off, as reported by SCBs to RBI during FYs 2015-16 to 2019-20, was sought from RBI in Mumbai jurisdiction, which were furnished to Audit in February 2022. Similarly, data on bad debts written off as reported by the HFCs to the NHB during financial years 2015-16 to 2019-20 was sought from NHB in the Mumbai jurisdiction, which was furnished to the Audit in May 2022.

The comparative study of bad debts data provided by RBI and NHB with bad debts claimed in the returns by assesseees and bad debts allowed to the assesseees during assessments revealed discrepancies in 39 cases out of 353 banks examined in Audit where banks had claimed higher amount of bad debts as deduction in income tax assessments compared to actual amount of bad debts, as reported to RBI.

Similarly, in four NBFC cases out of 2,025 cases examined in Audit, bad debts claimed in tax assessments exceeded the amount reported to NHB.

Audit also observed discrepancies in bad debts written off as reported by SCBs to RBI and to the NHB vis-à-vis bad debt claimed in the return by the assesseees, and the same was allowed to the assesseees without reconciling with the RBI/NHB data. The details of these discrepancies are given in **Annexure 6.4** and Table 6.13 below:

S. No.	Region	Banks/ NBFC	No of Cases	Total amount of bad debts claimed in the return	Total amount of bad debts allowed in the assessment order	Bad debts as per RBI	Difference
1	Chennai	Private Bank	3	1,965.35	1,922.59	1,081	841.59
		Public Bank	1	9,886.81	8,088.20	3,635	4,453.20
2	Delhi	Public Bank	2	11,709.28	11,709.28	8,224	3,485.28
		Foreign Bank	2	217.81	217.81	188	29.81
3	Ahmedabad	Private Bank	1	8,956.31	8,956.31	8,278	678.31
4	Kerala	Private Bank	5	1,934.29	1,934.29	620.65	1,313.64
5	Kolkata	Public Bank	3	18,057.40	18,057.40	6,245	11,812.40
6	Mumbai	Public Bank	5	11,565.99	11,565.99	9,349	2,216.99
		Private Bank	17	55,445.51	55,445.51	53,180	2,265.51
		NBFC	4	1,082.58	1,082.58	1,032.44	50.14
		Total	43	1,20,821.33	1,18,979.96	91,833.09	27,146.87

(Refer Annexure 6.4)

For the cases pertaining to PCIT-2 Mumbai jurisdiction, the audit observation was accepted (June 2022). It was further suggested that CBDT may consider devising a change in audit format for banks/or a separate auditor-verified report, which will collate and contrast information reported by banks/NBFCs to RBI and to the Income Tax Department.

In the case of M14 (AY 2017-18), under the jurisdiction of PCIT-8 Mumbai, the DCIT Cir.7(1)(1), Mumbai did not accept the audit observation (February 2023) stating that National Housing Bank (NHB) data was not available with the AO at the time of assessment proceedings. The reply of the DCIT is not acceptable as the AOs have to cross-verify the details of deductions claimed and recovery amounts offered for taxation as reported to several regulatory bodies/ authorities, vis-à-vis as reported to ITD, to ensure the correctness of allowance of claims and recoveries liable for taxation.

One case of discrepancy between bad debts written off as reported to the RBI and bad debts claimed in the returns by the assessee is discussed in **Annexure 6.14**.

6.2.3.1 Over-reporting of bad debts written off to RBI/NHB

Audit noted 82 instances (77 Banks and 5 NBFCs) out of 2,378 cases where NPA written off reported to RBI /NHB was more than the amount of bad debts allowed to the assessee in the assessment. This was mainly on account of the reason that the provision for bad and doubtful debts allowed to the assessee under Section 36(1) (vii) in the previous years was more than the amount of bad debts written off in books, and hence, no claim for bad debts was made by assessee in tax returns. Notably, the admissibility of deduction towards bad debts under Section 36(1)(vii) in any assessment year is required to be restricted to the amount by which bad debts exceed provision made for bad and doubtful debts under Section 36(1)(vii), as allowed by the Department in the earlier years. The region-wise excess NPA written off reported to RBI/ NHB is more than the amount of bad debts allowed in assessments, as given in **Annexure 6.5** and Table 6.14 below.

S. No.	Region	Banks/NBFC	No. of Cases	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference
1	Mumbai	Public Bank	21	1,06,640.12	1,64,130	-57489.88
		Private Bank	14	34,197.48	37,503	-3,305.52
		NBFC	5	3,599.24	6,682.85	-3,083.61
2	Delhi	Public Bank	11	37.72	42,961	-42,923.28
		Foreign bank	1	0	4	-4
3	Ahmedabad	Private Bank	3	15,609.09	16,495	-885.91
4	Chandigarh	Private Bank	2	35.05	88	-52.95

Table 6.14: Difference in NPA written off reported to RBI/ NHB and the amount of bad debts allowed to the assessee in the assessment						
(₹ in crore)						
S. No.	Region	Banks/NBFC	No. of Cases	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference
5	Lucknow	Private Bank	3	0	15	-15
6	Chennai	Public Bank	10	4,005.47	30,244	-26,238.53
		Private Bank	9	2,380.35	4,765	-2,384.65
7	Kerala	Private Bank	3	0	900	-900
Total			82	1,66,504.52	3,03,787.85	-1,37,283.33

(Refer to Annexure 6.5)

One case of a mismatch between data for bad debts written off claimed in the income tax return and those reported to RBI is discussed in **Annexure 6.15**.

Further, in the Mumbai jurisdiction, Audit sought (January 2022) the response of PCIT-2, Mumbai and PCIT-3, Mumbai charges whether any correspondence was made with RBI/RoC/NCLT/DRT during the FYs 2017-18 to 2020-21 regarding the issues arising during the assessment of banks under their respective jurisdictions. In reply, PCIT-3, Mumbai stated (May 2022) that no such correspondence was made with RBI/RoC/NCLT/DRT during the FYs 2017-18 to 2020-21. However, PCIT-2, Mumbai stated that the data from the RBI would be useful for the Income Tax Department to encourage Banks/NBFCs to correctly offer their income in the IT return. Further, PCIT-2, Mumbai suggested that a change in tax audit format for banks or a separate auditor-verified report can be devised, which would collate and contrast information reported by Banks/NBFCs to the RBI and to the Income Tax Department.

A mismatch of data for bad debts written off claimed in the income tax return compared to bad debts data reported to RBI/NHB involves the risk of an incorrect allowance of deduction on account of bad debts made by assesseees in the income tax returns, warranting detailed examination during scrutiny assessment.

Recommendation:

CBDT may

- (i) obtain data annually on bad debts written off and income from recovery made against bad debts written off from RBI/NHB and share this information amongst Assessing Officers for utilisation during the assessment of banks and NBFCs.**
- (ii) amend ITR to include disclosure of bad debts written off and income from recovery made against bad debts written off, as reported to RBI and NHB, to avoid the associated risk of incorrect allowance of deduction and income escaping assessment.**

In response, the Ministry stated (September 2024), "PART A - P and L of ITR-6 containing Profit and Loss account is mandatory to be filled. Row 47 of the said Schedule seeks details of the bad debts along with the PAN/ Aadhaar number of the person, for whom bad debt for amount of ₹ 1 lakh or more is claimed. Further, where PAN/ Aadhaar number is not available, and the bad debt claimed is more than ₹ 1 lakh or more, the ITR-6 seeks details like name and complete address. Since the details of bad debts are already being captured in the ITR-6, provisioning of an additional row item in the Form for similar data will impose an additional compliance burden on the assessee. In light of the stated policy of the Government to reduce compliance burden and simplify taxation regime, it is not warranted to further complicate the ITR Form- 6 by seeking similar details in duplicate rows. Therefore, no further modification in this regard is required in the Form."

Ministry's reply is not acceptable as the audit suggested changes to be made in the ITR form for verification of the amount of bad debts written off and income from recovery made against bad debts written off reported to RBI and NHB in view of differences noted in data reported to different authorities and associated risk of incorrect allowance of deduction and income escaping assessment. The ministry may reconsider its response.

6.3 Monitoring mechanism in ITD

6.3.1 Lack of a monitoring system and non-maintenance of records of deduction allowed under Section 36(1) (viiia) for adjusting against future claims and bad debts

Audit noted that the ITD does not have any institutional mechanism to monitor the amount of provision for bad and doubtful debts allowed in previous years under Section 36(1)(viiia). This amount is not part of the books of accounts. The Department relies heavily on the amount declared by the assessee in the ITR filed. The problem is compounded by the fact that in most cases, the amount allowed under Section 36(1)(viiia) is often revised due to rectification, appeal effect, and other factors, resulting in the re-computation of total income. In such cases, the amount of bad debts allowed in the subsequent year also needs to change. Therefore, determining the amount of bad debts to be allowed in the subsequent year is prone to inaccuracies and non-compliance.

Out of 172 cases of banks and 456 cases of NBFCs which availed deduction towards bad debts, Audit noticed 80 cases (56 Banks and 24 NBFCs) where deduction towards bad debts written off in the books of account was given without adjusting the opening balance available in provision for bad and doubtful debts allowed under the provisions of Section 36(1)(viiia) in the earlier years. Details are given in Table 6.15 below:

Table 6.15: Details of deduction towards bad debts allowed without adjustment of the opening balance available in the provision for bad and doubtful debts account (₹ in crore)					
Sr No.	Region	Banks/NBFC	No of Cases	Amount of bad debts allowed	Amount of bad debts allowable
1	Mumbai	Public Bank	5	1,12,784.59	74,349.98
		NBFC	8	2,110.76	1,650.44
		Private Bank	10	44,571.12	43,492.35
2	Delhi	Public Bank	5	14,735.52	10,149.53
		NBFC	5	1,255.42	985.92
3	Kolkata	Private Bank	3	359.67	125.82
		Public Bank	7	21,124.51	7,611.89
		Foreign Bank	1	113.59	110.52
		NBFC	1	1.98	1.69
4	Chennai	Private Bank	10	3,255.95	2,567.59
			4	450.47	820.25
		Public Bank	7	15,145.96	6,763.55
			2	3903.9	9,378.13
		NBFC	5	1,260.92	1,188.26
5	Kerala	Private Bank	2	529.07	170.8
6	Ahmedabad	NBFC	2	323.56	325.75
7	Jaipur	NBFC	2	41.21	0
8	Bengaluru	NBFC	1	5.54	0
TOTAL			80	2,21,973.74	1,59,692.47

(Refer Annexure 5.1)

As observed from the above table that due to non-maintenance of proper records of provision for bad and doubtful debts allowed under Section 36(1)(vii) in the preceding years, the Department allowed an excess deduction for bad debts in 72 cases amounting to ₹ 68,127.50 crore and short deduction in 08 cases of ₹ 5,846.20 crore involving short levy of tax of ₹ 24,836.72 crore and excess levy of tax of ₹ 1,479.11 crore aggregating to tax effect of ₹ 26,315.83 crore. The significant observations in respect of which discussed in detail under Para 5.5.1.1 of this report.

Three cases in which deduction for bad debts was allowed without adjusting the opening balance available in the provision for bad and doubtful debts are discussed in **Annexure 6.16**.

In the existing scenario, ITD does not have a mechanism to monitor the amount of claims and allowances towards bad debts written off made under section 36(1)(vii) and opening credit balance of provision for bad and doubtful debts allowed as deduction in the preceding AY to monitor adjustment from claims made under section 36(1)(vii). As these deductions have a

direct impact on the computation of taxable income, they should be monitored through ITD systems to ensure the correctness of the allowance. Further, the format proposed to monitor such claims is suggested under para 6.3.2 below.

6.3.2 Monitoring of claims of deduction towards bad debts and provision for bad and doubtful debts

In Mumbai jurisdiction, PCIT-2 and PCIT-3 Charges, administering assessments of 38 public sector and 48 private sector banks, Audit sought (January 2022) details regarding maintenance of separate books of records regarding provision for bad and doubtful debts allowed under Section 36(1)(vii) to banks in different years and updation the same from time to time based on revisions made during rectification, appeal effect, etc.

In reply, PCIT-3 Mumbai stated (May 2022) that there was no separate mechanism within the Department to maintain records of the provisions for bad and doubtful debts allowed under Section 36(1)(vii) to banks in different years. It was further stated that from AY 2017-18 onwards, as the assessment orders, rectification orders and appeal effect orders were passed through the ITBA portal, the same were available in the ITBA portal.

ITD does not have an institutional mechanism in place to monitor the amount of provision for bad and doubtful debts allowed in the preceding previous year under Section 36(1)(vii), rendering a determination of the amount of bad debts to be allowed in subsequent years prone to inaccuracies. The audit noted instances of excess allowance of deduction towards bad debts without adjustment of the opening balance available in the PBDD account due to non-maintenance of proper records of PBDD.

6.3.2.1 Non-monitoring of claims of deduction under Sections 36(1)(vii) and 36(1)(vii)

In view of the insertion of Explanation 2 to Section 36(1)(vii) with effect from AY 2014-15, the Department may seek details of claims of deduction towards bad debts written off and provision for bad and doubtful debts from AY 2014-15 onwards in respect of banks and public Financial institutions and from AY 2017-18 onwards in respect of NBFCs. This information can also be included in the tax audit report in Form 3CD to ensure third-party certification of the information disclosed regarding the deductions claimed.

In the Tamil Nadu region, the Audit suggested a detailed format that may be devised at the Department level to seek information from assesseees to regulate such claims, as stated below:

AY	Opening balance in provision account under Section 36(1)(viiia) (as per IT Act)	Provision for bad & doubtful debts debited to Profit & Loss account	Provision for bad & doubtful debt allowed under Section 36(1)(viiia) (cannot exceed amount in Col. 3)	Total amount at credit in the provision account under Section 36(1)(viiia) (Col.2+ Col.4)	Bad debts for the year [as per books of account] debited to the provision account and/or Profit & Loss account	Bad debts to be adjusted to provision account under Section 36(1)(viiia) (as per IT Act) (limited to amount in Col. 2)	Bad debts [in excess of credit balance of provision account] allowable under Section 36(1)(vii)	Balance provision account for bad & doubtful debts under Section 36(1)(viiia) to be carried forward to subsequent AYs (as per IT Act) (Col.5- Col.7)
Col.1	Col.2	Col.3	Col.4	Col.5	Col.6	Col.7	Col.8	Col.9

The draft proforma was communicated to the Pr. CCIT, Chennai, in August 2022. Reply of the Department is awaited (November 2025) despite issuance of a reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may consider monitoring of claims of deduction towards bad debts and provision for bad and doubtful debts through ITD systems by capturing assessment year-wise information of provisions for bad and doubtful debts allowed to the assessee under the provision of Section 36(1)(viiia) in the ITR-6/TAR in Form 3CD to ensure the correctness of the claim of deduction towards bad debts written off in the subsequent years.

In response, the Ministry stated (September 2024), "ITR Forms are filed by the assessee for every assessment year. PART A- P and L of ITR-6 containing Profit and Loss account is mandatory to be filled. Row 48 of the said schedule seeks details of the provision made for bad and doubtful debts. Since the assessment year-wise details of the provisions for bad and doubtful debts is already being captured in the Form, hence, no further modification in this regard is required in the Form."

Reply of the Ministry is not tenable as the Provision for bad and doubtful debts shown in Row 48 of PART A- P and L of ITR-6 is the amount of provision for bad and doubtful debts actually debited to the P&L account and is not the amount claimed under Section 36(1)(viiia). Thereafter, the deduction is allowed at the rate of 8.5 per cent of the total income, 10 per cent of rural advances for Banks, and 5 per cent of the total income for NBFCs. Thus, the ITR-6

currently does not show the actual amount of deduction claimed by the assessee. Therefore, the Ministry may reconsider its reply.

6.3.3 Non-sustainability of additions made in scrutiny assessments

Audit examined the orders giving appeal effect issued during the period of Performance Audit related to sample cases to analyse the extent of sustainability of additions made during the assessment of banks and NBFCs.

Audit observed that additions in respect of Banks and NBFCs were made on similar items such as non-allowance of deduction towards interest accrued but not due, broken period interest, etc., during scrutiny assessments. However, these additions did not sustain at the first appellate stage. Of the 780 cases audited, based on the appeal orders of relevant years, Audit noted that the percentage of deletions ranged from 0.27 to 100 per cent at the CIT(Appeal) level, as detailed in **Annexure 6.6** and Table 6.16 below.

Sr. No.	Region	Banks/ NBFC	AY	No. of Cases	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustainability [in per cent]
1	Chennai	Private Bank	2015-16	1	218.74	194.37	24.37	11.14
		Public Bank	2014-15 to 2015-16	2	2,201.95	990.57	1,211.38	34 to 71
		NBFC	2012-13 to 2013-14, 2015-16 to 2017-18	8	617.61	597.93	19.68	0 to 35
2	Kerala	NBFC	2011-12 to 2016-17	6	372.02	309.45	62.57	0 to 58.46
3	Bengaluru	Public Bank	2015-16	1	2,838.11	467.87	2,370.24	83.51
		Private Bank	2015-16	1	339.20	118.84	220.36	64.96
		NBFC	2014-15 to 2016-17	4	36.65	1.02	35.63	0 to 99.73
4	Ahmedabad	Private Bank	2011-12, 2012-13, 2015-16	3	1,081.71	311.84	769.87	54 to 99.04
		NBFC	2010-11 to 2011-12	4	3.23	3.12	0.11	0 to 6

Table 6.16: Non-sustainability of additions made in scrutiny assessments								(₹ in crore)
Sr. No.	Region	Banks/ NBFC	AY	No. of Cases	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustainability [in per cent]
			2015-16 to 2016-17					
5	Delhi	Public Bank	2010-11 to 2014-15	7	6,226.82	5,176.48	1,050.34	0 to 98
6	Mumbai	Public Bank	2016-17	1	33,991.65	3555.18	30436.47	89.54
		Private Bank	2012-13, 2014-15	3	5,457.53	4,677.53	780	3 to 19

(Refer Annexure 6.6)

Two cases of non-sustainability of additions are discussed in detail in **Annexure 6.17**.

One of the reasons for the non-sustainability of the additions was the lack of clarity in the provisions specific to deductions applicable under the Income Tax Act, as different authorities, namely AOs and CIT(Appeal), interpret the same provisions of the IT Act differently. As discussed under para 4.4 of this report, the Audit observed an inconsistency in the allowance of deduction of broken period interest, amortisation of premium paid on security held under the HTM category, etc., for which the Ministry needs to streamline the system to the extent possible by issuing instructions to avoid inconsistent stand being taken by the AOs and ensure that the additions made, based on the details provided/ submitted by the assesseees are examined by AOs after due diligence, are sustained at the Appellate stage.

Reply of the Ministry is awaited (November 2025).

6.4 Standard Operating Procedure (SOP) for assessment of banks

With a view to bringing uniformity in the procedure followed by the Department at various stages of tax administration and assessment, and to ensure consistency in the stand taken by the Department on various tax issues, CBDT is empowered to issue orders, directions or instructions or SOP to the field formations under Section 119 of the Income Tax Act, 1961. Based on observations made in CAG's Report No.8/2008 (DT), CBDT had issued instruction No.17/2008 on 26th November 2008, directing AOs about the stand to be taken by the Department on various issues at the time of assessment of banks.

CBDT has the practice of issuing SOPs¹³² to field formations suggesting standard procedures to be followed while dealing with contentious taxation issues, which are subject to different interpretations and judicial decisions pending at different appellate levels.

Audit noted that RBI had formulated SOPs for guidance and supervision of banks so that they adopt uniform accounting methods. RBI issued¹³³ an SOP which *inter alia* envisaged that banks should have appropriate IT systems in place for the identification of Non-Performing Assets (NPA) and generation of related data/returns, calculation of provisioning requirements both for regulatory reporting and the bank's own MIS requirements. To ensure the completeness and integrity of the automated Asset Classification, Provisioning calculation and Income Recognition processes, banks were advised to put in place / upgrade their systems to conform to the guidelines issued by RBI. It was also stated that income recognition/derecognition in case of impaired assets (NPAs/NPIs) should be system-driven, and the amount required to be reversed from the income account should be obtained from the System without any manual intervention.

6.4.1 Requirement for SOP for assessment of banks

During the examination of assessment records of various banks, the Audit felt that an SOP by the CBDT could facilitate AOs in assessing banks and significantly reduce the shortcomings observed during the Audit, as discussed below:

- a) Banks pay a significant amount of tax to the exchequer every year. Almost all Public Sector and Private sector banks are taken up for scrutiny every year. Significant additions are made every year in the assessment of banks at the time of the scrutiny assessment. The sustainability rate of additions made at the time of scrutiny assessment was found to be very low.
- b) There are several issues relating to the assessment of banks that need clarification. Examples are the treatment of broken period interest, calculation of disallowances to be made under Section 14A read with Rule 8D of IT Rules, treatment of amortisation of premium paid on HTM category investment, taxability of interest on NPA under Section 43D/Rule 6EA, taxability of interest accrued but not due, allowance of bad debts under Section 36(1)(vii), allowance of provision for bad and doubtful debts under Section 36(1)(viii), allowance of deduction under Section 36(1)(viii), etc.

¹³² CBDT, for instance, issued SOP vide instruction No.246/151/2017-A-PAC-1 dated 10th January 2018 regarding the procedure to be followed while applying provisions of Section 68 of the Income Tax Act. CBDT has issued a standard operating procedure for recording satisfaction under Section 147 of the Act vide its internal directive No. 247/140/2017-A&PC-1 dated 10.01.2018. Recently, CBDT issued an SOP through various circulars and instructions while introducing a faceless assessment scheme in the Income Tax Department.

¹³³ Notification no. RBI/20-21/37 dated 14th September 2020

- c) Proper record keeping is imperative in the Department for assessment of banks for watching deductions allowable under Section 36(1)(viia) for provision for bad and doubtful debts, details of rural branches and advances made by them for the purpose of calculation of deduction at the rate of ten *per cent* of such advances for the purpose of Section 36(1)(viia) read with Rule 6ABA, watching the recovery of bad debts and action taken for recovery, etc.
- d) There is a need to keep updated information about the guidelines issued by RBI on provisioning requirements, asset classification, etc., as they have a direct bearing on the assessment. ICDS VIII, for example, states that securities shall be valued as per the guidelines issued by the RBI. Similarly, Section 43D refers to RBI guidelines for the purpose of taxability of interest on loans classified as NPA.
- e) There is an earnest need to compile a compendium of all the latest judicial decisions relating to issues normally arising at the time of assessment of banks.
- f) AOs need details that are not available in the return Form 3CD or financial statements. These details include the amount of deduction claimed under Section 36(1)(vii) and its computation, the deduction allowable under Section 36(1)(viia) and its computation, the deduction allowable under Section 36(1)(viii) and its computation, the amount of expenditure disallowable under Section 14A read with rule 8D and others. Hence, there should be an indicative list of information on claims, deductions, items liable for taxation that needs to be called for by an assessee when the case is selected for complete scrutiny.
- g) Information needed at the time of assessment from books of account and the schedules from where this information needs to be taken can be standardised, as the books of accounts of banks are kept as per the requirements of the Banking Regulation Act, 1949, in a standard format. These are primarily details of provisions and contingencies debited to the P&L account, provisions for bad and doubtful debts created in books, details of NPA, the amount written off against provisions for BDD, other provisions created, the amount transferred to the special reserve, etc.
- h) Details from ITR and Form 3CD specifically required for the assessment of banks, mainly related to provisions for bad and doubtful debts, bad debts written off and other inadmissible expenses such as penalty levied by RBI etc are examined.
- i) A list of returns usually prepared by banks for submission to the RBI, and its relevance in the assessment of banks can be documented for examination during the scrutiny assessment.

6.4.2 Proposed outline of SOP for assessment of banks

The Department may consider issuing an SOP to assist assessing officers in assessing banks. An indicative list of issues to be covered in the SOP is given in **Annexure 6.7**.

This was brought to the notice of the PCIT-2/ PCIT-3 Mumbai in March 2022. PCIT-3, Mumbai stated in the reply (May 2022) that if suggestions made by the Audit are incorporated while issuing SOP for the assessment of banks, it would be beneficial to the Department. PCIT-2, Mumbai replied (June 2022) that the suggestions are guidance to the Assessing Officers for making effective scrutiny assessments of banks. He opined that these suggestions could be used for training Assessing Officers and for capacity building to make effective assessments of taxpayers in the banking sector.

Reply of the Ministry is awaited (November 2025).

Recommendation:

CBDT may formulate a Standard Operating Procedure (SOP) for use by Assessing Officers during the assessment of banks to ensure consistency of exemptions and deductions to banks across all assessment charges and to improve the quality of assessments.

The Ministry, in its reply (November 2024), stated that the recommendation is under examination.

As the recommendation is under examination, details of action initiated/taken by the Ministry in this regard will be awaited in the Audit. Further details are awaited (November 2025).


6.5 Conclusion

Audit observed a lack of proper maintenance of records of deduction towards provision for bad and doubtful debts under the provisions of the Act, leading to the excess allowance of deduction for bad debts in the subsequent AYs. The Department lacked consistency in making disallowances in similarly placed cases involving the allowance of deductions for bad debts, the provision for bad and doubtful debts, and the deduction for special reserves created from profits of long-term financing. The additions were made in a routine and discretionary manner, without proper justification being recorded in the assessment order.

Audit could not ascertain the effectiveness of any mechanism in place within the Department for verifying the veracity and genuineness of claims allowed on account of write-off of bad debts at different stages of examination and finalisation of assessment cases in the sample test checked. There was nothing on record to suggest that the Department keeps proper watch on recoveries made against bad debts written off, and that they are offered to tax as per the extant law. The Department was not coordinating with RBI, NHB, and other regulatory authorities to obtain relevant data, such as bad debts reported, recoveries effected, etc., and to utilise such data while finalising the assessment.

While computing book profit, a uniform stand was not taken on the allowance for deductions from net profit, especially the deduction for bad debts not debited to the Profit and Loss account. While exemptions were allowed, it was not properly examined whether expenditure incurred in earning exempt income was disallowed under the law. The Department was not keeping track of the latest judicial pronouncements, CBDT instructions and amendments relating to the taxability of income accrued and allowance of deductions to banks and NBFCs. It is felt that the Department needs to have a proper SOP for the assessment of banks and NBFCs.

New Delhi
Dated: 04 February 2026


(Monika Verma)
Director General (Direct Taxes)

Countersigned

New Delhi
Dated: 05 February 2026


(K. Sanjay Murthy)
Comptroller and Auditor General of India

Annexures

Annexure 1.1

{Refer Para 1.2}

Banks	NBFCs
Banks can accept demand deposits.	NBFCs cannot accept demand deposits.
Banks form part of the payment and settlement system and can issue cheques drawn on itself.	NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is available to depositors in the case of banks.	Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.
Banks are required to maintain Reserve Ratios such as Cash Reserve Ratio (CRR), Statutory Liquid Ratio (SLR) with RBI.	Unlike banks, NBFCs are not required to maintain Reserve Ratios with RBI.
The Income Tax Act (under Section 194A) provides a specific exemption on non-applicability of Tax Deduction at Source (TDS) on interest portion paid to Banks and public financial institution.	Under Section 194A of the Income Tax Act, TDS at the rate of 10 <i>per cent</i> is required to be deducted on the interest portion of the instalment paid to NBFCs.
Under Section 43D read with Rule 6EA of the Income Tax Act and Rules, income by way of interest on Non-Performing Asset¹³⁴ (NPA) shall be chargeable to tax in the Previous Year in which it is credited to the P&L account or in the Previous Year it is received, whichever is earlier.	Provisions of section 43D not applicable to NBFCs except in the case of public financial institution ¹³⁵ or public companies specified under Section 43D.
Deduction under Section 36(1)(viiia) of the Income Tax Act allowable to the extent of 8.5 <i>per cent</i> of total income (7.5 <i>per cent</i> up to AY 2017-18).	Deduction under Section 36(1)(viiia) of the Income Tax Act allowable to the extent of 5 <i>per cent</i> of total income w.e.f. AY 2017-18.
In case of amalgamation of banking companies, Section 72A of the Income Tax Act provides for carry forward of accumulated losses and the same to be claimed by the amalgamated entity.	Similar kind of benefit is not provided for NBFCs, which results in lapse of accumulated losses upon amalgamation or demerger.

¹³⁴ As per RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated 1st October 2021, an asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. A Non-Performing Asset (NPA) is a loan or an advance where; inter-alia interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan.

¹³⁵ As per explanation (iii) below the Section 36(1)(viiia) of the Income Tax Act, "public financial institution" shall have the meaning assigned to it in section 4A of the Companies Act, 1956 (1 of 1956).

Annexure 1.2

{Refer Para 1.7}

1 Deduction for bad debt (Section 36(1)(vii))

As per this provision, banks are eligible to claim a deduction for the amount of any bad debt or part thereof that is written off as irrecoverable in the accounts of the assessee for the previous year. However, in the case of an assessee to which clause (viiia) applies, the amount of the deduction relating to any such debt or part thereof shall be limited to the amount by which such debt or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under that clause.

2 Deduction for provision made for bad and doubtful debt (Section 36(1)(viiia))

Section 36(1)(viiia) provides for deduction regarding any provision for bad and doubtful debts made by a scheduled bank other than a foreign bank, an amount not exceeding eight and one-half *per cent* (7.5 *per cent* up to AY 2017-18) of the total income and an amount not exceeding ten *per cent* of the aggregate average advances made by the rural branches of such bank computed in the prescribed manner. Deduction available for a foreign bank or a public financial institution, a State financial corporation or a State industrial investment corporation or a non-banking financial company (w.e.f. AY 2017-18) would be an amount not exceeding five *per cent* of the total income computed before making any deduction under this clause and Chapter VI-A.

3 Deduction for special reserve for long-term financing - Section 36(1)(viii)

The deduction is allowable in respect of any special reserve created and maintained by a specified entity, to the extent of an amount not exceeding twenty *per cent* of the profits derived from eligible business computed under the head "Profits and gains of business or profession" carried to such reserve account. However, where the aggregate of the amounts carried to such reserve account from time to time exceeds twice the amount of the paid-up share capital and of the general reserves of the specified entity, no allowance under this clause shall be made in respect of such excess.

4 General provisions relating to deduction for Bad Debts (Section 36(2))

Deduction for bad debt or part thereof shall not be allowed unless such debt or part thereof was taken into account in computing the income of the assessee of the previous year in which the amount of such debt or part thereof was written off or of an earlier previous year. Deduction for bad debt is also allowable when bad debt represents money lent in the ordinary course of the business of banking or money lending carried on by the assessee.

5 Taxability of interest income on Non-Performing Assets (Section 43D)

In the case of Banks and NBFCs, such as deposit-taking non-banking financial companies and systemically important non-deposit-taking non-banking financial companies, the income by

way of interest on bad or doubtful debts shall be chargeable to tax in the PY in which it is credited by them to the profit and loss account for that year or the year in which it is actually received by them, whichever is earlier.

6 Expenditure incurred in relation to income not includable in total income

As per section 14A of the Act, no deduction shall be allowed with respect to expenditure incurred by the assessee in relation to income that does not form part of the total income under this Act. If the AO, having regard to the accounts of the assessee, is not satisfied with the correctness of the claim of the assessee in respect of such expenditure in relation to income which does not form part of the total income under this Act, the AO shall determine the amount of expenditure incurred in relation to such exempt income in accordance with such method prescribed in Rule 8D, of the Income Tax Rules, 1962.

As per Rule 8D, as amended by Notification 43/2016 dated 2nd June 2016, the expenditure in relation to income which does not form part of the total income shall be the aggregate of (i) the amount of expenditure directly relating to income which does not form part of total income; and (ii) an amount equal to one *per cent* of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income. The rule also provides that the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by the assessee.

7 Profits chargeable to tax (Section 41)

As per subsection (4) to Section 41, where a deduction has been allowed in respect of bad debt or part of debt written off under the provisions of clause (vii) of sub-section (1) of section 36, then, if the amount subsequently recovered on any such debt or part is greater than the difference between the debt or part of debt and the amount so allowed, the excess shall be deemed to be profits and gains of business or profession, and accordingly chargeable to income-tax as the income of the previous year in which it is recovered, whether the business or profession in respect of which the deduction has been allowed is in existence in that year or not.

As per sub-section (4A) to section 41, where a deduction has been allowed in respect of any special reserve created and maintained under clause (viii) of sub-section (1) of section 36, any amount subsequently withdrawn from such special reserve shall be deemed to be the profits and gains of business or profession and accordingly be chargeable to income-tax as the income of the previous year in which such amount is withdrawn.

8 Method of Accounting (Section 145)

Income chargeable under the head “Profits and Gains of business or profession” or “Income from other sources” shall be computed in accordance with either the cash or the mercantile system of accounting regularly employed by the assessee.

9 Taxation of foreign exchange fluctuation

As per section 43AA of the Act, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, and such gain or loss shall be computed in accordance with the income computation and disclosure standards notified under sub-section (2) of Section 145(2). For the purposes of subsection (1), gain or loss arising on account of the effects of change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to (i) monetary items and non-monetary items; (ii) translation of financial statements of foreign operations; (iii) forward exchange contracts; (iv) foreign currency translation reserves. The CBDT vide Circular¹³⁶ clarified in March 2017, various related issues in the form of FAQs. In FAQ 16 in the said circular, it was clarified that the opening balance in FCTR as on 1st April 2016 pertaining to exchange difference shall be recognised in the previous year relevant to AY 2017-18 to the extent not recognised in the income computation in the past.

10 Deduction towards head office expenses to Non-residents (Section 44C)

As per this section, in the case of an assessee, being a non-resident, no allowance shall be made, in computing the income chargeable under the head "Profits and gains of business or profession", in respect of so much of the expenditure in the nature of head office expenditure as is in excess of the amount equal to five *per cent* of the adjusted total income; or the amount of so much of the expenditure in the nature of head office expenditure incurred by the assessee as is attributable to the business or profession of the assessee in India, whichever is the least :

11 Provisions for set-off of accumulated loss and unabsorbed depreciation in the scheme of amalgamation of a banking company (Section 72AA)

As per this Section where there has been an amalgamation of a banking company with any other banking institution under a scheme sanctioned and brought into force by the Central Government under sub-section (7) of section 45 of the Banking Regulation Act, 1949, the accumulated loss and the unabsorbed depreciation of such banking company shall be deemed to be the loss or, as the case may be, allowance for depreciation of such banking institution for the previous year in which the scheme of amalgamation was brought into force and other provisions of this Act relating to set-off and carry forward of loss and allowance for depreciation shall apply accordingly.

12 Exemptions applicable to Banks/NBFCs under Section 10

Some of the major exemptions available under different sub-sections of section 10 are listed in Table below:

¹³⁶ No. 10/2017 dated 23.03.2017

Exemptions applicable to Banks/NBFCs under Section 10	
Exemptions	Brief narration
10(15)	Income earned by way of interest, premium on redemption or other payments on notified bonds and securities, mainly, 10(15)(iv)(h) Interest on Public Sector Undertaking Bonds
10(23D)	Income from Mutual Funds registered under SEBI, MF set up by public sector banks and Public Financial Institutions authorised by RBI
10(23EA)	Income from Investor Protection Fund
10(23EC)	Contributions received by the Investor Protection Fund from Commodity Exchanges and its members
10(23ED)	Contributions received from a Depository of Investor Protection Fund (w.e.f 2014-15)
10(34)	Dividend Distribution Tax suffered Dividend income. In the case of dividends received from foreign companies, provisions of section 115BBD would be applicable w.e.f. AY 2012-13.
10(34A)	Income arising to an assessee, being a shareholder, on account of buyback of shares (w.e.f. AY 2014-15)
10(35)	Income from units of Mutual Funds
10(38)	Long Term Capital Gains on transfer of equity shares/units covered by Securities Transaction Tax (Not applicable from AY 2019-20)
115JG	Capital gain arising from converting an Indian branch of a foreign bank into an Indian subsidiary is exempt from tax.

13 Deductions in respect of certain incomes of Offshore Banking Units and International Financial Service Centre (Section 80LA)

A scheduled bank or foreign bank having an Offshore Banking Unit in a Special Economic Zone or being a unit of an International Financial Service Centre includes any income from an Offshore Banking Unit or from any unit of the International Financial Centre is eligible for a deduction of hundred *per cent* of such income for the first five years and fifty *per cent* of such income in the next five years.

Annexure 1.3

{Refer Para 1.8}

Section as per Income Tax Act 1961	Provision under Income Tax Act 1961	Section as per Income Tax Act 2025	Provision under Income Tax Act 2025
36(1)(vii)- Deduction for bad debt	As per this provision, banks are eligible to claim a deduction for the amount of any bad debt or part thereof that is written off as irrecoverable in the accounts of the assessee for the previous year. However, in the case of an assessee to which clause (viia) applies, the amount of the deduction relating to any such debt or part thereof shall be limited to the amount by which such debt or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under that clause.	31(2), 31(3)- Deduction for bad debt	Any amount of bad debt or part of it in the tax year in which such amount is written off is irrecoverable in the accounts of the assessee shall be allowed as deduction in computation of income chargeable under section 26 subject to fulfilment conditions: a) it is considered in computing the income of the assessee of the tax year ¹³⁷ in which it is written off, or any earlier tax year it represents money lent in ordinary course of banking business or money lending carried on by the assessee. b) If the amount ultimately recovered such debt or part of debt is less than the difference between debt or part and amount so deducted deficiency shall be deductible in the tax year in which ultimate recovery is made. c) Where it relates to assessee claiming deduction under section 31(1) only that amount which exceeds the credit balance in the provision for bad and doubtful debts account made under that sub section shall be allowed as deduction; ii) such amount shall be allowed only whenm the assessee has debited any amount of bad debt or part thereof in that tax year to the provision for bad and doubtful debts account made under that sub section and iii) the aforesaid account shall be only one such account under sub-section (1) and such account shall

¹³⁷ Tax year means the twelve months period of the financial year commencing on the 1st April. In case of newly set up business or profession tax year shall be period beginning with the date of setting up of such business or profession.

Section as per Income Tax Act 1961	Provision under Income Tax Act 1961	Section as per Income Tax Act 2025	Provision under Income Tax Act 2025
			<p>be related to all types of advances including advances made by rural branches.</p> <p>3) For the purpose of claim and deduction of 31(2),</p> <p>a) any bad debt or part of it written off as irrecoverable shall not include any provision for bad and doubtful debt,</p> <p>b) any amount of bad debt or part of it, which has been taken into account in computing the income of the assessee of the tax year in which the amount of bad debt or part of it becomes irrecoverable or of an earlier tax year as per income computation and disclosure standards without recording it in the accounts, shall be allowed as a deduction in computing the income of the assessee of the tax year in which it becomes irrecoverable and such bad debt or part of it shall be deemed to be written off as irrecoverable in the accounts for the purposes of Section 31(2).</p>
36(1)(viiia) Provision for bad and doubtful debt	Section 36(1)(viiia) provides for deduction regarding any provision for bad and doubtful debts made by a scheduled bank other than a foreign bank, an amount not exceeding eight and one-half <i>per cent</i> (7.5 <i>per cent</i> up to AY 2017-18) of the total income and an amount not exceeding ten <i>per cent</i> of the aggregate average advances made by the rural branches of such bank computed in the prescribed manner. Deduction available for a foreign bank or a public financial institution, a State financial corporation or a State industrial investment corporation or a non-banking financial company (w.e.f. AY 2017-18) would be an amount	31(1) Provision for bad and doubtful debt	Provision for bad and doubtful debt under section 31(1) of the act is admissible to a scheduled bank, other than a bank incorporated by or under the laws of a country outside India or, a non scheduled bank, or a co-operative bank, other than, a primary agricultural credit society or a primary co-operative agricultural and rural development bank. Amount of deduction to be allowed shall not be more than 8.5 % of the total income of the tax year computed before making any deduction under this clause and Chapter VIII, and an additional amount up to 10% of the aggregate average advances made by rural branches computed in the manner

Section as per Income Tax Act 1961	Provision under Income Tax Act 1961	Section as per Income Tax Act 2025	Provision under Income Tax Act 2025
	not exceeding five <i>per cent</i> of the total income computed before making any deduction under this clause and Chapter VI-A.		as may be prescribed. Further it is also admissible to admissible to a scheduled bank, other than a bank incorporated by or under the laws of a country outside India, or public financial institution or state financial corporation or a non banking financial company. The amount of deduction to be allowed should not be more than 5% of the the total income of the tax year computed before making any deduction under this clause and Chapter VIII.
Section 43D- Special provision in case of income of public financial institutions	Section 43D of the Income Tax Act, 1961 provides that in the case of a public financial institution or a scheduled bank, the income by way of interest on NPA shall be chargeable to tax in the previous year in which it is credited to profit and loss account for that year or when it is actually received by that institution or bank whichever is earlier.	Section 56- Special provision in case of interest income of specified financial institutions.	Interest income in relation to bad or doubtful debts of a specified financial institution shall be chargeable to tax under the head "Profits and gains of business or profession" in the tax year in which such interest is— (a) credited to the profit and loss account; or (b) actually received, whichever is earlier.
Section 36(1)(viii)- Deduction on amount carried to a special reserve	The deduction is allowable in respect of any special reserve created and maintained by a specified entity, to the extent of an amount not exceeding twenty <i>per cent</i> of the profits derived from eligible business computed under the head "Profits and gains of business or profession" carried to such reserve account. However, where the aggregate of the amounts carried to such reserve account from time to time exceeds twice the amount of the paid-up share capital and of the general reserves of the specified entity, no allowance under this clause shall be made in respect of such excess.	Section 32(e)- Deduction on amount carried to a special reserve	The amount carried to a special reserve created and maintained by a specified entity, subject to the following conditions:— (i) such amount shall not exceed 20% of the profits derived from an eligible business computed under the head "Profits and gains of business or profession" before any deductions under this clause; and (ii) when the aggregate of such amounts carried to such reserve account from time to time exceeds twice the amount of paid-up share capital and of general reserves of the specified entity, no deduction shall be allowable on such excess.
Section 44C- Deduction	In the case of an assessee, being a non-resident, no allowance shall be made, in computing the income	Section 60- Deduction	In the case of a non-resident assessee, deduction of head office expenditure incurred by such

Section as per Income Tax Act 1961	Provision under Income Tax Act 1961	Section as per Income Tax Act 2025	Provision under Income Tax Act 2025
of head office expenditure in the case of non-residents	<p>chargeable under the head "Profits and gains of business or profession", in respect of so much of the expenditure in the nature of head office expenditure as is in excess of the amount computed as hereunder, namely:—</p> <p>(a) an amount equal to five <i>per cent</i> of the adjusted total income; or</p> <p>(c) the amount of so much of the expenditure in the nature of head office expenditure incurred by the assessee as is attributable to the business or profession of the assessee in India, whichever is the least :</p> <p>Provided that in a case where the adjusted total income of the assessee is a loss, the amount under clause</p> <p>(a) shall be computed at the rate of five <i>per cent</i> of the average adjusted total income of the assessee.</p>	of head office expenditure in the case of non-residents	<p>assessee as is attributable to his business or profession in India, shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession"</p> <p>(2) The deduction allowable shall be restricted—to an upper monetary limit of 5% of the average adjusted total income of the assessee is loss</p> <p>(b) in any other case, to an upper monetary limit of 5% of the adjusted total income of the assessee.</p>
Section 80 LA-Deductions in respect of certain incomes of Offshore Banking Units and International Financial Services Centre	<p>A scheduled bank or foreign bank having an Offshore Banking Unit in a Special Economic Zone or being a unit of an International Financial Service Centre includes any income from an Offshore Banking Unit or from any unit of the International Financial Centre is eligible for a deduction of hundred <i>per cent</i> of such income for the first five years and fifty <i>per cent</i> of such income in the next five years.</p>	Section 147-Deductions in respect of certain incomes of Offshore Banking Units and Units of International Financial Services Centre	<p>(1) Deduction equal to 100% of such income as per section 147(3) is allowable to</p> <p>(a) a scheduled bank, or a bank incorporated under the laws of a country outside India, and having an Offshore Banking Unit in a Special Economic Zone; or</p> <p>(b) a unit of an International Financial Services Centre.</p> <p>(2) The deduction shall be allowed—</p> <p>—</p> <p>(a) for ten consecutive tax years beginning from the relevant tax year in the case of an entity mentioned in sub-section (1)(a);</p> <p>(b) for ten consecutive tax years out of fifteen years beginning from the relevant tax year, at the option of an assessee, in the case of an entity mentioned in sub-section (1)(b).</p>

Section as per Income Tax Act 1961	Provision under Income Tax Act 1961	Section as per Income Tax Act 2025	Provision under Income Tax Act 2025
			<p>(3) The income referred to in subsection (1) shall be the income from— (a) an Offshore Banking Unit located in a Special Economic Zone; or</p> <p>(b) the business activities referred to in section 6(1) of the Banking Regulation Act, 1949, with undertakings in a Special Economic Zone or entities that develop, develop and operate, or develop, operate and maintain Special Economic Zone; or</p> <p>(c) the approved business activities of any Unit of an International Financial Services Centre set up in a Special Economic Zone; or</p> <p>(d) transfer of an asset being, an aircraft or a ship, leased by a unit referred to in clause (c) if such unit commenced its business operations by 31st March, 2030.</p>

Annexure 4.1A

{Refer Para 4.1.3}

Admissibility criteria and information required with respect to the deduction allowable under Sections 36(1)(vii), 36(1)(viia), 36(1)(viii)		
Deduction	Admissibility Criteria	Information/Details required
Bad debts under Section 36(1)(vii)	<ul style="list-style-type: none"> Available only if the amount is written off as irrecoverable in books of account. Where any provision for bad and doubtful debts is allowed under Section 36(1)(viia) in the preceding year(s), the bad debts claim of the current AY should be adjusted against the provision for bad and doubtful debts account. The actual deduction is available only to the extent of the amount exceeding the credit balance of the provision for bad and doubtful debts under Section 36(1)(viia). 	<p>Information such as bad debts written off as irrecoverable in books of account, brought forward balance of provision for bad and doubtful debts available under Section 36(1)(viia) against which bad debts claim of the current year could be adjusted, balance in the provision account under Section 36(1)(viia) (after current year's deduction) is required.</p> <p>It would enable the Assessing Officer if the Tax Audit Report in Form 3CD also contain year-wise details of the credit balance available under the provision for bad and doubtful debt accounts created as per Section 36(1)(viia). This information can be captured on similar lines distinctly for each AY as is being sought under Schedule CFL and BFLA and in the Tax Audit Report.</p>
Provision for bad and doubtful debts under Section 36(1)(viia)	<p>The deduction under this provision is available to the extent of ten <i>per cent</i> of aggregate rural advances computed as per the provisions of Rule 6ABA¹³⁸ and 8.5 <i>per cent</i> of total income before allowing deduction under this clause. Further, the total amount of deduction under Section 36(1)(viia) should be restricted to the amount of provision for bad and doubtful debts created during the current year.</p>	<p>The information required includes :</p> <ul style="list-style-type: none"> Amount of provision for bad and doubtful debts actually created during the year as per the books of account. Details of computation as per Rule 6ABA, population details of the rural branches in respect of Banks. The extent of the adjustment of the bad debts claims for the current year adjusted against the brought forward provision account under Section 36(1)(viia) is required.

¹³⁸ It specifies the method of computation of aggregate rural advances made by rural branches of a schedule bank for the purpose of Section 36(1)(viia) of the Act.

Admissibility criteria and information required with respect to the deduction allowable under Sections 36(1)(vii), 36(1)(viii), 36(1)(viii)		
Deduction	Admissibility Criteria	Information/Details required
Special Reserve under Section 36(1)(viii)	<p>Available to an assessee engaged in the business of long-term financing of the eligible business to the extent of 20 <i>per cent</i> of profits & gains computed under the head “Business income”.</p> <p>However, such deduction should be restricted to the amount of special reserve created during the year, and the deduction cannot exceed twice the amount of the paid-up share capital and the general reserves of the specified entity.</p>	<p>Information required includes:</p> <ul style="list-style-type: none"> • Details of the amount transferred to the special reserve as per the books of account. • The amount of profit from the eligible business. • The amount of the paid-up share capital. • The general reserves of the specified entity are required.

Annexure 4.1

{Refer Para 4.1.4}

Cases noticed in Audit where cessation of liability not offered to tax							
S. No.	CIT Charge	Category	Name of the Assessee	Ays	Bad debts actually allowed (₹ in crore)	Cessation of liability to be considered in the borrowers hands (₹ in crore)	Department's Reply
1	PCIT-1 Chennai	Public Bank	A13	2014-15, 2015-16, 2016-17, 2017-18, 2018-19	14,928.15	14,928.15	Reply was awaited (November 2025).
2	PCIT, Chennai-4	Public Bank	I5	2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20	4,512.31	4,512.31	Reply was awaited (November 2025).
3	PCIT, Madurai-1	Private Bank	T3	2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20	2,314.51	2,314.51	Reply was awaited (November 2025).
4	PCIT, Madurai-1	Private Bank	T6	2013-14, 2016-17, 2017-18, 2018-19	977.44	977.44	Reply was awaited (November 2025).
5	PCIT, Madurai-1	Private Bank	T5	2015-16, 2016-17, 2017-18, 2018-19	431.37	431.37	Reply was awaited (November 2025).
6	PCIT-1 Chennai	NBFC	C2	2018-19	96.88	96.88	Reply was awaited (November 2025).
7	PCIT, Chennai-3	NBFC	S32	2018-19	8.44	8.44	Reply was awaited (November 2025).
8	PCIT, Chennai-3	NBFC	S19	2018-19	4.4	4.4	Reply was awaited (November 2025).
9	PCIT-1 Chennai	NBFC	F1	2019-20	1.75	1.75	Reply was awaited (November 2025).
10	PCIT-1 Chennai	NBFC	H12	2018-19	1,149.45	1,149.45	Reply was awaited (November 2025).
11	CIT (IT & TP), Kolkata	NBFC	N6	2019-20	115	115	Reply was awaited (November 2025).
12	PCIT-1 Vadodara	NBFC	N2	2017-18	15.2	15.2	Not accepted by the Ministry (March 2025).
13	PCIT-1 Vadodara	NBFC	N2	2018-19	33.91	33.91	For Audit rebuttal refer para 4.1.4 of this report.

Cases noticed in Audit where cessation of liability not offered to tax							
S. No.	CIT Charge	Category	Name of the Assessee	AYs	Bad debts actually allowed (₹ in crore)	Cessation of liability to be considered in the borrowers hands (₹ in crore)	Department's Reply
14	PCIT-3, Ahmedabad	NBFC	G4	2018-19	91.61	91.61	Not accepted during exit meeting (January 2023). Reply of the Ministry is awaited (November 2025).
Total					24,680.42	24,680.42	

Annexure 4.2

{Refer Para 4.1.5}

Claim of bad debts not crystallised						
Sr. No.	Region	Bank/ NBFC	Name of Assessee	AY	Amount of Bad debts (₹ in crore)	Reply of the Department
1	Ahmedabad	NBFC	N2	2016-17	31.99	Not Accepted during Exit Meeting (January 2023). Further details are awaited (November 2025).
2	Ahmedabad	NBFC	N2	2018-19	26.20	Not Accepted during Exit Meeting (January 2023). Further details are awaited (November 2025).
3	Kolkata	NBFC	C13	2017-18	4.5	Ministry accepted (November 2025). Remedial action taken u/s 263 in March 2022.
4	Chennai	NBFC	S16	2017-18	4.82	Reply was awaited (November 2025).
5	Chennai	NBFC	S6	2016-17	2,264.36	Reply was awaited (November 2025).
6	Chennai	NBFC	S6	2017-18	3,627.59	Reply was awaited (November 2025).
7	Chennai	NBFC	S6	2018-19	5,392.92	Reply was awaited (November 2025).
8	Chennai	NBFC	T16	2017-18	35.15	Reply was awaited (November 2025).
9	Chennai	NBFC	T16	2018-19	29.76	Reply was awaited (November 2025).
10	Chennai	NBFC	S7	2016-17	599.89	Reply was awaited (November 2025).
11	Chennai	NBFC	S7	2017-18	1,236.18	Reply was awaited (November 2025).
12	Chennai	NBFC	S7	2018-19	1,781.11	Reply was awaited (November 2025).
13	Chennai	NBFC	R8	2018-19	157.6	Reply was awaited (November 2025).
14	Chennai	Public Bank	I5	2014-15	9.11	Reply was awaited (November 2025).
15	Chennai	Public Bank	I5	2015-16	599.30	Reply was awaited (November 2025).
16	Chennai	Public Bank	I5	2018-19	3,903.90	Reply was awaited (November 2025).
17	Chennai	Private Bank	T6	2013-14	46.21	Reply was awaited (November 2025).
18	Chennai	Private Bank	T6	2016-17	96.55	Reply was awaited (November 2025).
19	Chennai	Private Bank	T6	2017-18	241.72	Reply was awaited (November 2025).
20	Chennai	Private Bank	T6	2018-19	592.95	Reply was awaited (November 2025).
21	Chennai	Private Bank	T3	2015-16	342.67	Reply was awaited (November 2025).
22	Chennai	Private Bank	T3	2016-17	223.96	Reply was awaited (November 2025).
23	Chennai	Private Bank	T3	2018-19	817.51	Reply was awaited (November 2025).
24	Chennai	Private Bank	T3	2019-20	806.88	Reply was awaited (November 2025).
25	Chennai	Private Bank	T5	2015-16	17.92	Reply was awaited (November 2025).
26	Chennai	Private Bank	T5	2016-17	89.88	Reply was awaited (November 2025).
27	Chennai	Private Bank	T5	2017-18	25.35	Reply was awaited (November 2025).

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Claim of bad debts not crystallised						
Sr. No.	Region	Bank/ NBFC	Name of Assessee	AY	Amount of Bad debts (₹ in crore)	Reply of the Department
28	Chennai	Private Bank	T5	2018-19	298.2	Reply was awaited (November 2025).
29	Chennai	Public Bank	A13	2014-15	785.23	Reply was awaited (November 2025).
30	Chennai	Public Bank	A13	2015-16	1,697.68	Reply was awaited (November 2025).
31	Chennai	Public Bank	A13	2016-17	1,842.70	Reply was awaited (November 2025).
32	Chennai	Public Bank	A13	2017-18	2,123.74	Reply was awaited (November 2025).
33	Chennai	Public Bank	A13	2018-19	8,088.20	Reply was awaited (November 2025).
34	Chennai	NBFC	D7	2016-17	10.10	Reply was awaited (November 2025).
35	Chennai	NBFC	D7	2017-18	15.94	Reply was awaited (November 2025).
36	Chennai	NBFC	D7	2018-19	14.75	Reply was awaited (November 2025).
37	Chennai	NBFC	F1	2018-19	3.38	Reply was awaited (November 2025).
38	Chennai	NBFC	F1	2019-20	1.75	Reply was awaited (November 2025).
39	Chennai	NBFC	F4	2019-20	6.89	Reply was awaited (November 2025).
40	Chennai	NBFC	F3	2019-20	30.99	Reply was awaited (November 2025).
41	Chennai	NBFC	H12	2014-15	66.01	Reply was awaited (November 2025).
42	Chennai	NBFC	H12	2016-17	118.48	Reply was awaited (November 2025).
43	Chennai	NBFC	H12	2017-18	108.96	Reply was awaited (November 2025).
44	Chennai	NBFC	H12	2018-19	387.41	Reply was awaited (November 2025).
45	Chennai	NBFC	H12	2019-20	480.54	Reply was awaited (November 2025).
46	Kerala	Private Bank	T10	2015-16	294.77	ITD replied (October 2022) that as per the decision of the Supreme Court in the case of Vijaya Bank it would be sufficient compliance if the bad debts are reduced from the aggregate of advances in the balance sheet for allowing the bad debts and not necessarily from the individual ledgers of the borrowers. Remedial action completed for AY 2015-16 on 08.11.2023 vide order giving effect to the Order of the High Court of Kerala dated 04.08.2023.
47	Kerala	Private Bank	T10	2016-17	93.73	
48	Kerala	Private Bank	T10	2017-18	84.68	
49	Kerala	NBFC	E7	2018-19	31.99	
Total					39,592.10	

Annexure 4.3

{Refer Para 4.1.6}

Tax treatment of interest on NPA under section 43D in respect of NBFCs					
Sr. No.	Region/ PCIT charge	Category	Name of assessee	AY	Reply of the Department
1	Mumbai PCIT 14 Mumbai	NBFC	I12	2019-20	Reply was awaited (November 2025).
2	Mumbai PCITCC 1 Mumbai	NBFC	I29	2017-18	Not accepted (April 2022). Rebuttal issued (June 2022).
3	Mumbai PCIT 1 Mumbai	NBFC	S26	2017-18	Accepted (December 2023). Remedial action completed under Section 263 in 29.03.2023.
4	Mumbai PCIT 1 Mumbai	NBFC	S26	2018-19	As per Reply (May 2024). Remedial Action initiated. Further details are awaited (November 2025).
5	Mumbai PCIT 15 Mumbai	NBFC	S31	2017-18	Reply was awaited (November 2025).
6	Mumbai PCIT 6 Mumbai	NBFC	J1	2018-19	Reply was awaited (November 2025).
7	Mumbai PCIT 14 Mumbai	NBFC	R5	2017-18	Reply was awaited (November 2025).
8	Mumbai PCIT 14 Mumbai	NBFC	C11	2017-18	As per field verification audit noticed that the department has taken remedial action under section 147 read with section 144B (February 2025).
9	Mumbai PCIT 14 Mumbai	NBFC	C11	2018-19	Reply was awaited (November 2025).
10	Mumbai PCIT 3 Mumbai	NBFC	E5	2018-19	Reply was awaited (November 2025).
11	Mumbai PCIT 3 Mumbai	NBFC	E5	2017-18	Not accepted (May 2024) as detailed under para 4.1.6, Box 4.3(a).
12	Mumbai PCIT 14 Mumbai	NBFC	I25	2017-18	Reply was awaited (November 2025).
13	Mumbai PCIT 14 Mumbai	NBFC	L4	2018-19	Reply was awaited (November 2025).
14	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2017-18	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
15	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2018-19	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
16	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2019-20	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
17	Gujarat PCIT-1, Ahmedabad	NBFC	F2	2017-18	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).

Tax treatment of interest on NPA under section 43D in respect of NBFCs					
Sr. No.	Region/ PCIT charge	Category	Name of assessee	AY	Reply of the Department
18	Gujarat PCIT-1, Ahmedabad	NBFC	F2	2018-19	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
19	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2017-18	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
20	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2018-19	Department replied that such cases need further examination during Exit Meeting (January 2023). Further details are awaited (November 2025).
21	Rajasthan PCIT 1 Jaipur	NBFC	A5	2016-17	Department accepted (November 2025) and stated that remedial action has been completed under section 147 (March 2024).
22	Rajasthan PCIT 1 Jaipur	NBFC	A5	2017-18	As per reply, remedial action initiated under Section 263. Further details are awaited (November 2025)
23	Rajasthan PCIT 1 Jaipur	NBFC	E2	2016-17	Reply was awaited (November 2025).
24	Rajasthan PCIT 1 Jaipur	NBFC	E2	2017-18	Reply was awaited (November 2025).
25	Rajasthan PCIT 1 Jaipur	NBFC	E2	2018-19	Reply was awaited (November 2025).
26	Rajasthan PCIT 1 Jaipur	NBFC	E2	2019-20	Reply was awaited (November 2025).
27	Rajasthan PCIT 2 Jaipur	NBFC	N3	2017-18	Reply was awaited (November 2025).
28	Delhi PCIT-4, Delhi	NBFC	I1	2017-18	Reply was awaited (November 2025).
29	Delhi PCIT-4, Delhi	NBFC	H1	2017-18	Reply was awaited (November 2025).
30	Delhi PCIT-4, Delhi	NBFC	H1	2018-19	Reply was awaited (November 2025).
31	Delhi PCIT-4, Delhi	NBFC	H1	2019-20	Reply was awaited (November 2025).
32	Delhi PCIT-7, Delhi	NBFC	S2	2017-18	Reply was awaited (November 2025).
33	Delhi PCIT-7, Delhi	NBFC	S2	2018-19	Reply was awaited (November 2025).
34	Delhi PCIT-7, Delhi	NBFC	P6	2018-19	Reply was awaited (November 2025).
35	Delhi PCIT-7, Delhi	NBFC	P6	2019-20	Reply was awaited (November 2025).
36	Delhi PCIT-4, Delhi	NBFC	I21	2017-18	Reply was awaited (November 2025).
37	Delhi PCIT-4, Delhi	NBFC	I21	2018-19	Reply was awaited (November 2025).
38	Delhi	NBFC	I21	2019-20	Reply was awaited (November 2025).

Tax treatment of interest on NPA under section 43D in respect of NBFCs					
Sr. No.	Region/ PCIT charge	Category	Name of assessee	AY	Reply of the Department
	PCIT-4, Delhi				
39	Delhi PCIT-4, Delhi	NBFC	R1	2017-18	Reply was awaited (November 2025).
40	Delhi PCIT-4, Delhi	NBFC	R1	2018-19	Reply was awaited (November 2025).
41	Gwalior PCIT-1, Bhopal	NBFC	C7	2018-19	Not Accepted (July 2024). Rebuttal was issued in November 2024.
42	Gwalior PCIT-1, Bhopal	NBFC	C7	2019-20	Not Accepted (July 2024). Rebuttal was issued in November 2024.
43	Gwalior PCIT-1, Bhopal	NBFC	C7	2017-18	Remedial action has been taken in this case by passing the order under Section 147/144 of IT Act on dated 23.02.2024 at the same income of ₹ 14.86 crore. Rebuttal letter has been issued to the Department in July 2024 with reference to remedial action taken by the Department. Further details are awaited (November 2025).
44	Gwalior PCIT-1, Indore	NBFC	M12	2017-18	Not Accepted ¹³⁹ (January 2025). Rebuttal issued to the Department (January 2025).
45	Gwalior PCIT-1, Indore	NBFC	M12	2018-19	Further details are awaited (November 2025).
46	Gwalior PCIT-1, Indore	NBFC	M12	2019-20	
47	Chennai PCIT, Chennai-3	NBFC	S6	2017-18	Reply was awaited (November 2025).
48	Chennai PCIT, Chennai-3	NBFC	S6	2018-19	Reply was awaited (November 2025).
49	Chennai PCIT, Chennai-3	NBFC	S7	2017-18	Reply was awaited (November 2025).
50	Chennai PCIT, Chennai-3	NBFC	S7	2018-19	Reply was awaited (November 2025).
51	Chennai PCIT-1 Chennai	NBFC	C2	2017-18	Reply was awaited (November 2025).
52	Chennai PCIT-1 Chennai	NBFC	C2	2018-19	Reply was awaited (November 2025).
53	Bengaluru PCIT-2 Bengaluru	NBFC	C12	2017-18	Reply was awaited (November 2025).

¹³⁹ Department has not accepted the audit objection [Sl. Nos. 44, 45, 46] stating that the assessee being a State Financial Corporation (SFC) was governed by the provisions under Section 43D of the Act and hence the Interest Income is to be accounted for on such categories of bad or doubtful debts having regard to the guidelines issued by the RBI in debts (i.e. on Non-Performing receipt Assets) to be recognized on the basis of actual significance of the same. The Assessee has specifically also mentioned this in its Note 2 in the recognized Accounting Policies (Schedule U) that Revenue on Non-Performing Assets is recognized on realization basis as per Section 43D. Further, it has been judicially held in the case of CIT vs. U.P. State Industrial Development Corporation by Hon'ble Allahabad High Court that SFC is entitled to account for interest on bad debts on cash basis. It has further been held by the hon'ble Supreme Court in the case of UCO Bank v. Commissioner of Income-tax (1999) 237 ITR 889 (SC) that interest on bad or doubtful debts in case of a financial institution is taxable on receipt basis only. Audit issued a rebuttal to the ITD stating that as per ICDS-IV on Revenue Recognition, notified with effect from 29.09.2016, effective from AY 2017-18, and as per clarification issued by the CBDT under Question 2 of Circular No. 10 of 2017 dated 23 March 2017, interest income is to be recognized on accrual basis.

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Tax treatment of interest on NPA under section 43D in respect of NBFCs					
Sr. No.	Region/ PCIT charge	Category	Name of assessee	AY	Reply of the Department
54	Bengaluru PCIT-2 Bengaluru	NBFC	C14	2017-18	Reply was awaited (November 2025).
55	Bengaluru PCIT-2 Bengaluru	NBFC	C14	2018-19	Reply was awaited (November 2025).
56	Bengaluru PCIT-2 Bengaluru	NBFC	C8	2017-18	Reply was awaited (November 2025).
57	Bengaluru PCIT-2 Bengaluru	NBFC	C8	2018-19	Reply was awaited (November 2025).
58	Bengaluru PCIT-2 Bengaluru	NBFC	T20	2017-18	Reply was awaited (November 2025).
59	Bengaluru PCIT-2 Bengaluru	NBFC	V1	2017-18	Reply was awaited (November 2025).
60	Bengaluru PCIT-2 Bengaluru	NBFC	V1	2018-19	Reply was awaited (November 2025).
61	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2017-18	Reply was awaited (November 2025).
62	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2018-19	Reply was awaited (November 2025).
63	Chennai PCIT-4, Chennai	NBFC	S4	2018-19	Reply was awaited (November 2025).

Annexure 4.4

{Refer Para 4.2.1}

Ambiguity in Income Tax Rule 6EA with provisions of Section 43D resulting in avoidable legal dispute						
S. No.	Region	Category	Name of the Bank	AY	Date of assessment under Section 143(3)	Amount disallowed (₹ in crore)
1	Mumbai	Private Bank	I24	2016-17	29.12.2018	867.33
2	Mumbai	Private Bank	I24	2017-18	27.12.2019	109.53
3	Mumbai	Private Bank	I24	2018-19	15.09.2021	99.00
4	Mumbai	Public Bank	U1	2016-17	15.03.2019	236.22
5	Mumbai	Public Bank	U1	2017-18	26.12.2019	230.97
6	Mumbai	Private Bank	I4	2015-16	12.02.2019	47.05
7	Mumbai	Private Bank	I4	2016-17	14.02.2020	139.34
8	Mumbai	Private Bank	I4	2017-18	18.11.2021	171.84
9	Mumbai	Private Bank	I4	2018-19	25.11.2021	633.67
10	Mumbai	Public Bank	S8	2016-17	27.03.2018	103.05
11	Mumbai	Public Bank	S8	2017-18	16.03.2019	62.2
12	Mumbai	Public Bank	S8	2018-19	20.03.2020	177.62
13	Mumbai	Public Bank	S18	2016-17	14.03.2018	6.65
14	Mumbai	Public Bank	S18	2017-18	06.03.2019	6.70
15	Mumbai	Public Bank	S17	2017-18	06.03.2019	9.65
16	Mumbai	Public Bank	S13	2016-17	30.11.2018	9.76
17	Mumbai	Public Bank	S13	2017-18	26.12.2019	13.39
18	Mumbai	Private Bank	Y1	2016-17	12.27.2018	16.8
19	Mumbai	Private Bank	Y1	2017-18	12.28.2019	53.17
20	Mumbai	Private Bank	Y1	2018-19	29.02.2020	24.77
21	Mumbai	Public Bank	C4	2017-18	28.12.2019	135.91
22	Mumbai	Public Bank	C4	2018-19	22.04.2021	109.08
23	Mumbai	Private Bank	K1	2016-17	28.12.2018	10.48
24	Mumbai	Private Bank	K1	2017-18	27.12.2019	19.06
25	Mumbai	Private Bank	K1	2018-19	23.04.2021	21.43
26	Mumbai	Private Bank	D2	2017-18	25.12.2019	2.23
27	Mumbai	Public Bank	D3	2017-18	26.12.2019	58.03
28	Mumbai	Public Bank	D3	2018-19	21.04.2021	37.55

Ambiguity in Income Tax Rule 6EA with provisions of Section 43D resulting in avoidable legal dispute						
S. No.	Region	Category	Name of the Bank	AY	Date of assessment under Section 143(3)	Amount disallowed (₹ in crore)
29	Mumbai	Private Bank	I7	2016-17	29.12.2019	5.17
30	Mumbai	Private Bank	I7	2017-18	29.12.2019	15.06
31	Mumbai	Private Bank	I7	2018-19	24.05.2021	21.82
32	Mumbai	Public Bank	V3	2018-19	29.02.2020	44.86
33	Ahmedabad	Private Bank	A6	2011-12	15.11.2018	11.17
34	Ahmedabad	Private Bank	A6	2012-13	15.11.2018	30.41
35	Ahmedabad	Private Bank	A6	2015-16	02.02.2018	40.57
36	Ahmedabad	Private Bank	A6	2016-17	28.01.2020	61.38
Total						3,642.92

Annexure 4.5

{Refer Para 4.3.1}

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
1	Mumbai PCIT-2, Mumbai	H4 Private Bank AY 2017-18	2,385.93	1,007.22	1,007.22	Accepted (June 2022)
2	Mumbai PCIT-2, Mumbai	H4 Private Bank AY 2018-19	3,265.83	685.25	685.25	Accepted (June 2022)
3	Mumbai PCIT-2, Mumbai	H4 Private Bank AY 2019-20	4,580.38	NA*	NA*	Accepted (June 2022)
4	Mumbai PCIT-2, Mumbai	I7 Private Bank AY 2017-18	560.35	63.58	63.58	Accepted (June 2022)
5	Mumbai PCIT-2, Mumbai	I7 Private Bank AY 2018-19	1,010.55	262.22	262.22	Accepted (June 2022)
6	Mumbai PCIT-2, Mumbai	I7 Private Bank AY 2019-20	2,152.36	51.30	51.30	Accepted (June 2022)
7	Mumbai PCIT-2, Mumbai	K1 Private Bank AY 2017-18	383.98	0	0	Accepted (June 2022)
8	Mumbai PCIT-2, Mumbai	K1 Private Bank AY 2018-19	395.63	42.43	42.43	Accepted (June 2022)
9	Mumbai PCIT-2, Mumbai	K1 Private Bank AY 2019-20	218.31	NA*	NA*	Accepted (June 2022)
10	Mumbai PCIT-2, Mumbai	I4 Private Bank AY 2017-18	12,891.19	1,988.55	1,988.55	Accepted (June 2022)
11	Mumbai PCIT-2, Mumbai	I4 Private Bank AY 2018-19	8,720.60	2,512.29	2,512.29	Accepted (June 2022)
12	Mumbai PCIT-2, Mumbai	I4 Private Bank AY 2019-20	10,696.43	NA*	NA*	Accepted (June 2022)
13	Mumbai PCIT-3, Mumbai	I24 Private Bank AY 2017-18	3,029.21	110.65	110.65	Accepted (June 2022)
14	Mumbai PCIT-3, Mumbai	I24 Private Bank AY 2018-19	12,500.97	964.62	964.62	Accepted (June 2022)

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Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
15	Mumbai PCIT-3, Mumbai	I24 Private Bank AY 2019-20	16,053.24	NA*	NA*	Accepted (June 2022)
16	Mumbai PCIT 14 Mumbai	R5 NBFC AY 2018-19	156.07	33.91	33.91	Reply was awaited (November 2025).
17	Mumbai PCIT 14 Mumbai	C11 NBFC AY 2018-19	7.55	7.55	7.55	Reply was awaited (November 2025).
18	Mumbai PCIT 4 Mumbai	I23 NBFC AY 2016-17	0.12	0.12	0.12	Reply was awaited (November 2025).
19	Mumbai PCIT 4 Mumbai	I23 NBFC AY 2017-18	4.55	4.55	4.55	Reply was awaited (November 2025).
20	Mumbai PCIT 6 Mumbai	L4 NBFC AY 2019-20	554.11	554.11	554.11	Reply was awaited (November 2025).
21	Mumbai PCIT 6 Mumbai	R5 NBFC AY 2017-18	114.62	45.55	45.55	Reply was awaited (November 2025).
22	Mumbai PCIT 8 Mumbai	R9 NBFC AY 2018-19 TO 19-20	307.46	17.97	17.97	Reply was awaited (November 2025).
23	Mumbai PCIT 3 Mumbai	E5 NBFC AY 2017-18	217.21	217.21	217.21	Reply was awaited (November 2025).
24	Mumbai PCIT 3 Mumbai	V7 NBFC AY 2017-18 TO 2019-20	112.66	52.81	52.81	Reply was awaited (November 2025).
25	Mumbai PCIT 1 Mumbai	T19 NBFC AY 2016-17	163.13	163.13	163.13	Reply was awaited (November 2025).
26	Mumbai PCIT 1 Mumbai	T19 NBFC AY 2017-18	345.52	345.52	345.52	Reply was awaited (November 2025).
27	Mumbai PCIT 1 Mumbai	T19 NBFC AY 2018-19	625.01	625.01	625.01	Reply was awaited (November 2025).
28	Mumbai PCIT 1 Mumbai	T19 NBFC AY 2019-20	514.08	514.08	514.08	Reply was awaited (November 2025).
29	Mumbai	R9 NBFC	3.76	1.67	1.67	Reply was awaited (November 2025).

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
	PCIT 8 Mumbai	2016-17				
30	Ahmedabad PCIT-1, Ahmedabad	A6 Private Bank *AY 2015-16	1,193.170	376.68	376.68	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
31	Ahmedabad PCIT-1, Ahmedabad	H10 NBFC AY 2016-17	116.55	116.55	116.55	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
32	Ahmedabad PCIT-1, Ahmedabad	H10 NBFC AY 2017-18	224.81	224.81	224.81	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
33	Ahmedabad PCIT-1, Ahmedabad	H10 NBFC AY 2018-19	376.66	376.66	376.66	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
34	Ahmedabad PCIT-1, Ahmedabad	H10 NBFC AY 2019-20	12.55	12.55	12.55	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
35	Ahmedabad PCIT-1, Ahmedabad	M4 NBFC AY 2015-16	15.71	15.71	15.71	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
36	Ahmedabad PCIT-1, Ahmedabad	M4 NBFC AY 2016-17	20.17	20.17	20.17	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
37	Ahmedabad PCIT-1, Ahmedabad	M4 NBFC AY 2017-18	21.52	21.52	21.52	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
38	Ahmedabad PCIT-1, Ahmedabad	M4 NBFC AY 2018-19	37.16	37.16	37.16	Not Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
39	Jaipur PCIT-1 Jaipur	A19 NBFC AY 2017-18	2.86	2.86	2.86	Reply was awaited (November 2025).
40	Jaipur PCIT-1 Jaipur	A19 NBFC AY 2019-20	3.27	3.27	3.27	Reply was awaited (November 2025).
41	Jaipur PCIT-1 Jaipur	E2 NBFC	1.73	1.07	1.07	Reply was awaited (November 2025).

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
		AY 2017-18				
42	Jaipur PCIT-1 Jaipur	E2 NBFC AY 2018-19	7.13	5.05	5.05	Reply was awaited (November 2025).
43	Jaipur PCIT-1 Jaipur	E2 NBFC AY 2019-20	12.84	9.53	9.53	Reply was awaited (November 2025).
44	Hyderabad CIRCLE 3(1), Hyderabad	S28 NBFC AY 2016-17	10.68	10.68	10.68	Reply was awaited (November 2025).
45	Hyderabad Ward 2(1) Hyderabad	I11 NBFC AY 2019-20	0.12	0.12	0.12	Reply was awaited (November 2025).
46	Hyderabad Ward 17(1) Hyderabad	V4 NBFC AY 2017-18	0.11	0.11	0.11	Reply was awaited (November 2025).
47	Hyderabad Ward 16(1) Hyderabad	P11 NBFC AY 2016-17	0.84	0.84	0.84	Reply was awaited (November 2025).
48	Hyderabad Ward 16(1) Hyderabad	P11 NBFC AY 2017-18	0.84	0.84	0.84	Reply was awaited (November 2025).
49	Hyderabad Circle 1(1) Hyderabad	K2 NBFC AY 2015-16	0.04	0.04	0.04	Not Accepted (July 2022). Department stated that as per ITR-6 format, PAN of the assessee is to be mentioned only if it is available and not mandatory. However, Ministry in its reply (September 2024) has stated that it is mandatory to disclose the PAN of the borrowers in the return while claiming deduction towards bad debts.
50	Hyderabad Circle 1(1) Hyderabad	K2 NBFC AY 2017-18	1.79	1.79	1.79	
51	Hyderabad Circle 1(1) Hyderabad	K2 NBFC AY 2019-20	3.10	3.10	3.10	
52	Hyderabad Circle 1(1) Hyderabad	A7 NBFC AY 2016-17	148.91	148.91	148.91	Department in its reply stated (August 2022) that notice under Section 133(6) would be issued. However, Ministry in its reply (September 2024) has stated that it is mandatory to disclose the PAN of the borrowers in the return
53	Hyderabad Circle 1(1) Hyderabad	A7 NBFC AY 2017-18	120.50	120.50	120.50	
54	Hyderabad Circle 1(1) Hyderabad	A7 NBFC AY 2018-19	120.25	120.25	120.25	

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
55	Hyderabad Circle 1(1) Hyderabad	A7 NBFC AY 2019-20	107.34	107.34	107.34	while claiming deduction towards bad debts.
56	Hyderabad CIRCLE 2(1) Hyderabad	K8 NBFC AY 2017-18	2.62	2.62	2.62	Not Accepted (May 2024). Department replied that the objection is not accepted stating that as per ITR format, quoting of PAN is not mandatory even where the amount involved is more than ₹1 lakh. However, Ministry in its reply (September 2024) has stated that it is mandatory to disclose the PAN of the borrowers in the return while claiming deduction towards bad debts.
57	Hyderabad Circle 2(1) Hyderabad	J2 NBFC AY 2016-17	1.51	1.51	1.51	
58	Hyderabad Circle 2(1)	J2 NBFC AY 2017-18	5.49	5.49	5.49	
59	Delhi PCIT-4	I18 NBFC 2015-16	734.63	734.63	734.63	Reply was awaited (November 2025).
60	Delhi PCIT-4	I18 NBFC 2016-17	560.48	560.48	560.48	Reply was awaited (November 2025).
61	Delhi PCIT-4	H1 NBFC 2016-17	4.28	4.28	4.28	Reply was awaited (November 2025).
62	Delhi PCIT-4	H1 NBFC 2017-18	9.67	9.67	9.67	Reply was awaited (November 2025).
63	Delhi PCIT-4	H1 NBFC 2018-19	82.98	0.64	0.64	Reply was awaited (November 2025).
64	Delhi PCIT-1	A1 NBFC AY 2017-18	0.13	0.13	0.13	Reply was awaited (November 2025).
65	Delhi PCIT-1	A2 NBFC AY 2016-17	0.62	0.62	0.62	Reply was awaited (November 2025).
66	Delhi PCIT-7	O3 NBFC AY 2017-18	0.02	0.02	0.02	Reply was awaited (November 2025).
67	Delhi PCIT-7	T2 NBFC AY 2016-17	0.39	0.39	0.39	Reply was awaited (November 2025).
68	Delhi PCIT-7	T2 NBFC	0.88	0.88	0.88	Reply was awaited (November 2025).

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
		AY 2018-19				
69	Delhi PCIT-7	T1 NBFC AY 2016-17	8.38	8.38	8.38	Reply was awaited (November 2025).
70	Delhi PCIT-7	T1 NBFC 2017-18	4.57	4.57	4.57	Reply was awaited (November 2025).
71	Delhi PCIT-7	V2 NBFC AY 2016-17	7.35	7.35	7.35	Reply was awaited (November 2025).
72	Delhi PCIT-4	G1 NBFC AY 2016-17	0.02	0.02	0.02	Reply was awaited (November 2025).
73	Delhi PCIT-7	S22 NBFC AY 2016-17	201.94	201.94	201.94	Reply was awaited (November 2025).
74	Delhi PCIT-7	S22 NBFC AY 2017-18	329.15	329.15	329.15	Reply was awaited (November 2025).
75	Delhi PCIT-7	R10 NBFC AY 2015-16	112.09	112.09	112.09	Reply was awaited (November 2025).
76	Delhi PCIT-7	R10 NBFC AY 2016-17	63.67	63.17	63.17	Reply was awaited (November 2025).
77	Delhi PCIT-7	R10 NBFC AY 2017-18	956.50	956.50	956.50	Reply was awaited (November 2025).
78	Delhi PCIT-7	R10 NBFC AY 2018-19	123.65	123.65	123.65	Reply was awaited (November 2025).
79	Delhi PCIT-7	P6 NBFC AY 2015-16	1.02	1.02	1.02	Reply was awaited (November 2025).
80	Delhi PCIT-7	P6 NBFC AY 2018-19	18.30	18.30	18.30	Reply was awaited (November 2025).
81	Delhi PCIT-7	P3 NBFC AY 2016-17	7.66	7.66	7.66	Reply was awaited (November 2025).
82	Delhi CIT (IT)-2	M9 NBFC AY 2017-18	97.65	97.65	97.65	Reply was awaited (November 2025).
83	Guwahati ACIT Circle-2, Guwahati	N1 NBFC AY 2018-19	25.36	25.36	25.36	Reply was awaited (November 2025).

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
84	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2010-11	327.48	327.48	327.48	Reply was awaited (November 2025).
85	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2011-12	570.02	570.02	570.02	Reply was awaited (November 2025).
86	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2012-13	333.16	333.16	333.16	Reply was awaited (November 2025).
87	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2018-19	7,343.38	7,343.38	7,343.38	Reply was awaited (November 2025).
88	Bengaluru PCIT -2 Bengaluru	V1 NBFC AY 2017-18	12.80	12.68	12.68	Reply was awaited (November 2025).
89	Bengaluru PCIT -2 Bengaluru	V1 NBFC AY 2018-19	48.72	48.26	48.26	Reply was awaited (November 2025).
90	Bengaluru PCIT -2 Bengaluru	U4 NBFC AY 2017-18	3.65	3.65	3.65	Reply was awaited (November 2025).
91	Bengaluru PCIT -2 Bengaluru	C8 NBFC AY 2017-18	0.85	0.85	0.85	Reply was awaited (November 2025).
92	Bengaluru PCIT -2 Bengaluru	C8 NBFC AY 2018-19	5.54	5.54	5.54	Reply was awaited (November 2025).
93	Bengaluru PCIT -2 Bengaluru	S15 Public Bank AY 2015-16	42.17	42.17	0	Reply was awaited (November 2025).
94	Bengaluru PCIT -2 Bengaluru	S15 Public Bank AY 2016-17	83.12	83.12	0	Reply was awaited (November 2025).
95	Bengaluru PCIT -2 Bengaluru	S15 Public Bank AY 2017-18	148.50	148.50	0	Reply was awaited (November 2025).
96	Bengaluru PCIT -2 Bengaluru	S15 Public Bank AY 2019-20	1,030.64	1,030.64	0	Reply was awaited (November 2025).
97	Bengaluru PCIT -2 Bengaluru	K3 NBFC AY 2015-16	252.12	252.12	252.12	Reply was awaited (November 2025).
98	Bengaluru PCIT-2 Bengaluru	K3 NBFC AY 2016-17	2.57	2.57	2.57	Reply was awaited (November 2025).

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Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
99	Bengaluru PCIT-2 Bengaluru	K3 NBFC AY 2017-18	0.35	0.35	0.35	Reply was awaited (November 2025).
100	Bengaluru PCIT-2 Bengaluru	K3 NBFC AY 2019-20	72.25	72.25	72.25	Reply was awaited (November 2025).
101	Bengaluru PCIT-3 Bengaluru	H9 NBFC AY 2014-15	82.98	82.98	82.98	Reply was awaited (November 2025).
102	Bengaluru PCIT-3 Bengaluru	H9 NBFC AY 2016-17	97.44	97.44	97.44	Reply was awaited (November 2025).
103	Bengaluru PCIT-3 Bengaluru	H9 NBFC AY 2017-18	0.02	0.02	0.02	Reply was awaited (November 2025).
104	Bengaluru PCIT-2 Bengaluru	C6 Public Bank AY 2018-19	11,024.95	11,024.95	Nil	Reply was awaited (November 2025).
105	Bengaluru PCIT-2 Bengaluru	C6 Public Bank AY 2019-20	12,188.77	12,188.77	Nil	Reply was awaited (November 2025).
106	Chennai PCIT-1 Chennai	F1 NBFC AY 2018-19	3.38	3.38	3.38	Reply was awaited (November 2025).
107	Chennai PCIT-1 Chennai	F1 NBFC AY 2019-20	1.75	0.30	0.30	Reply was awaited (November 2025).
108	Chennai PCIT-1 Chennai	D7 NBFC AY 2018-19	14.75	14.75	14.75	Reply was awaited (November 2025).
109	Chennai PCIT-1 Chennai	H12 NBFC AY 2014-15	66.01	51.49	51.49	Reply was awaited (November 2025).
110	Chennai PCIT-1 Chennai	H12 NBFC AY 2016-17	118.48	118.48	118.48	Reply was awaited (November 2025).
111	Chennai PCIT-1 Chennai	H12 NBFC AY 2017-18	108.96	108.96	108.96	Reply was awaited (November 2025).
112	Chennai PCIT-1 Chennai	H12 NBFC AY 2018-19	387.41	387.41	387.41	Reply was awaited (November 2025).
113	Chennai PCIT, Chennai-4	R8 NBFC AY 2018-19	15.77	15.73	15.73	Reply was awaited (November 2025).

Details of bad debts written off without disclosure of borrowers' PAN						
S. No.	Region/ PCIT Charge	Name of assessee Banks/NBFC AY	Total Bad debts claimed	Bad debts claimed where PAN is not available	Bad debts allowed where PAN is not available	Reply of the Department
114	Chennai PCIT, Chennai-3	S6 NBFC AY 2016-17	2,264.36	2,264.36	2,264.36	Reply was awaited (November 2025).
115	Chennai PCIT, Chennai-3	S6 NBFC AY 2017-18	3,627.59	3,627.59	3,627.59	Reply was awaited (November 2025).
116	Chennai PCIT, Chennai-3	S6 NBFC AY 2018-19	5,392.92	5,392.92	5,392.92	Reply was awaited (November 2025).
117	Chennai PCIT, Chennai-3	T16 NBFC AY 2017-18	35.15	33.47	33.47	Reply was awaited (November 2025).
118	Chennai PCIT, Chennai-3	T16 NBFC AY 2018-19	29.76	28.61	28.61	Reply was awaited (November 2025).
119	Chennai PCIT, Chennai-3	S7 NBFC AY 2016-17	599.89	599.89	599.89	Reply was awaited (November 2025).
120	Chennai PCIT, Chennai-3	S7 NBFC AY 2017-18	1,236.18	1,236.18	1,236.18	Reply was awaited (November 2025).
121	Chennai PCIT, Chennai-3	S7 NBFC AY 2018-19	1,781.11	1,781.11	1,781.11	Reply was awaited (November 2025).
122	Chennai PCIT, Madurai-1	T3 Private Bank AY 2016-17	68.28	68.28	68.28	Reply was awaited (November 2025).
123	Chennai PCIT, Madurai-1	T3 Private Bank AY 2018-19	0.41	0.41	0.41	Reply was awaited (November 2025).
124	Chennai PCIT (Central), Chennai-2	S16 NBFC 2017-18	4.82	4.82	4.82	Reply was awaited (November 2025).
Total			1,37,320.93	64,696.62	40,178.47	

Annexure 4.6

{Refer Para 4.3.2.1}

Details of cases where bad debts was not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
1	Mumbai PCIT-2, Mumbai	Public Bank	S8	2017-18	0	32,905.63	19,764.74	Accepted (June 2022). Further details are awaited (November 2025).
2	Mumbai PCIT-2, Mumbai	Public Bank	S8	2018-19	0	71,374.23	24,725.74	Accepted (June 2022). Further details are awaited (November 2025).
3	Mumbai PCIT-2, Mumbai	Public Bank	S8	2019-20	0	54,694.33	54,694.33	Accepted (June 2022). Further details are awaited (November 2025).
4	Mumbai PCIT-2, Mumbai	Public Bank	C4	2016-17	0	1,431.46	1,431.46	Accepted (June 2022). Further details are awaited (November 2025).
5	Mumbai PCIT-2, Mumbai	Public Bank	C4	2017-18	0	2,536.17	2,536.17	Accepted (June 2022). Further details are awaited (November 2025).
6	Mumbai PCIT-2, Mumbai	Public Bank	C4	2018-19	0	2,957.22	2,957.22	Accepted (June 2022). Further details are awaited (November 2025).
7	Mumbai PCIT-2, Mumbai	Public Bank	B2	2017-18	0	902.33	902.33	Accepted (June 2022). Further details are awaited (November 2025).
8	Mumbai PCIT-2, Mumbai	Public Bank	B2	2018-19	0	2,202.78	2,202.78	Accepted (June 2022). Further details are awaited (November 2025).
9	Mumbai PCIT-2, Mumbai	Public Bank	D3	2016-17	0	697.23	697.23	Accepted (June 2022). Further details are awaited (November 2025).
10	Mumbai PCIT-2, Mumbai	Public Bank	D3	2017-18	0	811.25	811.25	Accepted (June 2022). Further details are awaited (November 2025).

Details of cases where bad debts was not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
11	Mumbai PCIT-2, Mumbai	Public Bank	D3	2018-19	0	605.08	605.08	Accepted (June 2022). Further details are awaited (November 2025).
12	Mumbai PCIT-2, Mumbai	Public Bank	V3	2018-19	0	1,541.26	1,541.26	Accepted (June 2022). Further details are awaited (November 2025).
13	Kolkata PCIT-2, Kolkata	Public Bank	U2	2010-11	0	327.47	327.47	ITD replied that the case has become time barred on 31.03.2015.
14	Kolkata PCIT-2, Kolkata	Public Bank	U2	2011-12	0	570.01	570.01	ITD replied that the case has become time barred on 31.03.2015.
15	Kolkata PCIT-2, Kolkata	Public Bank	U2	2012-13	0	333.16	333.16	ITD replied that the case has become time barred on 31.03.2015.
16	Kolkata PCIT-2, Kolkata	Public Bank	U2	2015-16	0	1,836.37	1,836.37	Reply was awaited (November 2025).
17	Kolkata PCIT-2, Kolkata	Public Bank	U2	2016-17	0	6,299.34	6,299.34	Remedial action has been initiated by issuing notice under Section 263 in September 2025. Further details are awaited (November 2025).
18	Kolkata PCIT-2, Kolkata	Public Bank	U2	2017-18	0	4,414.68	4,414.68	Remedial action has been initiated by issuing notice under Section 148A(d) in April 2024. Further details are awaited (November 2025).
19	Kolkata PCIT-2, Kolkata	Public Bank	U2	2018-19	0	7,343.37	7,343.37	Remedial action has been taken under Section 263 in March 2025.

Details of cases where bad debts was not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
20	Delhi CIT -1 (Intl. Tax)	Foreign Bank	A16	2016-17	0	95.31	95.31	Reply was awaited (November 2025).
21	Delhi CIT -1 (Intl. Tax)	Foreign Bank	A16	2017-18	0	122.50	122.50	Reply was awaited (November 2025).
22	Delhi CIT -1 (Intl. Tax)	Foreign Bank	C5	2018-19	0	59.03	59.03	Reply was awaited (November 2025).
23	Delhi CIT -1 (Intl. Tax)	Foreign Bank	C5	2016-17	0	4	4	Reply was awaited (November 2025).
24	Delhi Pr.CIT-7	Public Bank	U3	2010-11	0	123.34	123.34	Reply was awaited (November 2025).
25	Delhi Pr.CIT-7	Public Bank	U3	2011-12	0	389.09	389.09	Reply was awaited (November 2025).
26	Delhi Pr.CIT-7	Public Bank	U3	2012-13	0	192.75	192.75	Reply was awaited (November 2025).
27	Delhi Pr.CIT-7	Public Bank	U3	2014-15	0	462.78	462.78	Reply was awaited (November 2025).
28	Delhi Pr.CIT-7	Public Bank	U3	2015-16	0	680.09	680.09	Reply was awaited (November 2025).
29	Delhi Pr.CIT-7	Public Bank	U3	2016-17	0	1,532.29	1,532.29	Reply was awaited (November 2025).
30	Delhi Pr.CIT-7	Public Bank	U3	2017-18	0	675.99	675.99	Reply was awaited (November 2025).
31	Delhi Pr.CIT-7	Public Bank	O2	2013-14	0	1,393.21	1,393.21	Reply was awaited (November 2025).
32	Delhi Pr.CIT-7	Public Bank	O2	2014-15	0	1,231.56	1,231.56	Reply was awaited (November 2025).
33	Delhi Pr.CIT-7	Public Bank	O2	2018-19	0	7,235.2	7,235.2	Reply was awaited (November 2025).
34	Chennai PCIT-1 Chennai	Public Bank	A13	2014-15	0	785.23	785.23	Reply was awaited (November 2025).
35	Chennai PCIT-1 Chennai	Public Bank	A13	2015-16	0	1,697.68	1,697.68	Reply was awaited (November 2025).
36	Chennai PCIT-1 Chennai	Public Bank	A13	2016-17	0	5,132.51	1,842.70	Reply was awaited (November 2025).
37	Chennai	Public Bank	A13	2017-18	0	3,986.01	2,123.74	Reply was awaited (November 2025).

Details of cases where bad debts was not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
	PCIT-1 Chennai							
38	Chennai PCIT-1 Chennai	Public Bank	A13	2018-19	0	9,886.82	8,088.20	Reply was awaited (November 2025).
39	Chennai PCIT-1 Chennai	Public Bank	I9	2015-16	0	416.84	0	Reply was awaited (November 2025).
40	Chennai PCIT-1 Chennai	Public Bank	I9	2016-17	0	635.04	0	Reply was awaited (November 2025).
41	Chennai PCIT-1 Chennai	Public Bank	I9	2017-18	0	914.14	0	Reply was awaited (November 2025).
42	Chennai PCIT-1 Chennai	Public Bank	I9	2018-19	0	777.00	0	Reply was awaited (November 2025).
43	Chennai PCIT, Chennai-4	Public Bank	I5	2014-15	0	1,723.15	9.11	Reply was awaited (November 2025).
44	Chennai PCIT, Chennai-4	Public Bank	I5	2015-16	0	2,178.63	599.3	Reply was awaited (November 2025).
45	Chennai PCIT, Chennai-4	Public Bank	I5	2016-17	0	2,123.96	0	Reply was awaited (November 2025).
46	Chennai PCIT, Chennai-4	Public Bank	I5	2017-18	0	2,116.95	0	Reply was awaited (November 2025).
47	Chennai PCIT, Chennai-4	Public Bank	I5	2018-19	0	8,751.17	3,903.90	Reply was awaited (November 2025).
48	Chennai PCIT, Chennai-4	Public Bank	I5	2019-20	0	8,567.79	0	Reply was awaited (November 2025).
49	Chennai PCIT, Madurai-1	Private Bank	T5	2015-16	0	65.13	17.92	Reply was awaited (November 2025).
50	Chennai PCIT, Madurai-1	Private Bank	T5	2016-17	0	150.22	89.88	Reply was awaited (November 2025).

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Details of cases where bad debts was not debited in the profit and loss account but allowed in the assessment without calling for any details of borrowers								
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
51	Chennai PCIT, Madurai-1	Private Bank	T5	2017-18	0	30.99	25.35	Reply was awaited (November 2025).
52	Chennai PCIT, Madurai-1	Private Bank	T5	2018-19	0	298.20	298.20	Reply was awaited (November 2025).
53	Chennai PCIT, Madurai-1	Private Bank	T3	2015-16	0	480.84	342.67	Reply was awaited (November 2025).
54	Chennai PCIT, Madurai-1	Private Bank	T3	2019-20	0	806.88	806.88	Reply was awaited (November 2025).
55	Chennai PCIT, Madurai-1	Private Bank	T6	2014-15	0	29.36	29.36	Reply was awaited (November 2025).
56	Chennai PCIT, Madurai-1	Private Bank	T6	2016-17	0	96.55	96.55	Reply was awaited (November 2025).
57	Chennai PCIT, Madurai-1	Private Bank	T6	2017-18	0	241.72	241.72	Reply was awaited (November 2025).
58	Chennai PCIT, Madurai-1	Private Bank	T6	2018-19	0	592.95	592.95	Reply was awaited (November 2025).
Total						2,60,466.27	1,69,782.47	

Annexure 4.7

{Refer Para 4.3.2.2}

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
1	Rajasthan PCIT 1 Jaipur	NBFC	A5	2016-17	33.52	33.52	33.52	Department accepted (November 2025) and stated that remedial action has been completed under section 147 (March 2024).
2	Rajasthan PCIT 1 Jaipur	NBFC	A5	2017-18	42.81	42.81	42.81	As per reply (February 2022) objection was found factually correct and was noted for future reference.
3	Rajasthan PCIT 1 Jaipur	NBFC	A5	2018-19	39.43	39.43	39.43	Reply awaited (November 2025)
4	Rajasthan PCIT 1 Jaipur	NBFC	A5	2019-20	28.47	28.47	28.47	Reply awaited (November 2025)
5	Rajasthan PCIT 1 Jaipur	NBFC	A19	2018-19	1.78	1.78	1.78	Reply awaited (November 2025)
6	Rajasthan PCIT 1 Jaipur	NBFC	E2	2016-17	3.22	3.22	3.22	Reply awaited (November 2025)
7	Chandigarh Jalandhar-1	NBFC	M2	2015-16	0.04	0.04	0.04	Reply awaited (November 2025)
8	Chandigarh Jalandhar-1	NBFC	M2	2017-18	0.18	0.18	0.18	Reply awaited (November 2025)
9	Chandigarh Jalandhar-1	NBFC	P8	2017-18	0.01	0.01	0.01	Reply awaited (November 2025)
10	Chandigarh Ludhiana-1	NBFC	I14	2017-18	0.04	0.04	0.04	Reply awaited (November 2025)
11	Chandigarh Srinagar	Private Bank	T8	2012-13	144.10	144.10	144.10	Reply awaited (November 2025)
12	Chandigarh Srinagar	Private Bank	T8	2015-16	929.40	929.40	929.40	Reply awaited (November 2025)
13	Chandigarh Srinagar	Private Bank	T8	2016-17	861.26	861.26	861.26	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
14	Chandigarh Srinagar	Private Bank	T8	2017-18	853.17	853.17	853.17	Department replied (November 2025) and stated that action case reopened under section 147.
15	Chandigarh Panchkula	NBFC	H6	2015-16	50.84	50.84	50.84	Department replied (November 2025) and stated that action has been taken under section 147
16	Chandigarh Panchkula	NBFC	H6	2016-17	0.04	0.04	0.04	Department replied (November 2025) and stated that action has been taken under section 147)
17	Chandigarh Panchkula	NBFC	H6	2017-18	0.02	0.02	0.02	Department replied (November 2025) and stated that action has been taken under section 147
18	Chandigarh Panchkula	NBFC	H5	2015-16	6.68	6.68	6.68	Department replied (November 2025) and stated that action has been taken under section 147
19	Chandigarh Panchkula	NBFC	H5	2016-17	14.09	5.38	5.38	Department replied (November 2025) and stated that action has been taken under section 147
20	Chandigarh Panchkula	NBFC	H5	2017-18	0	7.17	7.17	Department replied (November 2025) and stated that action has been taken under section 147

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
21	Chandigarh Faridabad	NBFC	H11	2015-16	7.39	7.39	7.39	Reply awaited (November 2025)
22	Chandigarh Faridabad	NBFC	H11	2016-17	12.56	12.56	12.56	Reply awaited (November 2025)
23	Chandigarh Faridabad	NBFC	H11	2017-18	55.49	55.49	55.49	Reply awaited (November 2025)
24	Chandigarh Faridabad	NBFC	H11	2019-20	382.81	382.81	382.81	Reply awaited (November 2025)
25	Lucknow Pr.CIT-Allahabad	NBFC	S24	2017-18	32.91	32.91	32.91	ITD reply on the Rebuttal of Audit is still awaited.
26	Gujarat PCIT-1, Ahmedabad	Private Bank	A6	2011-12	678.37	678.37	678.37	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
27	Gujarat PCIT-1, Ahmedabad	Private Bank	A6	2012-13	721.87	721.87	721.87	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
28	Gujarat PCIT-1, Ahmedabad	Private Bank	A6	2015-16	1,217.81	1,217.81	1,217.81	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
29	Gujarat PCIT-1, Ahmedabad	Private Bank	A6	2016-17	3,163.94	3,163.94	3,163.94	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
30	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2016-17	116.55	116.55	116.55	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
31	Gujarat	NBFC	H10	2017-18	224.81	224.81	224.81	Accepted during the Exit Meeting

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
	PCIT-1, Ahmedabad							(January 2023). Further details are awaited (November 2025).
32	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2018-19	376.66	376.66	376.66	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
33	Gujarat PCIT-1, Ahmedabad	NBFC	H10	2019-20	516.41	516.41	516.41	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
34	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2015-16	15.71	15.71	15.71	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
35	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2016-17	20.17	20.17	20.17	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
36	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2017-18	21.52	21.52	21.52	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
37	Gujarat PCIT-1, Ahmedabad	NBFC	M4	2018-19	37.16	37.16	37.16	Accepted during the Exit Meeting (January 2023). Further details are awaited (November 2025).
38	Gujarat	NBFC	B3	2016-17	0.15	0.15	0.15	Accepted during the Exit Meeting (January 2023).

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
	PCIT-Central, Surat							Further details are awaited (November 2025).
39	Chennai PCIT-1 Chennai	NBFC	F1	2018-19	3.38	3.38	3.38	Reply awaited (November 2025)
40	Chennai PCIT-1 Chennai	NBFC	F1	2019-20	1.75	1.75	1.75	Reply awaited (November 2025)
41	Chennai PCIT-1 Chennai	NBFC	D7	2016-17	10.10	10.10	10.10	Reply awaited (November 2025)
42	Chennai PCIT-1 Chennai	NBFC	D7	2017-18	15.94	15.94	15.94	Reply awaited (November 2025)
43	Chennai PCIT-1 Chennai	NBFC	D7	2018-19	14.75	14.75	14.75	Reply awaited (November 2025)
44	Chennai PCIT-1 Chennai	NBFC	F4	2019-20	6.89	6.89	6.89	Reply awaited (November 2025)
45	Chennai PCIT-1 Chennai	NBFC	F3	2019-20	30.99	30.99	30.99	Reply awaited (November 2025)
46	Chennai PCIT-1 Chennai	NBFC	H12	2014-15	66.01	66.01	66.01	Reply awaited (November 2025)
47	Chennai PCIT-1 Chennai	NBFC	H12	2016-17	118.48	118.48	118.48	Reply awaited (November 2025)
48	Chennai PCIT-1 Chennai	NBFC	H12	2017-18	108.96	108.96	108.96	Reply awaited (November 2025)
49	Chennai PCIT-1 Chennai	NBFC	H12	2018-19	387.41	387.41	387.41	Reply awaited (November 2025)
50	Chennai PCIT-1 Chennai	NBFC	H12	2019-20	480.54	480.54	480.54	Reply awaited (November 2025)
51	Chennai PCIT, Chennai-4	NBFC	R8	2018-19	15.76	15.73	15.76	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
52	Chennai PCIT, Chennai-3	NBFC	S6	2016-17	2,264.36	2,264.36	2,264.36	Reply awaited (November 2025)
53	Chennai PCIT, Chennai-3	NBFC	S6	2017-18	3,627.59	3,627.59	3,627.59	The Ministry did not accept the audit observation (June 2025). Rebuttal issued to Department (July 2025)
54	Chennai PCIT, Chennai-3	NBFC	S6	2018-19	5,392.92	5,392.92	5,392.92	
55	Chennai PCIT, Chennai-3	NBFC	T16	2017-18	35.15	33.47	35.15	Reply awaited (November 2025)
56	Chennai PCIT, Chennai-3	NBFC	T16	2018-19	29.76	28.61	29.76	Reply awaited (November 2025)
57	Chennai PCIT, Chennai-3	NBFC	S7	2016-17	599.89	599.89	599.89	Reply awaited (November 2025)
58	Chennai PCIT, Chennai-3	NBFC	S7	2017-18	1,236.18	1,236.18	1,236.18	Reply awaited (November 2025)
59	Chennai PCIT, Chennai-3	NBFC	S7	2018-19	1,781.11	1,781.11	1,781.11	Reply awaited (November 2025)
60	Chennai PCIT, Madurai-1	Private Bank	T3	2016-17	68.28	223.96	223.96	Reply awaited (November 2025)
61	Chennai PCIT, Madurai-1	Private Bank	T3	2017-18	0.90	264.89	0	Reply awaited (November 2025)
62	Chennai PCIT, Madurai-1	Private Bank	T3	2018-19	0.41	860.27	817.51	Reply awaited (November 2025)
63	Chennai PCIT (Central), Chennai-2	NBFC	S16	2017-18	4.82	4.82	4.82	Reply awaited (November 2025)
64	Chennai PDAC, Chennai	NBFC	S4	2017-18	52.88	52.88	52.88	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
65	Kerala PCIT Thiruvananthapuram	NBFC	K6	2016-17	58.67	58.67	58.67	Not accepted ¹⁴⁰ (November 2025)
66	Kerala PCIT Thiruvananthapuram	NBFC	K6	2017-18	120.61	120.61	120.61	Not accepted (November 2022) [refer footnote for S.No 65 of this annexure]
67	Kerala PCIT Thiruvananthapuram	NBFC	K6	2018-19	124.81	124.81	123.48	Not accepted (November 2022) [refer footnote for S.No 65 of this annexure]
68	Kerala PCIT Thiruvananthapuram	NBFC	K6	2019-20	167.67	167.67	167.67	Not accepted (November 2022) [refer footnote for S.No 65 of this annexure]
69	Kerala PCIT Thiruvananthapuram	NBFC	K7	2016-17	0.05	0.05	0.05	Not accepted (November 2022)
70	Kerala PCIT Thiruvananthapuram	NBFC	K7	2017-18	0.02	0.02	0.02	Not accepted (November 2022)
71	Kerala PCIT Kozhikode	NBFC	M6	2017-18	31.32	31.32	31.32	Not accepted (November 2022)
72	Kerala PCIT Central Kochi	NBFC	M10	2017-18	17.35	17.35	17.35	Reply awaited (November 2025)
73	Kerala	NBFC	M10	2018-19	25.74	25.74	25.74	Reply awaited (November 2025)

¹⁴⁰ Department stated in its reply (November 2022) that under the current provisions of the Act and in view of the decision of the Hon'ble Supreme Court in the case of Vijaya Bank, there is no scope for further enquiry into the books of the borrowing entity. Reply of the Department is not acceptable as PAN as a unique identifier, facilitates effective monitoring and tracing of individuals' financial transactions and also identifies the assessee. ITD may utilise the PAN-related information at the time of assessment to scrutinise the deductions claimed by the assessee. Audit observed the necessity to provide PAN details in high-value cases (above a specified threshold) for verification of the claim of bad debts and its admissibility at the time of scrutiny assessment and to ascertain tax treatment of such written-off advances at borrowers' end.

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
	PCIT Central Kochi							
74	Chennai PCIT 1, Chennai	Private Bank	I28	2018-19	991.09	991.09	991.09	Reply awaited (November 2025)
75	Guwahati PCIT Guwahati	NBFC	S27	2017-18	Not available	0.07	0.07	Accepted (November 2024) and remedial action taken under Section 154 vide Order dated 15.11.2022.
76	Guwahati PCIT Guwahati	NBFC	N1	2018-19	Not available	25.40	25.40	Accepted (November 2024) and remedial action taken under Section 147 vide Order dated 27.03.2024.
77	Kerala PCIT Kozhikode	NBFC	E7	2018-19	31.99	31.99	31.99	Not accepted (November 2022)
78	Kolkata PCIT, Kolkata-2	Private Bank	B11	2017-18	31.19	31.19	31.19	Reply awaited (November 2025)
79	Kolkata PCIT, Kolkata-2	Private Bank	B11	2018-19	51	51	51	Not accepted (April 2024)
80	Kolkata PCIT, Kolkata-2	Private Bank	B11	2019-20	277.49	277.49	277.49	Not accepted (April 2024)
81	Kolkata PCIT, Kolkata-2	NBFC	T9	2017-18	0.021	0.021	0.021	Reply awaited (November 2025)
82	Kolkata PCIT, Kolkata-2	NBFC	W1	2016-17	29.89	29.89	29.89	Reply awaited (November 2025)
83	Kolkata PCIT, Kolkata-2	NBFC	W1	2017-18	26.03	26.03	26.03	Reply awaited (November 2025)
84	Kolkata PCIT, Kolkata-1	NBFC	M7	2015-16	0.00	0.00	0.00	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
85	Kolkata PCIT, Kolkata-1	NBFC	M7	2016-17	0.00	0.00	0.00	Reply awaited (November 2025)
86	Kolkata PCIT, Kolkata-1	NBFC	M7	2012-13	27.11	27.11	27.11	Reply awaited (November 2025)
87	Kolkata PCIT, Kolkata-1	NBFC	M7	2017-18	0.00	0.00	0.00	Reply awaited (November 2025)
88	Kolkata PCIT, Kolkata-2	NBFC	G5	2017-18	5.05	5.05	5.05	Reply awaited (November 2025)
89	Kolkata PCIT, Kolkata-2	NBFC	G5	2011-12	1.26	1.26	1.26	Reply awaited (November 2025)
90	Kolkata PCIT, Kolkata-2	NBFC	G5	2018-19	1.08	1.08	1.08	Reply awaited (November 2025)
91	Kolkata PCIT, Kolkata-2	NBFC	G5	2019-20	0.86	0.86	0.86	Reply awaited (November 2025)
92	Kolkata PCIT, Kolkata-2	NBFC	G5	2016-17	5.43	5.43	5.43	Reply awaited (November 2025)
93	Kolkata PCIT (Central), Kolkata-1	NBFC	S20	2017-18	0.04	0.04	0.04	Reply awaited (November 2025)
94	Kolkata PCIT, Kolkata-2	NBFC	S30	2016-17	396.18	396.18	396.18	Reply awaited (November 2025)
95	Kolkata PCIT, Kolkata-5	NBFC	R4	2017-18	0.24	0.24	0.24	Reply awaited (November 2025)
96	Kolkata PCIT, Kolkata-5	NBFC	R4	2018-19	0.13	0.13	0.13	Reply awaited (November 2025)
97	Kolkata PCIT, Kolkata-5	NBFC	R4	2019-20	0.02	0.02	0.02	Reply awaited (November 2025)
98	Kolkata PCIT-1, Kolkata	NBFC	P15	2017-18	0.32	0.32	0.32	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
99	Kolkata CCIT-2, Kolkata	NBFC	S30	2014-15	230.83	230.83	230.83	Reply awaited (November 2025)
100	Kolkata CCIT-2, Kolkata	NBFC	S30	2012-13	97.68	97.68	97.68	Reply awaited (November 2025)
101	Kolkata PCIT 2 Kolkata	NBFC	S3	2014-15	14.84	14.84	14.84	Reply awaited (November 2025)
102	Kolkata PCIT 2 Kolkata	NBFC	S3	2012-13	0.50	0.50	0.50	Reply awaited (November 2025)
103	Kolkata PCIT, Kolkata-2	NBFC	A12	2015-16	0.15	0.15	0.15	Reply awaited (November 2025)
104	Kolkata PCIT, Kolkata-1	NBFC	M16	2017-18	21.03	21.03	21.03	Reply awaited (November 2025)
105	Kolkata PCIT, Kolkata-2	NBFC	L3	2014-15	58.85	58.85	58.85	Reply awaited (November 2025)
106	Kolkata PCIT, Kolkata-2	NBFC	L3	2015-16	98.78	98.78	98.78	Reply awaited (November 2025)
107	Kolkata PCIT, Kolkata-2	NBFC	D4	2017-18	0.01	0.01	0.01	Reply awaited (November 2025)
108	Kolkata PCIT, Kolkata-2	NBFC	B6	2012-13	0.03	0.03	0.03	Reply awaited (November 2025)
109	Kolkata PCIT, Kolkata-1	NBFC	A10	2017-18	0.09	0.09	0.09	Reply awaited (November 2025)
110	Kolkata PCIT, Kolkata-1	NBFC	E6	2016-17	0.18	0.18	0.18	Reply awaited (November 2025)
111	Kolkata PCIT, Kolkata-1	NBFC	E6	2017-18	22.55	22.55	22.55	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
112	Kolkata PCIT, Kolkata-1	NBFC	N5	2017-18	0.10	0.10	0.10	Reply awaited (November 2025)
113	Kolkata Ward 1(1), PCIT, Kolkata-1	NBFC	K5	2017-18	0.01	0.01	0.01	Reply awaited (November 2025)
114	Kolkata Ward 1(1), PCIT, Kolkata-2	NBFC	P13	2017-18	0.1	0.1	0.1	Reply awaited (November 2025)
115	Kolkata Ward 5(1), PCIT, Kolkata-2	NBFC	A8	2018-19	0.65	0.65	0.65	Reply awaited (November 2025)
116	Kolkata Ward 5(1), PCIT, Kolkata-2	NBFC	V6	2016-17	0.49	0.49	0.49	Reply awaited (November 2025)
117	Kolkata Circle 7(1), PCIT-1	NBFC	M16	2016-17	12.46	12.46	12.34	Reply awaited (November 2025)
118	Kolkata Circle 11(1), PCIT-2	NBFC	S3	2017-18	544.26	544.26	179.68	Reply awaited (November 2025)
119	Kolkata Circle 11(1), PCIT-2	NBFC	S3	2018-19	74.92	74.92	11.2	Reply awaited (November 2025)
120	Kolkata Circle 11(1), PCIT-2	NBFC	S30	2015-16	336.58	336.58	336.58	Reply awaited (November 2025)
121	Kolkata Circle 11(1), PCIT-2	NBFC	S30	2017-18	252.73	252.73	252.73	Reply awaited (November 2025)
122	Kolkata Circle 11(1), PCIT-2	NBFC	S30	2018-19	296.29	296.29	296.29	Reply awaited (November 2025)

Details of bad debts claimed without verification of borrower PAN								
S. No.	Region/ PCIT Charge	Banks / NBFC	Name of assessee	AY	Amount of bad debts debited in the profit and loss account and shown in ITR (₹ in crore)	Amount of bad debts claimed in the return (₹ in crore)	Amount of bad debts allowed in the assessment (₹ in crore)	Department's reply
123	Kolkata PCIT, Kolkata-2	NBFC	W1	2015-16	44.03	44.03	44.03	Department in its reply (April 2025) stated that information was received after elapsing time for initiating remedial measure.
Total					31,497.4	32,798	32,063.46	

Annexure 4.8

{Refer Para 4.4.1}

Inconsistent stand adopted by ITD regarding allowability of Broken Period Interest							
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Date of assessment	Amount of Broken Period Interest disallowed (₹ in crore)	Department's reply
1	Mumbai PCIT-2	Private Bank	I7	2017-18	29.12.2019	28.01	Accepted (March 2022)
2	Mumbai PCIT-2	Private Bank	I7	2018-19	24.05.2021	37.26	Accepted (March 2022)
3	Mumbai PCIT-2	Private Bank	K1	2017-18	27.12.2019	16.71	Accepted (March 2022)
4	Mumbai PCIT-2	Private Bank	K1	2018-19	23.04.2021	10.85	Accepted (March 2022)
5	Mumbai PCIT-2	Private Bank	I4	2017-18	18-11-2021	Deduction Allowed	Accepted (March 2022)
6	Mumbai PCIT-2	Private Bank	I4	2018-19	25-11-2021	Deduction Allowed	Accepted (March 2022)
7	Mumbai PCIT-2	Public Bank	S8	2017-18	16.03.2019	981.17	Accepted (March 2022)
8	Mumbai PCIT-2	Public Bank	S8	2018-19	20-03-2020	2,804.95	Accepted (March 2022)
9	Mumbai PCIT-2	Private Bank	H4	2017-18	30.12.2019	1,052.63	Accepted (March 2022)
10	Mumbai PCIT-2	Private Bank	H4	2018-19	30.01.2021	686.50	Accepted (March 2022)
11	Mumbai PCIT-2	Public Bank	B2	2017-18	19-03-2019	486.79	Accepted (March 2022)
12	Mumbai PCIT-2	Public Bank	B2	2018-19	30.03.2020	469.83	Accepted (March 2022)
13	Mumbai PCIT-2	Public Bank	C4	2017-18	28.12.2019	2,852.16	Accepted (March 2022)
14	Mumbai PCIT-2	Public Bank	C4	2018-19	22.04.2021	62.01	Accepted (March 2022)
15	Mumbai PCIT-2	Private Bank	D2	2017-18	25.12.2019	31.21	Accepted (March 2022)
16	Mumbai PCIT-2	Private Bank	D2	2018-19	10.03.2021	5.87	Accepted (March 2022)
17	Mumbai PCIT-2	Public Bank	D3	2017-18	26.12.2019	39.30	Accepted (March 2022)
18	Mumbai PCIT-2	Public Bank	D3	2018-19	21.04.2021	41.01	Accepted (March 2022)
19	Mumbai PCIT-2	Private Bank	I24	2017-18	27.12.2019	43.16	Accepted (March 2022)
20	Mumbai PCIT-2	Private Bank	I24	2018-19	15.09.2021	1.09	Accepted (March 2022)
21	Mumbai PCIT-3	Public Bank	U1	2017-18	26.12.2019	297.92	Accepted (March 2022)

Inconsistent stand adopted by ITD regarding allowability of Broken Period Interest							
S. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Date of assessment	Amount of Broken Period Interest disallowed (₹ in crore)	Department's reply
22	Mumbai PCIT-2	Public Bank	V3	2018-19	17.03.2020	186.80	Accepted (March 2022)
23	Mumbai PCIT-2	Private Bank	Y1	2017-18	28.12.2019	190.17	Accepted (March 2022)
24	Mumbai PCIT-2	Private Bank	Y1	2018-19	29.02.2020	190.43	Accepted (March 2022)
Total						10,515.83	

Annexure 4.9

{Refer Para 4.4.2}

A. Details of premium paid on securities held under HTM category disallowed during AY 2017-18 to 2019-20							
S. No.	Region	PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of amortisation of premium allowed/ disallowed (₹ in crore)	Department's reply
1	Mumbai	PCIT-2 Mumbai	Private Bank	I7	2017-18	56.99	Accepted (June 2022)
2	Mumbai	PCIT-2 Mumbai	Private Bank	I7	2018-19	179.32	Accepted (June 2022)
3	Mumbai	PCIT-2 Mumbai	Public Bank	S8	2017-18	799.08	Accepted (June 2022)
4	Mumbai	PCIT-2 Mumbai	Public Bank	S8	2018-19	1,771.72	Accepted (June 2022)
5	Mumbai	PCIT-2 Mumbai	Public Bank	B2	2017-18	Nil	Accepted (June 2022)
6	Mumbai	PCIT-2 Mumbai	Public Bank	B2	2018-19	420.97	Accepted (June 2022)
7	Mumbai	PCIT-2 Mumbai	Public Bank	C4	2017-18	247.78	Accepted (June 2022)
8	Mumbai	PCIT-2 Mumbai	Public Bank	C4	2018-19	107.32	Accepted (June 2022)
9	Mumbai	PCIT-2 Mumbai	Private Bank	D2	2017-18	11.75	Accepted (June 2022)
10	Mumbai	PCIT-2 Mumbai	Private Bank	D2	2018-19	0	Accepted (June 2022)
11	Mumbai	PCIT-2 Mumbai	Private Bank	I24	2017-18	170.50	Accepted (June 2022)
12	Mumbai	PCIT-2 Mumbai	Private Bank	I24	2018-19	181.80	Accepted (June 2022)
13	Mumbai	PCIT-3 Mumbai	Public Bank	U1	2017-18	188.50	Accepted (June 2022)
14	Mumbai	PCIT-2 Mumbai	Private Bank	Y1	2017-18	43.99	Accepted (June 2022)
15	Mumbai	PCIT-2 Mumbai	Private Bank	Y1	2018-19	112.37	Accepted (June 2022)
16	Mumbai	PCIT-2 Mumbai	Private Bank	I4	2017-18	No addition made. Amount not available on records.	Accepted (June 2022)
17	Mumbai	PCIT-2 Mumbai	Private Bank	I4	2018-19	No addition made. Amount not available on records.	Accepted (June 2022)
18	Mumbai	PCIT-2 Mumbai	Private Bank	H4	2017-18	No addition made. Amount not available on records.	Accepted (June 2022)
19	Mumbai	PCIT-2 Mumbai	Private Bank	H4	2018-19	No addition made. Amount	Accepted (June 2022)

A. Details of premium paid on securities held under HTM category disallowed during AY 2017-18 to 2019-20							
S. No.	Region	PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of amortisation of premium allowed/ disallowed (₹ in crore)	Department's reply
						not available on records.	
20	Mumbai	PCIT-2 Mumbai	Public Bank	D3	2017-18	No addition made. Amount not available on records.	Accepted (June 2022)
21	Mumbai	PCIT-2 Mumbai	Public Bank	D3	2018-19	No addition made. Amount not available on records.	Accepted (June 2022)
22	Mumbai	PCIT-2 Mumbai	Public Bank	V3	2018-19	No addition made. Amount not available on records.	Accepted (June 2022)
23	Kolkata	PCIT, Kolkata-2	Public Bank	U2	2017-18	96.04	Remedial action has been initiated by issuing notice under Section 148 in April 2024.
24	Kolkata	PCIT, Kolkata-2	Public Bank	U2	2018-19	61.08	Remedial action taken under Section 263 in March 2025.
25	Delhi	Pr. CIT-7 Delhi	Public Bank	P4	2017-18	29.86	Reply awaited (November 2025)
26	Delhi	Pr. CIT-7 Delhi	Public Bank	P4	2018-19	24.16	Reply awaited (November 2025)
27	Delhi	Pr. CIT-7 Delhi	Public Bank	P4	2019-20	0	Reply awaited (November 2025)
28	Delhi	Pr. CIT-7 Delhi	Public Bank	P1	2017-18	29.86	Reply awaited (November 2025)
29	Delhi	Pr. CIT-7 Delhi	Public Bank	P1	2018-19	No addition made. Amount not available on records.	Reply awaited (November 2025)
30	Delhi	Pr. CIT-7 Delhi	Public Bank	P1	2019-20	No addition made. Amount not available on records.	Reply awaited (November 2025)
31	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2017-18	91.64	Reply awaited (November 2025)
32	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2018-19	No addition made. Amount not available on records.	Reply awaited (November 2025)
33	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2019-20	No addition made. Amount not available on records.	Reply awaited (November 2025)

A. Details of premium paid on securities held under HTM category disallowed during AY 2017-18 to 2019-20							
S. No.	Region	PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of amortisation of premium allowed/ disallowed (₹ in crore)	Department's reply
34	Chennai	PCIT-1 Chennai	Public Bank	I9	2018-19	108.64	Reply awaited (November 2025)
35	Chennai	PCIT-1 Chennai	Private Bank	I28	2017-18	29.31	Reply awaited (November 2025)
36	Chennai	PCIT-1 Chennai	Private Bank	I28	2018-19	113.58	Reply awaited (November 2025)
37	Chennai	PCIT-1 Chennai	Private Bank	E4	2017-18	1.05	Reply awaited (November 2025)
38	Chennai	PCIT-1 Chennai	Private Bank	E4	2018-19	5.07	Reply awaited (November 2025)
39	Chennai	PCIT-1 Chennai	Private Bank	E4	2019-20	5.16	Reply awaited (November 2025)
40	Chennai	PCIT-1 Chennai	Public Bank	I9	2017-18	80.81	Remedial action taken under Section 147 in March 2022.
41	Chennai	PCIT-1 Chennai	Public Bank	I5	2018-19	68.62	Reply awaited (November 2025)
42	Chennai	PCIT-1 Chennai	Public Bank	I5	2019-20	66.2	Reply awaited (November 2025)
43	Chennai	PCIT-1 Chennai	Public Bank	I5	2017-18	92.88	Department replied that audit point was not considered in the reopened reassessment order passed under Section 147/144B in March 2022.
44	Chennai	PCIT, Madurai-1	Private Bank	T6	2017-18	23.55	Reply awaited (November 2025)
45	Chennai	PCIT, Madurai-1	Private Bank	T6	2018-19	30.8	Reply awaited (November 2025)
46	Chennai	PCIT, Madurai-1	Private Bank	T6	2019-20	29.37	Reply awaited (November 2025)
47	Chennai	PCIT, Madurai-1	Private Bank	T5	2017-18	4.60	Reply awaited (November 2025)
48	Chennai	PCIT, Madurai-1	Private Bank	T5	2018-19	30.9	Reply awaited (November 2025)
49	Chennai	PCIT, Madurai-1	Private Bank	T3	2017-18	27.62	Reply awaited (November 2025)
50	Chennai	PCIT, Madurai-1	Private Bank	T3	2018-19	40.24	Reply awaited (November 2025)
51	Chennai	PCIT, Madurai-1	Private Bank	T3	2019-20	43.93	Reply awaited (November 2025)
Total						5,427.06	

B. Details of cases pertaining to AYs prior to AY 2017-18							
S. No.	Region	PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of amortisation of premium allowed/ disallowed (₹ in crore)	Department's Reply
1	Kolkata	PCIT, Kolkata-2	Public Bank	U2	2015-16	155.93	Reply awaited (November 2025)
2	Kolkata	PCIT, Kolkata-2	Public Bank	U2	2016-17	156.35	Remedial action has been initiated by issuing notice under Section 263 in September 2025 for AY 2016-17. Further details are awaited (November 2025).
3	Delhi	Pr. CIT-7 Delhi	Public Bank	P1	2015-16	216.80	Reply awaited (November 2025)
4	Delhi	Pr. CIT-7 Delhi	Public Bank	P1	2016-17	215.32	Reply awaited (November 2025)
5	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2013-14	28.84	Reply awaited (November 2025)
6	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2014-15	66.49	Reply awaited (November 2025)
7	Delhi	Pr. CIT-7 Delhi	Public Bank	O2	2016-17	81.44	Reply awaited (November 2025)
8	Delhi	Pr. CIT-7 Delhi	Public Bank	P4	2016-17	No addition made. Amount not available on records.	Reply awaited (November 2025)
9	Chennai	PCIT-1 Chennai	Public Bank	I9	2015-16	74.16	Reply awaited (November 2025)
10	Chennai	PCIT-1 Chennai	Public Bank	I9	2016-17	61.69	Reply awaited (November 2025)
11	Chennai	PCIT-1 Chennai	Public Bank	I5	2016-17	103.87	As per the reply (April 2022) in the assessment orders passed under Section 147 read with Section 144B dated 31-03-2022, no reasons were stated for not making addition/ disallowance in this regard. It was further stated (07-07-2023) that in respect of AY 2016-17 the time limit under Section 263 was 31-03-2024. Further reply is awaited (November 2025).
12	Chennai	PCIT-1 Chennai	Public Bank	I5	2015-16	88.37	Accepted (February 2022) and remedial action taken under

B. Details of cases pertaining to AYs prior to AY 2017-18							
S. No.	Region	PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of amortisation of premium allowed/ disallowed (₹ in crore)	Department's Reply
							Section 147 in December 2019.
13	Chennai	PCIT, Madurai-1	Private Bank	T5	2015-16	8.45	Reply awaited (November 2025)
14	Chennai	PCIT, Madurai-1	Private Bank	T5	2016-17	8.64	Reply awaited (November 2025)
15	Chennai	PCIT, Madurai-1	Private Bank	T3	2016-17	22.74	Reply awaited (November 2025)
Total						1,289.09	

Annexure 4.10

{Refer Para 4.4.3}

Inconsistent stand adopted by ITD regarding allowability of deduction of depreciation in value of investment (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Bank/ Category/ AY	Depreciation on investments claimed	Depreciation on investments allowed	Depreciation on investments disallowed	Remarks/Reply
1	PCIT-1 Chennai	I9 Public Bank AY 2017-18	102.06	102.06	0	Though disallowance was made relying on the decision of the Madras High Court (M/s TN Power Finance Infrastructure Development Corporation Ltd) for AY 2018-19, similar disallowance was not made for 2017-18. Department replied (May 2022) that the Audit objection was considered and assessment under Section 147 was completed (March 2022). However, the Audit point was not discussed in the reassessment order.
2	PCIT-1 Chennai	I9 Public Bank AY 2018-19	314.88	0	314.88	Disallowance made relying on the decision of the Madras High Court (M/s TN Power Finance Infrastructure Development Corporation Ltd.) Reply of the Department was awaited (November 2025).
3	PCIT-1 Chennai	I9 Public Bank AY 2019-20	1,128.59	0	1,128.59	In the scrutiny assessment, the entire deductions claimed by the assessee was disallowed on the grounds that assessee did not furnish any satisfactory documentary evidence or explanations. The assessee filed a Writ Petition and stay has been obtained in this regard. Reply of the Department was awaited (November 2025).
4	PCIT-1 Madurai	T3 Private Bank AY 2017-18	35.95	33.03	2.92	No scrip-wise workings of net appreciation/depreciation under each category of investment is available in ITMR. However, no depreciation was allowed as claimed. Reply of the Department was awaited (November 2025).
5	PCIT-1 Madurai	T3 Private Bank AY 2018-19	91.05	0	91.05	Assessee could not furnish scrip-wise workings of net appreciation/depreciation under each category of investment and hence the amount was disallowed. Reply of the

Inconsistent stand adopted by ITD regarding allowability of deduction of depreciation in value of investment (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Bank/ Category/ AY	Depreciation on investments claimed	Depreciation on investments allowed	Depreciation on investments disallowed	Remarks/Reply
						Department was awaited (November 2025).
6	PCIT-1 Madurai	T3 Private Bank AY 2019-20	17.35	0	17.35	Assessee could not furnish scrip-wise workings of net appreciation/depreciation under each category of investment and hence the amount was disallowed. Reply of the Department was awaited (November 2025).
7	PCIT-1 Madurai	T5 Private Bank AY 2017-18	16.07	3.47	12.60	Partial disallowance was made. Reply of the Department was awaited (November 2025).
8	PCIT-1 Madurai	T5 Private Bank 2018-19	53.34	53.34	0	No scrip-wise workings of net appreciation/depreciation under each category of investment was available in IT records. Reply of the Department was awaited (November 2025).
9	PCIT-4 Chennai	I5 Public Bank 2017-18	79.95	79.95	0	For AY 2014-15, CIT(Appeals) has given relief for the disallowance of ₹ 3,330.61 crore made in the scrutiny assessment. Department replied (April 2022) that audit point was not consider in the reopened reassessment order passed under Section 147/144B in March 2022.
10	PCIT-4 Chennai	I5 Public Bank 2018-19	912.38	912.38	0	For AY 2015-16 & 2016, the assessee had claimed deduction towards “provision for depreciation written back” on the grounds that the same was disallowed in the earlier Ays. These were not allowed. Reply of the Department was awaited (November 2025).
11	PCIT-4 Chennai	I5 Public Bank 2019-20	884.28	884.28	0	In the scrutiny assessment for AY 2016-17 it was held that as the matter is under appeal by both the assessee and the Department at higher appellate levels, the claim of write back as deduction was not allowed. Reply of the Department was awaited (November 2025).

Inconsistent stand adopted by ITD regarding allowability of deduction of depreciation in value of investment (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Bank/ Category/ AY	Depreciation on investments claimed	Depreciation on investments allowed	Depreciation on investments disallowed	Remarks/Reply
12	PCIT, Madurai	T6 Private Bank 2017-18	68.79	68.79	0	In the scrutiny proceedings for AY 2017-18, the assessee had furnished details for category-wise classification of securities and category-wise depreciation in value of Investments. Reply of the Department was awaited (November 2025).
13	PCIT, Madurai	2018-19	41.39	41.39	0	However, for the AY 2018-19, No scrip-wise workings of net appreciation/depreciation under each category of investment is available in ITMR. Reply of the Department was awaited (November 2025).
14	PCIT-1 Chennai	I28 Private Bank 2016-17	1.03	0	1.03	In the scrutiny assessment for AY 2016-17 an amount of ₹ 1.03 crore for provision for depreciation in value of investments was disallowed on the grounds that the proration expenses are not allowable as per IT Act. Similar treatment was not adopted for AY 2017-18. Reply of the Department was awaited (November 2025).
15	PCIT-1 Chennai	I28 Private Bank 2017-18	156.9	156.9	0	
		Total	3,904.01	2,335.59	1,568.42	

Annexure 4.11

{Refer Para 4.4.4}

Incorrect allowance of deduction towards CSR expenses						(₹ in crore)
Sr. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of deduction claimed	Reply of the Department
1	Mumbai PCIT-2, Mumbai	Private Bank	Y1	2017-18	14.49	Accepted (February 2022). Remedial action has been taken under section 147 read with section 144 on 29.03.2022.
2	Mumbai PCIT-2, Mumbai	Private Bank	I4	2017-18	24.20	Reply awaited (November 2025)
3	Mumbai PCIT-2, Mumbai	Private Bank	I4	2018-19	32.16	Reply awaited (November 2025)
4	Mumbai PCIT-2, Mumbai	Private Bank	H4	2018-19	73.03	Reply awaited (November 2025)
5	Mumbai PCIT-3, Mumbai	Private Bank	I24	2016-17	3.21	Reply awaited (November 2025)
6	Mumbai PCIT-3, Mumbai	Private Bank	I24	2017-18	1.74	Department replied (June 2024) that scrutiny assessment for AY 2017-18 is pending before NeFAC. Further details are awaited (November 2025).
7	Mumbai PCIT-2, Mumbai	Private Bank	K1	2015-16	6.89	Reply awaited (November 2025)
8	Mumbai PCIT 8 Mumbai	NBFC	G6	2017-18	0.72	Accepted (October 2022) and remedial action initiated under Section 147. Further details are awaited (November 2025).
9	Mumbai PCIT 8 Mumbai	NBFC	M15	2017-18	0.69	Accepted (October 2022) and remedial action initiated under Section 147. Further details are awaited (November 2025).
10	Mumbai PCIT 2 Mumbai	NBFC	I26	2016-17 2017-18	7.13	Not accepted (February 2023) stating that the issue is pending before judicial forums. Further details are awaited (November 2025).
11	Mumbai PCIT 4 Mumbai	NBFC	I3	2016-17 2017-18	5.20	Not accepted (March 2022)
12	Mumbai PCIT 3 Mumbai	NBFC	E5	2016-17 2017-18 2018-19	11.25	Accepted in respect of AY 2016-17 (June 2023) and remedial action initiated under Section 148 in April 2023. In respect of AYs 2017-18 & 2018-19, replies are awaited (November 2025)
13	Mumbai PCIT 2 Mumbai	NBFC	S1	2017-18	1.14	Reply awaited (November 2025)
14	Mumbai PCIT 8 Mumbai	NBFC	M1	2019-20	12.75	Not accepted (November 2025).
15	Mumbai PCIT 1 Mumbai	NBFC	S26	2017-18	2.62	As per reply (May 2024) Remedial action initiated under Section 148. Further details are awaited (November 2025).

Incorrect allowance of deduction towards CSR expenses						(₹ in crore)
Sr. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of deduction claimed	Reply of the Department
16	Mumbai PCIT 1 Mumbai	NBFC	S26	2018-19	2.09	Remedial action completed under Section 147 on 27.03.2023.
17	Mumbai PCIT 4 Mumbai	NBFC	I23	2018-19	1.06	Reply awaited (November 2025)
18	Mumbai PCIT 6 Mumbai	NBFC	A4	2018-19	1.80	Not accepted (April 2022)
19	Mumbai PCIT 6 Mumbai	NBFC	A4	2017-18	1.13	Not accepted (April 2022)
20	Mumbai PCIT 6 Mumbai	NBFC	A4	2016-17	0.61	Not accepted (April 2022)
21	Mumbai PCIT 4 Mumbai	NBFC	I23	2017-18	0.78	Reply awaited (November 2025)
22	Mumbai PCIT 4 Mumbai	NBFC	I19	2016-17	2.30	Reply awaited (November 2025)
23	Mumbai PCIT 4 Mumbai	NBFC	I19	2017-18	3.51	Reply awaited (November 2025)
24	Mumbai PCIT 8 Mumbai	NBFC	R9	2015-16	0.49	Reply awaited (November 2025)
25	Mumbai PCIT 8 Mumbai	NBFC	R9	2016-17	0.67	Reply awaited (November 2025)
26	Ahmedabad PCIT-1, Ahmedabad	Private Bank	A6	2015-16	31.13	During Exit Meeting (January 2023), ITD replied that the matter is subjudice before ITAT Ahmedabad. Further details are awaited (November 2025).
27	Ahmedabad PCIT-1, Ahmedabad	Private Bank	A6	2016-17	36.85	During Exit Meeting (January 2023), ITD replied that the matter is subjudice before ITAT Ahmedabad. Further details are awaited (November 2025).
28	Kolkata CIT(IT & TP), Kolkata	Foreign bank	R7	2016-17	8.16	Reply awaited (November 2025)
29	Kolkata CIT(IT & TP), Kolkata	Foreign bank	R7	2015-16	12.87	Reply awaited (November 2025)
30	Kolkata PCIT, Kolkata-1	NBFC	C13	2017-18	6.22	Reply awaited (November 2025)
31	Kolkata PCIT, Kolkata-1	NBFC	O5	2017-18	0.49	Reply awaited (November 2025)
32	Chandigarh PCIT Ludhiana-1	NBFC	V5	2016-17	0.25	Reply awaited (November 2025)
33	Chandigarh PCIT Ludhiana-1	NBFC	V5	2017-18	0.05	Reply awaited (November 2025)
34	Delhi CIT-4 Delhi	NBFC	R1	2019-20	48.79	Reply awaited (November 2025)
35	Delhi CIT-4 Delhi	NBFC	R1	2018-19	20.20	Reply awaited (November 2025)
36	Delhi CIT -4 Delhi	NBFC	R1	2015-16	6.97	Reply awaited (November 2025)
37	Delhi CIT -4 Delhi	NBFC	R1	2017-18	5.25	Reply awaited (November 2025)

Incorrect allowance of deduction towards CSR expenses						(₹ in crore)
Sr. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of deduction claimed	Reply of the Department
38	Delhi CIT-2 Delhi	NBFC	M9	2018-19	4.08	Reply awaited (November 2025)
39	Delhi CIT-7 Delhi	NBFC	S22	2017-18	3.32	Reply awaited (November 2025)
40	Delhi CIT-7 Delhi	NBFC	P6	2017-18	2.29	Reply awaited (November 2025)
41	Delhi CIT-4 Delhi	NBFC	R1	2016-17	2.27	Reply awaited (November 2025)
42	Delhi CIT-7 Delhi	NBFC	S22	2016-17	1.11	Reply awaited (November 2025)
43	Delhi CIT-1 Delhi	NBFC	D6	2019-20	0.89	Reply awaited (November 2025)
44	Delhi CIT-1 Delhi	NBFC	D6	2018-19	0.82	Reply awaited (November 2025)
45	Delhi CIT-7 Delhi	NBFC	S2	2018-19	0.57	Reply awaited (November 2025)
46	Delhi CIT-7 Delhi	NBFC	S2	2017-18	0.53	Reply awaited (November 2025)
47	Delhi CIT-7 Delhi	NBFC	R10	2015-16	0.25	Reply awaited (November 2025)
48	Kerala CIT Kochi	Private Bank	T11	2015-16	1.32	Not accepted (November 2025)
49	Kerala CIT Kochi	Private Bank	T11	2016-17	2.01	Not accepted (November 2025)
50	Kerala CIT Kochi	Private Bank	T11	2017-18	5.77	Not accepted (November 2025)
51	Kerala CIT Kochi	Private Bank	T11	2018-19	5.46	Not accepted (November 2025)
52	Kerala CIT Central	NBFC	M8	2015-16	4.46	Reply awaited (November 2025)
53	Kerala CIT Central	NBFC	M8	2016-17	7.31	Ministry did not accept the audit observation (April 2025) as detailed in Box 4.9(b) of para 4.4.4 of this report.
54	Kerala CIT Central	NBFC	M8	2017-18	7.50	Reply awaited (November 2025)
55	Kerala CIT Kozhikode	NBFC	M6	2017-18	5.49	Not accepted (November 2025)
56	Kerala CIT Kozhikode	NBFC	M6	2015-16	2.08	Accepted and remedial action taken u/s 147 in February 2024
57	Kerala CIT Kozhikode	NBFC	M6	2016-17	4.6	Accepted and remedial action taken u/s 143(3) read with section 263 in June 2024.
58	Chennai PCIT 1-chennai	Public bank	A13	2018-19	5.25	Reply awaited (November 2025)
59	Mumbai PCIT-3 Pune	NBFC	B5	2016-17	14.00	Reply awaited (November 2025)
60	Mumbai PCIT-3 Pune	NBFC	B5	2017-18	14.04	Accepted (April 2024). Remedial action initiated u/s 263 on 30.03.2022.
61	Mumbai PCIT-3 Pune	NBFC	B5	2018-19	19.47	Accepted (April 2024) Remedial action u/s 263 was considered.

Incorrect allowance of deduction towards CSR expenses						(₹ in crore)
Sr. No.	Region/ PCIT Charge	Banks/ NBFC	Name of assessee	AY	Amount of deduction claimed	Reply of the Department
						Further details are awaited (November 2025).
62	Mumbai PCIT-3 Pune	NBFC	B5	2019-20	27.81	Accepted (April 2024). Remedial action u/s 263 was considered. Further details are awaited (November 2025).
Total					531.59	

Annexure 4.12

{Refer Para 4.4.5}

Inconsistent stand adopted by ITD regarding taxation of profits/losses on sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC) (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Assessee Banks/ NBFC Category	AY	Income not offered	Deduction allowed	Issue in brief including Department's reply
1	PCIT-4, Chennai	I5 Public Bank	2013-14	3.00	0.00	Profit on sale of assets sold to SC/ARC not recognised as revenue has to be brought to tax. As pointed out by the Audit, the consideration on sale of assets to ARC has been recognised as revenue for AY 2013-14, 2014-15 and 2015-16 were brought to tax in the reopened assessment under Section 143(3) read with Section 147 dated 03-12-2019. For AYs 2016-17 and 2017-18, the cases were reopened under Section 147 to consider the Audit point. However, in the assessment orders passed under Section 147 read with Section 144B dated 31-03-2022, no reasons were stated for not making addition/disallowance in this regard. It was further stated(July 2023) that in respect of AY 2016-17 the time limit under Section 263 was 31-03-2024. Reply in respect of AYs 2018-19 and 2019-20 was awaited (November 2025).
2	PCIT-4, Chennai	I5 Public Bank	2014-15	278.96	0.00	
3	PCIT-4, Chennai	I5 Public Bank	2015-16	270.20	0.00	
4	PCIT-4, Chennai	I5 Public Bank	2016-17	54.10	0.00	
5	PCIT-4, Chennai	I5 Public Bank	2017-18	483.39	0.00	
6	PCIT-4, Chennai	I5 Public Bank	2018-19	1,355.01	0.00	
7	PCIT-4, Chennai	I5 Public Bank	2019-20	840.27	0.00	
8	PCIT-1 Chennai	I28 Private Bank	2017-18	178.55	0.00	Profit on sale of assets sold to SC/ARC was not offered to tax. Reply was awaited (November 2025).
9	PCIT-1 Chennai	I10 NBFC	2014-15	51.11	0.00	Profit on sale of assets sold to SC/ARC was not offered to tax. Department in its reply (February 2019) did not accept the audit observation stating that for tax purposes, the gross book value has to be compared with the consideration received. Since, the loan provision for ₹ 51.10 crore had already been disallowed for tax

Inconsistent stand adopted by ITD regarding taxation of profits/losses on sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC) (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Assessee Banks/ NBFC Category	AY	Income not offered	Deduction allowed	Issue in brief including Department's reply
						<p>purposes in the past, bringing it again to tax would result in double taxation.</p> <p>Reply of the Department is untenable. The contention that the provisions made in the books of accounts though disallowed and added back is again eligible to be claimed as deduction under Section 36(1)(viiia). As could be seen from the assessment order under Section 143 read with Section 92CA(3) dated 29-12-2017 the deduction under Section 36(1)(viiia), ₹ 137.19 crore has been allowed. Hence, the question of double taxation does not arise. Further reply was awaited (November 2025).</p>
10	PCIT-1, Chennai	E3 NBFC	2016-17	20.41	0.00	Profit on sale of assets sold to SC/ARC was not offered to tax. Reply was awaited (November 2025).
11	PCIT-1, Chennai	E3 NBFC	2017-18	13.88	0.00	Remedial action has been taken under section 147 read with section 144 read with section 144B for AY 2017-18 in March 2025.
12	PCIT-1 Chennai	I9 Public Bank	2018-19	2,172.78	0.00	While the cash component of the Sale Consideration received has been offered as income by way of reversal of excess provision to the profit and loss account, the sum representing the book value of Security Receipts received from RCs has not been offered to tax. Reply was awaited (November 2025).
13	PCIT-1, Madurai	T3 Private Bank	2016-17	0.00	657.84	Loss on sale of assets to ARC has not crystallised at the point of assignment/sale to ARC since the transaction is on "assignment" basis.
14	PCIT-1, Madurai	T3 Private Bank	2019-20	0.00	226.44	As the loss have not been characterized as technical write off

Inconsistent stand adopted by ITD regarding taxation of profits/losses on sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC) (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Assessee Banks/ NBFC Category	AY	Income not offered	Deduction allowed	Issue in brief including Department's reply
15	PCIT-1, Madurai	T3 Private Bank	2018-19	0.00	185.07	or actual write offs in the books of accounts, the same do not qualify for deduction as bad debts under Section 36(1)(vii) read with Section 36(1)(viiia). Therefore, the claim of loss on sale of assets sold to ARC claimed/allowed as deduction under Section 37 is not in order. It is pertinent to state during AY 2017-18, that the sum representing the loss on sale to ARC had been added back in the statement of income by the assessee itself. Reply was awaited (November 2025).
16	PCIT-1, Madurai	T5 Private Bank	2015-16	0.00	27.43	Amount amortised towards provision for loss on sale of assets to ARC has not crystallised at the point of assignment/sale to ARC since the transaction is on "assignment" basis. As the loss have not been characterized as technical write off or actual write offs in the books of accounts, the same do not qualify for deduction as bad debts under Section 36(1)(vii) read with Section 36(1)(viiia). Therefore, the claim of provision for loss on sale of assets sold to ARC claimed/allowed as deduction under Section 37 is not in order. Reply was awaited (November 2025).
17	PCIT-1, Madurai	T5 Private Bank	2016-17	0.00	76.33	
18	PCIT-1, Madurai	T5 Private Bank	2017-18	0.00	74.90	
19	PCIT-1, Madurai	T5 Private Bank	2018-19	0.00	31.29	Reply was awaited (November 2025).
20	PCIT-2 Hyderabad	K8 NBFC	2017-18	13.60	4.50	Reply was awaited (November 2025)
21	PCIT, Kolkata-2	U2 Public Bank	2011-12, 2015-16	192.00	0.00	No consistency in considering the "gain on sale of financial assets to Securitization/ Reconstruction companies for assets reconstruction" by the ITD. Department in its reply (April 2025) stated that proposal for revision under Section 263 of the Act has

Inconsistent stand adopted by ITD regarding taxation of profits/losses on sale of assets to Securitisation Companies (SC) / Asset Reconstruction Companies (ARC) (₹ in crore)						
Sl. No.	PCIT Charge	Name of the Assessee Banks/ NBFC Category	AY	Income not offered	Deduction allowed	Issue in brief including Department's reply
						been submitted for assessment relating to AY 2015-16. Reply of the Department in respect of AY 2011-12 is awaited (November 2025).
Total				5,927.26	1,283.80	

Annexure 4.13

{Refer Para 4.6}

Details of cases where status of assessee was wrongly shown in DGIT (Systems) Data.				
S. No.	Sequence No.	Status as per DGIT (Systems) data	Status as per assessment records of ITD	Name of the Assessee
1	25215	NBFC	Private Bank	T3
2	25216	NBFC	Private Bank	T3
3	25217	NBFC	Private Bank	T3
4	25218	NBFC	Private Bank	T3
5	25219	NBFC	Private Bank	T3
6	41462	NBFC	Private Bank	I24
7	41463	NBFC	Private Bank	I24
8	41464	NBFC	Private Bank	I24
9	41465	NBFC	Private Bank	I24
10	41466	NBFC	Private Bank	I24
11	41467	NBFC	Private Bank	I24
12	46983	NBFC	Private Bank	I41
13	20052	NBFC	Private Bank	K1
14	20053	NBFC	Private Bank	K1
15	20057	NBFC	Private Bank	K1
16	20058	NBFC	Private Bank	K1
17	20061	NBFC	Private Bank	K1
18	20059	NBFC	Private Bank	K1
19	25349	NBFC	Foreign Bank	D8
20	25350	NBFC	Foreign Bank	D8
21	25351	NBFC	Foreign Bank	D8
22	25352	NBFC	Foreign Bank	D8
23	25353	NBFC	Foreign Bank	D8
24	54091	NBFC	Foreign Bank	R7
25	54092	NBFC	Foreign Bank	R7
26	54093	NBFC	Foreign Bank	R7
27	54094	NBFC	Foreign Bank	R7
28	54096	NBFC	Foreign Bank	R7
29	54097	NBFC	Foreign Bank	R7
30	13742	NBFC	Foreign Bank	B18
31	13743	NBFC	Foreign Bank	B18
32	13744	NBFC	Foreign Bank	B18
33	13745	NBFC	Foreign Bank	B18
34	13747	NBFC	Foreign Bank	B18
35	13749	NBFC	Foreign Bank	B18
36	13746	NBFC	Foreign Bank	B18
37	14846	NBFC	Foreign Bank	D1
38	14847	NBFC	Foreign Bank	D1
39	14849	NBFC	Foreign Bank	D1
40	14850	NBFC	Foreign Bank	D1
41	14848	NBFC	Foreign Bank	D1

Details of cases where status of assessee was wrongly shown in DGIT (Systems) Data.				
S. No.	Sequence No.	Status as per DGIT (Systems) data	Status as per assessment records of ITD	Name of the Assessee
42	14852	NBFC	Foreign Bank	D1
43	26729	NBFC	Public Bank	V3
44	26730	NBFC	Public Bank	V3
45	26731	NBFC	Public Bank	V3
46	26732	NBFC	Public Bank	V3
47	61928	NBFC	Public Bank	S15
48	61929	NBFC	Public Bank	S18
49	61930	NBFC	Public Bank	S18
50	23149	NBFC	Public Bank	P4
51	23151	NBFC	Public Bank	P4
52	23152	NBFC	Public Bank	P4
53	23150	NBFC	Public Bank	P4

Annexure 5.1

{Refer Para 5.5.1.1 & Para 6.3.1}

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
1	Mumbai PCIT 2, Mumbai	S8 Public Bank AY 2018-19	24,725.74	18,732.19	5,993.55	---	2,613.56	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
2	Mumbai PCIT 2, Mumbai	S8 Public Bank AY 2017-18	6,436	0	6,436	---	2,227.37	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
3	Mumbai PCIT 2, Mumbai	S8 Public Bank AY 2018-19	24,725.74	15,867.89	8,857.85	---	3,065.52	Reply was awaited (November 2025).
4	Mumbai PCIT 2, Mumbai	S8 Public Bank AY 2019-20	54,694.33	37,635.85	17,058.48	---	5,960.91	Accepted (June 2022) and stated that appropriate remedial action will be taken. Further details are awaited (November 2025).
5	Mumbai PCIT 2, Mumbai	B2 Public Bank AY 2018-19	2,202.78	2,114.05	88.73	---	30.71	Reply was awaited (November 2025)
6	Mumbai PCIT 2, Mumbai	I24 Private Bank AY 2017-18	2,566.33	2,382.66	183.67	---	63.57	In reply (July 2024) Department stated that scrutiny assessment in the instant case for AY 2017-18 is pending before NeFAC and information on the ITBA portal on 01.04.2024 to consider this issue at the time of framing the assessment order. Further details are awaited (November 2025).
7	Mumbai PCIT 2, Mumbai	I4 Private Bank	974.23	815.01	159.22	---	55.1	Reply was awaited (November 2025)

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
		AY 2016-17						
8	Mumbai PCIT 2 Mumbai	I4 Private Bank AY 2014-15	1,482.07	1,450.78	31.29	---	10.63	Accepted (February 2022) and remedial action initiated under Section 148 in March 2021. Further details are awaited (November 2025).
9	Mumbai PCIT 2 Mumbai	I4 Private Bank AY 2017-18	12,891.19	12,704.43	186.76	---	64.64	Reply was awaited (November 2025)
10	Mumbai PCIT 2 Mumbai	I4 Private Bank AY 2018-19	8,720.6	8,631.35	89.25	---	30.89	Reply was awaited (November 2025)
11	Mumbai PCIT 2 Mumbai	H4 Private Bank AY 2018-19	3,265.83	3,219.6	46.23	---	16	Reply was awaited (November 2025)
12	Mumbai PCIT 2 Mumbai	I24 Private Bank AY 2018-19	12,500.97	12,385.46	115.51	---	39.97	In reply (July 2024) Department stated that proposal for reopening under Section 148 is under progress. Further details are awaited (November 2025).
13	Mumbai PCIT 2 Mumbai	I7 Private Bank AY 2015-16	367.24	130.57	236.67	---	80.44	Accepted (January 2022) and remedial action initiated under Section 148 in March 2021. Further details are awaited (November 2025).
14	Mumbai PCIT 2 Mumbai	I7 Private Bank AY 2018-19	1,010.55	1,003.85	6.7	---	2.32	Reply was awaited (November 2025)
15	Mumbai PCIT 6 Mumbai	L4 NBFC AY 2016-17	119.45	70.09	49.36	---	17.08	Reply was awaited (November 2025)
16	Mumbai PCIT, Mumbai-6	L4 NBFC	554.11	549.05	5.06	---	1.77	Reply was awaited (November 2025)

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
		AY 2019-20						
17	Mumbai PCIT 3 Mumbai	S10 NBFC AY 2019-20	221.89	134.57	87.32	---	30.51	Accepted by the Ministry (June 2025). Remedial action has been taken by issuing notice under section 148A(1) in March 2025.
18	Mumbai PCIT, Pune-3	B5 NBFC AY 2018-19	817.53	816.43	1.1	---	0.37	Accepted (April 2024) Remedial Action under Section 263 is considered.
19	Mumbai PCIT, Mumbai-6	M3 NBFC AY 2019-20	16.81	10.27	6.54	---	1.9	Reply was awaited (November 2025)
20	Mumbai PCIT 6 Mumbai	L1 NBFC AY 2018-19	23.29	0	23.29	---	8.06	As per reply (February 2023), assessment reopened under Section 147 in April 2022. Further details awaited (November 2025).
21	Mumbai PCIT, Mumbai-2	L1 NBFC AY 2019-20	265.66	0	265.66	---	92.83	Reply was awaited (November 2025)
22	Ahmedabad Pr.CIT-I, Ahmedabad	F2 NBFC AY 2019-20	4.71	6.88	--	2.17	0.76	ITD replied (May 2024) that the observation was acceptable and the reopening process has been initiated in March 2023. Further details are awaited (November 2025).
23	Jaipur PCIT-1, JAIPUR	A19 NBFC AY 2018-19	1.78	0	1.78	---	0.73	As per Reply (September 2022) objection is under consideration. Further details are awaited (November 2025).
24	Jaipur PCIT-1, JAIPUR	A5 NBFC AY 2018-19	39.43	0	39.43	---	15.76	Accepted (November 2025). Remedial action initiated under section 263 in March 2023. Further details awaited (November 2025)
25	Kolkata PCIT 2, Kolkata	B11 Private Bank	31.18	22.65	8.53	---	2.95	Reply was awaited (November 2025).

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
		AY 2017-18						
26	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2017-18	4,414.68	2,450.52	1,964.16	---	679.74	Remedial action initiated under Section 148 in April 2024. Further details are awaited (November 2025).
27	Kolkata PCIT 2, Kolkatta	B11 Private Bank AY 2018-19	51	25.91	25.09	---	8.68	Not accepted as detailed under para 5.2.4.2 (April 2024). Further details are awaited (November 2025).
28	Kolkata PCIT, Kolkata-2	B11 Private Bank AY 2019-20	277.49	77.26	200.23	---	69.96	Not accepted as detailed under para 5.2.4.2 (April 2024). Further details are awaited (November 2025).
29	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2018-19	7,343.38	0	7,343.38	---	2,541.40	Remedial action taken under Section 263 in March 2024.
30	Kolkata CIT (IT & TP), Kolkata	R7 Foreign Bank AY 2014-15	113.59	110.52	3.07	---	1.33	Reply was awaited (November 2025).
31	Delhi PCIT 4, Delhi	I21 NBFC AY 2016-17	539.52	359.72	179.80	---	88.14	Reply was awaited (November 2025).
32	Delhi PCIT 4, Delhi	I21 NBFC AY 2017-18	658.8	589.97	68.83	---	23.82	Reply was awaited (November 2025).
33	Delhi PCIT-7, Delhi	O2 Public Bank AY 2013-14	1,393.20	549.25	843.95	---	273.82	Reply was awaited (November 2025).
34	Delhi PCIT-7, Delhi	O2 Public Bank AY 2014-15	1,231.56	168.83	1,062.73	---	361.22	Reply was awaited (November 2025).
35	Delhi PCIT-7, Delhi	O2	7,235.20	5,869.51	1,365.69	---	472.64	Reply was awaited (November 2025).

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
		Public Bank AY 2018-19						
36	Delhi PCIT-7, Delhi	U3 Public Bank AY 2014-15	401.48	0	401.48	---	136.46	Reply was awaited (November 2025).
37	Delhi PCIT 4, Delhi	D5 NBFC AY 2018-19	12	11.75	0.25	---	0.12	Reply was awaited (November 2025).
38	Delhi PCIT 7, Delhi	P6 NBFC AY 2018-19	18.3	13.21	5.10	---	1.76	Reply was awaited (November 2025).
39	Delhi PCIT 7, Delhi	P6 NBFC AY 2019-20	26.8	11.27	15.52	---	5.42	Reply was awaited (November 2025).
40	Chennai PCIT-1, Chennai	A13 Public Bank AY 2018-19	8,088.20	6,744.17	1,344.03	---	465.14	Reply was awaited (November 2025).
41	Chennai PCIT-1, Chennai	A13 Public Bank AY 2014-15	785.23	0	785.23	---	266.9	Reply was awaited (November 2025).
42	Chennai PCIT-1, Chennai	A13 Public Bank AY 2015-16	1,697.68	0	1,697.68	---	577.04	Reply was awaited (November 2025).
43	Chennai PCIT-1, Chennai	A13 Public Bank AY 2016-17	1,842.70	0	1842.70	---	637.72	Reply was awaited (November 2025).
44	Chennai PCIT-1, Chennai	A13 Public Bank AY 2017-18	2,123.74	0	2,123.74	---	734.98	Remedial action has been taken under section 147 read with section 144B in March 2025.
45	Chennai PCIT-4, Chennai	I5 Public Bank	9.11	0	9.11	---	3.1	Reply was awaited (November 2025).

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Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
		AY 2014-15						
46	Chennai PCIT-4, Chennai	I5 Public Bank AY 2015-16	599.3	19.38	579.92	---	197.11	Reply was awaited (November 2025).
47	Chennai PCIT-4, Chennai	I5 Public Bank 2017-18	0	1,377.71	---	1,377.71	476.8	Reply was awaited (November 2025).
48	Chennai PCIT-4, Chennai	I5 Public Bank 2018-19	3,903.9	8,000.42	---	4,096.52	874.26	Reply was awaited (November 2025).
49	Chennai PCIT 1, Madurai	T6 Private Bank 2014-15	29.36	24.41	4.95	---	1.68	Reply was awaited (November 2025).
50	Chennai PCIT 1, Madurai	T6 Private Bank 2016-17	96.55	71.81	24.74	---	8.56	Reply was awaited (November 2025).
51	Chennai PCIT 1, Madurai	T6 Private Bank AY 2017-18	241.72	233.16	8.56	---	2.96	Reply was awaited (November 2025)
52	Chennai PCIT 1, Madurai	T6 Private Bank AY 2018-19	592.95	583.53	9.42	---	3.26	Reply was awaited (November 2025).
53	Chennai PCIT 1, Madurai	T3 Private Bank AY 2015-16	342.67	418	---	75.33	25.6	Reply was awaited (November 2025).
54	Chennai PCIT 1, Madurai	T3 Private Bank AY 2016-17	223.95	99.55	124.4	---	43.05	Reply was awaited (November 2025).
55	Chennai PCIT 1, Madurai	T3 Private Bank AY 2017-18	0	222.42	---	222.42	76.97	Reply was awaited (November 2025).
56	Chennai PCIT 1, Madurai	T3 Private Bank AY 2018-19	817.51	634.37	183.14	---	63.38	Reply was awaited (November 2025).

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
57	Chennai PCIT 1, Madurai	T3 Private Bank AY 2014-15	123.48	65.82	57.66	---	19.6	Reply was awaited (November 2025).
58	Chennai PCIT 1, Madurai	T5 Private Bank AY 2015-16	17.92	54.8	---	36.88	12.54	Reply was awaited (November 2025).
59	Chennai PCIT 1, Madurai	T5 Private Bank 2016-17	89.88	125.03	---	35.15	12.17	Reply was awaited (November 2025).
60	Chennai PCIT 1, Madurai	T5 Private Bank 2017-18	25.35	8.01	17.34	---	6	Reply was awaited (November 2025).
61	Chennai PCIT 1, Madurai	T5 Private Bank AY 2018-19	298.2	247.16	51.04	---	17.67	Reply was awaited (November 2025).
62	Chennai PCIT 1, Madurai	T3 Private Bank AY 2019-20	806.88	599.77	207.11	---	72.37	Reply was awaited (November 2025).
63	Chennai PCIT-1, Chennai	C2 NBFC AY 2018-19	96.88	47.42	49.46	---	17.12	Reply was awaited (November 2025).
64	Chennai PCIT-1, Chennai	H12 NBFC AY 2018-19	1,149.45	1,134.65	14.8	---	5.12	Reply was awaited (November 2025).
65	Chennai PCIT-3, Chennai	S32 NBFC AY 2018-19	8.44	6.19	2.25	---	0.78	PCIT 3, Chennai has passed order under Section 263 (March 2023). Further details regarding the giving effect order are awaited (November 2025).
66	Chennai PCIT-3, Chennai	S19 NBFC AY 2018-19	4.4	0	4.4	---	1.52	Reply was awaited (November 2025).
67	Mumbai PCIT 2 Mumbai	I4 Private Bank AY 2015-16	792.11	768.64	23.47	---	11.73	Reply was awaited (November 2025).

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
68	Mumbai PCIT, Mumbai-6	I12 NBFC AY 2018-19	92.02	70.03	21.99	---	7.61	Reply was awaited (November 2025).
69	Ahmedabad PCIT-1, Ahmedabad	H10 NBFC AY 2018-19	318.85	318.87	---	0.02	0.01	ITD replied (May 2024) that remedial action under Section 263 was approved by the PCIT-1 Ahmedabad on 21.12.2023. Further details are awaited (November 2025).
70	Kerala PCIT, Kozhikode	T13 Private Bank AY 2018-19	7.84	0.50	7.34	---	2.27	Reply was awaited (November 2025).
71	Bengaluru PCIT-2 Bengaluru	C8 NBFC AY 2018-19	5.54	0	5.54	---	1.94	Reply was awaited (November 2025).
72	Chennai	F1 NBFC AY 2019-20	1.75	0	1.75	---	0.61	Reply was awaited (November 2025).
73	Delhi PCIT -7 Delhi	U3 Public bank AY 2018-19	4,474.08	3,561.94	912.14	---	315.67	Reply was awaited (November 2025).
74	Kolkata	E6 NBFC AY 2018-19	1.98	1.69	0.29	---	0.10	Reply was awaited (November 2025).
75	Kerala PCIT, Kozhikode	T12 Private Bank AY 2017-18	521.23	170.3	350.93	---	121.45	Department's reply not accepted and rebuttal issued.
76	PCIT, Kolkata-2	U2 Public bank AY 2010-11	327.47	0	327.47	---	111.31	In the reply (April 2025) Department stated that information was received after elapsing time for initiating remedial measure which is not tenable.
77	PCIT, Kolkata-2	U2 Public bank AY 2011-12	570.05	0	570.05	---	189.34	

Details of deduction towards bad debts was given without properly adjusting opening balance available in provision for bad and doubtful debts account (₹ in crore)								
Sl. No.	Region Pr.CIT Charge	Name/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Under Assessment	Overassessment	Tax effect	Department's reply
78	PCIT, Kolkata-2	U2 Public bank AY 2012-13	333.19	0	333.19	---	108.09	
79	PCIT, Kolkata-2	U2 Public bank AY 2015-16	1,836.37	435.23	1,401.14	---	624.05	
80	PCIT, Kolkata-2	U2 Public bank AY 2016-17	6,299.37	4,726.11	1,573.26	---	1,099.39	
Total			2,21,973.74	1,59,692.47	68,127.50	5,846.20	26,315.83	

Annexure 5.2

{Refer Para 5.5.1.2}

Incorrect allowance of deduction for bad debts-other issues							(₹ in crore)
Sl. No.	Region Pr. CIT/ CIT	Name of assessee/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Value of Under Assessment	Tax effect	Department's Reply
1	Mumbai PCIT 6 Mumbai	R2 NBFC AY 2015-16	179	0	179	61.95	Reply was awaited (November 2025).
2	Mumbai PCIT 2 Mumbai	L1 NBFC AY 2015-16	59.36	29.68	29.68	10.09	As per field verification Department has taken remedial action under section 154 (March 2023)
3	Mumbai PCIT 2 Mumbai	L1 NBFC AY 2016-17	69.16	34.58	34.58	11.75	As per field verification Department has taken remedial action under section 154 (March 2023)
4	Ahmedabad PCIT- Central Surat	B3 NBFC AY 2015-16	0.35	0	0.35	0.14	Not Accepted (March 2022). Rebuttal was issued (November 2025).
5	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2015-16	1,836.37	435.23	1,401.14	420.34	Reply was awaited (November 2025).
6	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2016-17	6,299.34	4,726.11	1,573.23	544.46	Remedial action has been initiated by issuing notice under Section 263 in September 2025. Further details are awaited (November 2025).
7	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2017-18	4,414.68	2,450.55	1,964.13	679.74	In reply from PCIT-2 Kolkata, remedial action initiated under Section 148 in April 2024 (April 2025). Further details are awaited (November 2025)
8	Kolkata PCIT, Kolkata-2	U2 Public Bank AY 2018-19	7,343.37	4,637.99	2,705.38	936.27	Remedial action has been taken under Section 263 in March 2025.

Incorrect allowance of deduction for bad debts-other issues							(₹ in crore)
Sl. No.	Region Pr. CIT/ CIT	Name of assessee/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Value of Under Assessment	Tax effect	Department's Reply
9	Kolkata PCIT, Kolkata-2	S3 NBFC AY 2016-17	47.08	41.02	6.06	2.1	Reply was awaited (November 2025).
10	Kolkata PCIT, Kolkata-2	P12 NBFC AY 2017.18	0.57	0.50	0.07	0.03	Department stated (April 2025) that the audit observation is factually correct and remedial action has been taken under section 154/143(3) (March 2024).
11	Bengaluru PCIT- Panaji (erstwhile jurisdiction : PCIT – Mangaluru	T15 Private Bank AY 2019-20	763.56	131.63	631.93	287.07	Reply was awaited (November 2025).
12	Chennai PCIT-3, Chennai	S6 NBFC AY 2018-19	5,392.92	0	5,392.92	1,866.38	Reply was awaited (November 2025).
13	Chennai PCIT-3, Chennai	S7 NBFC AY 2017-18	1,236.19	0	1,236.19	427.82	Reply was awaited (November 2025).
14	Chennai PCIT-3, Chennai	S7 NBFC AY 2018-19	1,781.12	0	1,781.12	616.41	Reply was awaited (November 2025).
15	Chennai PCIT-3, Chennai	T16 NBFC AY 2017-18	35.15	0	35.15	10.30	Reply was awaited (November 2025).
16	Chennai PCIT-3, Chennai	T16 NBFC AY 2018-19	29.76	0	29.76	12.17	Reply was awaited (November 2025).
17	Chennai PCIT-3, Chennai	S6 NBFC AY 2017-18	3,627.59	0	3,627.59	1,255.44	Reply was awaited (November 2025).
18	Kerala PCIT, Trivandrum	K6 NBFC 2016-17	58.67	57.84	0.83	0.29	The Department (October 2022) replied that the matter would be looked into. Further details are awaited (November 2025).
19	Kerala PCIT, Trivandrum	K6 NBFC AY 2017-18	120.61	119.81	0.80	0.28	The Department (October 2022) replied that the matter would be

Incorrect allowance of deduction for bad debts-other issues							(₹ in crore)
Sl. No.	Region Pr. CIT/ CIT	Name of assessee/ Sector/ AY	Amount of bad debts allowed	Amount of bad debts allowable	Value of Under Assessment	Tax effect	Department's Reply
							looked into. Further details are awaited (November 2025).
20	Kerala PCIT, Trivandrum	K6 NBFC AY 2019-20	167.67	167.04	0.63	0.22	The Department (October 2022) replied that the matter would be looked into. Further details are awaited (November 2025).
		Total	33,462.52	12,831.98	20,630.54	7,143.25	

Annexure 5.3

{Refer Para 5.5.2.1}

Issues relating to deduction allowed for provision for bad and doubtful debts under Section 36(1)(viiia) (₹ in crore)						
Sl. No.	Region/ Pr. CIT/ CIT	Sector	Name of assessee	AY	Tax effect	Reply of the Department
1	Mumbai PCIT 2 Mumbai	Public Bank	S8	2018-19	112.42	Accepted in principle (February 2022). The assessee is in appeal before CIT(Appeals).
2	Mumbai CIT (IT), Mumbai -2	Foreign Bank	D1	2016-17	43.89	Accepted (August 2023). Remedial action taken under Section 147 (May 2022).
3	Mumbai CIT (IT), Mumbai -2	Foreign Bank	D1	2015-16	42.56	Accepted (August 2023). Remedial action taken under Section 154 (March 2022).
4	Mumbai PCIT, Mumbai-6	NBFC	L4	2017-18	0.63	Reply was awaited (November 2025).
5	Mumbai PCIT, Mumbai-2	NBFC	L1	2017-18	9.15	Accepted (February 2024) and remedial action taken under Section 147 in March 2022.
6	Mumbai PCIT, Mumbai-3	NBFC	T4	2019-20	15.04	Ministry accepted (June 2025) the audit observations and stated that remedial action has been taken by passing order under section 263 of the Income tax Act in March 2024.
7	Mumbai PCIT, Mumbai-3	NBFC	T4	2018-19	63.85	Ministry accepted (June 2025) the audit observations and stated that remedial action has been taken by passing order under section 263 of the Income tax Act in March 2024.
8	Mumbai PCIT, Mumbai-6	NBFC	I17	2019-20	0.13	Reply was awaited (November 2025).
9	Mumbai PCIT, Mumbai-6	NBFC	C11	2018-19	0.20	As per filed verification audit noticed that the Department has taken remedial action under section 143(3) read with section 263 read with section 144B (March 2025)
10	Mumbai PCIT, Pune-3	NBFC	B9	2018-19	0.64	Accepted (April 2024). Remedial action initiated. Further details awaited (November 2025).
11	Mumbai PCIT, Mumbai-6	NBFC	I13	2018-19	0.36	Accepted (October 2024). Remedial action taken under Section 143(3) read with Section 263 dated 27.02.2024.
12	Mumbai PCIT, Pune-3	NBFC	B5	2019-20	6.93	Accepted (April 2024) Remedial Action under Section 263 is proposed. Further details awaited (November 2025).

Issues relating to deduction allowed for provision for bad and doubtful debts under Section 36(1)(viiia) (₹ in crore)						
Sl. No.	Region/ Pr. CIT/ CIT	Sector	Name of assessee	AY	Tax effect	Reply of the Department
13	Mumbai PCIT, Mumbai-1	NBFC	S26	2017-18	0.80	Not Accepted (December 2023) and rebuttal issued (March 2024)
14	Mumbai PCIT, Mumbai-6	NBFC	C11	2017-18	0.20	As per filed verification audit noticed that the department has taken remedial action under section 147 read with section 144B (February 2025)
15	Mumbai PCIT, Mumbai-2	NBFC	I26	2017-18	0.39	Reply was awaited (November 2025).
16	Mumbai PCIT, Mumbai-6	NBFC	I17	2017-18	0.07	ITD accepted (November 2025) and remedial action has been taken under Section 154 in February 2022.
17	Mumbai PCIT, Mumbai-2	NBFC	L1	2019-20	10.84	Reply was awaited (November 2025).
18	Mumbai PCIT, Mumbai-6	NBFC	L4	2016-17	0.45	Reply was awaited (November 2025).
19	Ahmedabad Pr.CIT-1, Ahmedabad	NBFC	F2	2019-20	3.32	ITD replied (May 2024) that the observation was acceptable and the reopening process has been initiated in March 2023. Further details are awaited (November 2025).
20	Ahmedabad Pr.CIT-1, Ahmedabad	NBFC	F2	2018-19	1.12	Reply was awaited (November 2025)
21	Ahmedabad Pr.CIT-1, Ahmedabad	NBFC	H10	2018-19	3.74	ITD replied (May 2024) that remedial action under Section 263 was approved by the PCIT-1 Ahmedabad on 21.12.2023. Further details are awaited (November 2025).
22	Hyderabad PCIT 1	NBFC	S28	2017-2018	1.27	Ministry accepted (September 2025) the audit observation and stated that remedial action has been taken under section 154 of the Income tax Act (June 2025).
23	Kolkata PCIT, Kolkata-2	NBFC	S3	2014-15	0.68	Reply was awaited (November 2025).
24	Kolkata PCIT, Kolkata-2	NBFC	S3	2012-13	0.44	Reply was awaited (November 2025).
25	Kolkata PCIT, Kolkata-2	Private Bank	B11	2019-20	103.22	Department replied (April 2025) and stated that remedial action initiated under section 148 in June 2025. Further details are awaited (November 2025).
26	Kolkata PCIT, Siliguri	NBFC	U5	2017-18	18.87	Reply was awaited (November 2025).

Issues relating to deduction allowed for provision for bad and doubtful debts under Section 36(1)(viiia) (₹ in crore)						
Sl. No.	Region/ Pr. CIT/ CIT	Sector	Name of assessee	AY	Tax effect	Reply of the Department
27	Kolkata PCIT Guwahati	NBFC	N1	2017-18	0.01	Accepted (May 2024) and rectified the mistake under Section 154 vide order dated 16 March 2022.
28	Kolkata PCIT Guwahati	NBFC	N1	2018-19	1.39	Accepted (May 2024) and rectified the mistake vide order under Section 147/144B dated 27 March 2024.
29	Kolkata PCIT Guwahati	NBFC	N1	2019-20	3.16	Accepted (May 2024) and rectified the mistake vide order under Section 147/144B dated 28 March 2024.
30	Bengaluru PCIT-2, Bengaluru	Public Bank	S15	2019-20	15.97	Accepted (January 2023)
31	Bengaluru PCIT-2, Bengaluru	Public Bank	S15	2018-19	171.19	Reply was awaited (November 2025).
32	Bengaluru PCIT- Panaji (erstwhile jurisdiction: PCIT-Mangaluru	Private Bank	T15	2018-19	2.52	Reply was awaited (November 2025).
33	Delhi PCIT-4 Delhi	NBFC	R1	2019-20	96.43	Reply was awaited (November 2025).
34	Delhi PCIT-4 Delhi	NBFC	I21	2018-19	63.13	Reply was awaited (November 2025).
35	Delhi CIT (IT)-1	FOREIG N BANK	C5	2017-18	0.42	Reply was awaited (November 2025).
36	Madhya Pradesh PCIT-1,Bhopal	NBFC	C7	2019-20	0.20	Not accepted by Department (July 2024) and rebuttal issued (November 2024).
37	Chennai PCIT-1, Chennai	Private Bank	I28	2016-17	3.98	Reply was awaited (November 2025).
38	Chennai PCIT-1, Chennai	Public Bank	I9	2017-18	1.31	Remedial action taken under Section 147 in March 2022. However audit point was not considered. Rebuttal was issued (July 2022)
39	Chennai PCIT-1, Chennai	Public Bank	I9	2018-19	1.12	Reply was awaited (November 2025).
40	Chennai PCIT-1, Chennai	NBFC	I10	2016-17	2.94	Remedial action taken under Section 147 in March 2022.
41	Chennai PCIT-4, Chennai	Public Bank	I5	2019-20	138.66	Reply was awaited (November 2025).
42	Chennai PCIT-4, Chennai	Public Bank	I5	2015-16	17.87	Department reported (January 2023) that remedial action taken under Section 147 read with Section 144B in March 2022.

Issues relating to deduction allowed for provision for bad and doubtful debts under Section 36(1)(viiia)						
(₹ in crore)						
Sl. No.	Region/ Pr. CIT/ CIT	Sector	Name of assessee	AY	Tax effect	Reply of the Department
43	Chennai PCIT-4, Chennai	Public Bank	I5	2014-15	5.10	Remedial action taken under Section 147 read with Section 144B in March 2022.
44	Chennai PCIT-4, Chennai	NBFC	R8	2017-18	0.88	Reply was awaited (November 2025).
45	Chennai PCIT-4, Chennai	NBFC	R8	2018-19	0.96	Reply was awaited (November 2025).
46	Chennai PCIT-3, Chennai	NBFC	S19	2018-19	0.50	Reply was awaited (November 2025).
47	Kerala PCIT (Central), Kochi	NBFC	M10	2017-18	2.96	Reply was awaited (November 2025).
48	Kerala PCIT, Kozhikode	Private Bank	T12	2017-18	1.93	Accepted and remedial action taken under Section 143 read with Section 263 in March 2023.
49	Kolkata PCIT, Kolkata-2	Private Bank	B11	2017-18	10.79	Department in its reply (April 2025) stated that notice under Section 148A(d) has been issued. Further details are awaited.(November 2025)
50	Kolkata PCIT, Kolkata-2	Public Bank	U2	2012-13	105.70	Department in its reply (April 2025) stated that information was received after elapsing time for initiating remedial measure which is not tenable.
51	Kolkata PCIT, Kolkata-2	Public Bank	U2	2011-12	21.80	
52	Kolkata PCIT, Kolkata-2	Public Bank	U2	2012-13	38.83	
Total					1,150.96	

Annexure 5.4

{Refer Para 5.5.2.2}

Irregular allowance of provision for bad and doubtful debts based on rural advances								
(₹ in crore)								
Sl. No.	Region/ Pr. CIT/ CIT	Name of assessee/ AY/ Category	Amount of bad debts allowed (₹ in crore)	Amount of bad debts allowable (₹ in crore)	Under assessment	Overassessment	Tax Effect	Reply of the Department
1	Mumbai PCIT 3 Mumbai	U1 AY 2016-17 Public Bank	2,022.31	1,934.20	88.11	---	41.47	In reply (July 2024) Department stated that the case was reopened and notice under Section 148 issued on March 2021 and the scrutiny assessment is pending with Faceless Unit. Further details are awaited (November 2025).
2	Mumbai PCIT 2 Mumbai	I7 AY 2016-17 Private Bank	412.01	395.66	16.35	---	8.20	Accepted (April 2022) and remedial action taken under Section 263 in March 2022.
3	Mumbai PCIT, Mumbai-2	I7 AY 2014-15 Private Bank	223.34	212.93	10.41	---	3.54	Accepted (March 2021) and remedial action taken under Section 143(3) read with Section 147 in December 2019.
4	Mumbai PCIT, Mumbai-2	I7 AY 2015-16 Private Bank	269.31	255.98	13.33	---	4.53	Reply was awaited (November 2025).
5	Chennai PCIT-1, Chennai	E4 AY 2017-18 Private Bank	24.28	0.00	24.28	---	8.40	Reply was awaited (November 2025).
6	Chennai PCIT-1, Chennai	E4 AY 2018-19 Private Bank	10.89	0.00	10.89	---	3.77	Reply was awaited (November 2025).
7	Chennai PCIT-1, Chennai	E4 AY 2019-20 Private Bank	11.38	0.00	11.38	---	3.98	Reply was awaited (November 2025).
8	Chennai PCIT-4, Chennai	I5 AY 2014-15 Public Bank	1,635.54	95.73	1,539.81	---	523.38	Reply was awaited (November 2025).

Irregular allowance of provision for bad and doubtful debts based on rural advances								
(₹ in crore)								
Sl. No.	Region/ Pr. CIT/ CIT	Name of assessee/ AY/ Category	Amount of bad debts allowed (₹ in crore)	Amount of bad debts allowable (₹ in crore)	Under assessment	Overassessment	Tax Effect	Reply of the Department
9	Chennai PCIT-4, Chennai	I5 AY 2015-16 Public Bank	2,158.15	538.28	1,619.87	---	550.59	Reply was awaited (November 2025).
10	Chennai PCIT-4, Chennai	I5 AY 2016-17 Public Bank	705.06	257.72	447.34	---	154.82	Reply was awaited (November 2025).
11	Chennai PCIT-4, Chennai	I5 AY 2017-18 Public Bank	750.75	295.82	454.93	---	157.44	Reply was awaited (November 2025).
12	Chennai PCIT-4, Chennai	I5 AY 2018-19 Public Bank	422.41	0	422.41	---	146.19	Reply was awaited (November 2025).
13	Chennai PCIT-1, Madurai	T6 AY 2014-15 Private Bank	4.63	140.73	---	136.10	46.26	Reply was awaited (November 2025).
14	Chennai PCIT-1, Madurai	T6 AY 2016-17 Private Bank	8.56	133.61	---	125.05	43.28	Reply was awaited (November 2025).
15	Chennai PCIT-1, Madurai	T6 AY 2017-18 Private Bank	9.42	278.40	---	268.98	93.09	Reply was awaited (November 2025).
16	Chennai PCIT-1, Madurai	T6 AY 2018-19 Private Bank	1.01	91.62	---	90.61	31.36	Reply was awaited (November 2025).
Total			8,669.05	4,630.68	4,659.11	620.74	1,820.30	

Annexure 5.5

{Refer Para 5.5.3}

Incorrect allowance of deduction under Section 36(1)(viii)							(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
1	Jaipur PCIT 1 Jaipur	NBFC	A19	2017-18	2.07	0.72	Accepted (November 2025). Remedial action taken under section 143(3) read with section 263 in March 2023.
2	Jaipur PCIT 1 Jaipur	NBFC	A19	2018-19	2.97	1.22	Accepted (November 2025). Remedial action initiated under section 263.
3	Bengaluru PCIT-2 Bengaluru	Public Bank	S15	2017-18	140.28	64.32	Not Accepted (March 2021) as detailed in para 5.1.3.6
4	Chandigarh CIT Srinagar	Private Bank	T8	2012-13	48.75	30.05	Reply was awaited (November 2025).
5	Chennai PCIT-1, Chennai	NBFC	I10	2015-16 & 2016-17	96.32	33.11	Remedial action taken under Section 147 in March 2022 for both AY 2015-16 and AY 2016-17.
6	Chennai PCIT-1, Chennai	Private Bank	I28	2016-17 & 2017-18	107.22	37.11	Accepted (April 2022) and remedial action taken in March 2022 for AY 2016-17. Reply awaited for AY 2017-18 (November 2025).
7	Chennai PCIT-4, Chennai	NBFC	R8	2012-13 & 2014-15, 2015-16, 2016-17, 2017-18	15.52	5.27	Reply awaited (November 2025).
8	Chennai PCIT-3, Chennai	NBFC	S19	2018-19	0.65	0.23	Reply was awaited (November 2025).
9	Chennai PCIT-1, Chennai	Public Bank	I9	2018-19	23.53	8.14	Reply awaited (November 2025)
10	Chennai PCIT-1, Chennai	NBFC	A18	2018-19 & 2019-20	20.02	6.96	Replies are awaited for AY 2018-19 and 2019-20 (November 2025).
11	Kerala PCIT, Kozhikode	Private Bank	T12	2015-16	10.68	4.83	Reply was awaited (November 2025).
12	Kerala PCIT, Thiruvananthapuram	NBFC	K6	2016-17	0.15	0.05	Accepted and remedial action taken under Section 154 in March 2023.
13	Chennai PCIT-1, Chennai	Public Bank	I9	2017-18	50.30	17.41	Remedial action taken under Section 147 in March 2022.

Incorrect allowance of deduction under Section 36(1)(viii)							(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
							Disallowance of 4.19 crore was made as against entire claim of ₹ 50.03 crore.
14	Delhi PCIT-7 Delhi	Public Bank	P1	2014-15	7.53	2.56	Reply was awaited (November 2025).
15	Delhi PCIT-4 Delhi	NBFC	I21	2016-17	15.00	6.91	Reply was awaited (November 2025).
16	Hyderabad PCIT-1 Hyderabad	NBFC	A7	2016-17	0.22	0.08	Department replied (August 2022) that remedial action would be initiated under Section 148. Further details are awaited (November 2025).
17	Mumbai PCIT-6 Mumbai	NBFC	L4	2017-18	3.96	1.37	Reply was awaited (November 2025).
18	Mumbai PCIT 2 Mumbai	NBFC	G2	2017-18	0.15	0.05	Reply was awaited (November 2025).
19	Mumbai PCITCC 3 Mumbai	NBFC	I15	2011-12	0.41	0.14	Reply was awaited (November 2025).
20	Mumbai PCIT 6 Mumbai	NBFC	I2	2017-18	2.54	0.88	Reply was awaited (November 2025).
21	Mumbai PCIT 6 Mumbai	NBFC	I2	2015-16	5.40	1.84	Reply was awaited (November 2025).
22	Mumbai PCIT 3 Mumbai	NBFC	E1	2016-17	75.75	32.51	Accepted (June 2023) and remedial action initiated under Section 148A(d) in April 2023. Further details are awaited (November 2025).
23	Mumbai PCIT 8 Mumbai	NBFC	R9	2018-19	12.44	4.30	Reply was awaited (November 2025).
24	Mumbai PCIT 2 Mumbai	Public Bank	B2	2016-17	426.81	145.07	Accepted. Remedial action taken under Section 143(3) read with Section 263 in March 2019.
25	Mumbai PCIT 2 Mumbai	Private Bank	I4	2016-17	159.37	55.16	Accepted (February 2022) and remedial action initiated under Section 263. Further details are awaited (November 2025).
26	Mumbai	Private Bank	I4	2014-15	53.59	18.22	Accepted (February 2022) and remedial

Incorrect allowance of deduction under Section 36(1)(viii)							(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
	PCIT 2 Mumbai						action initiated under Section 148 in March 2021. Further details are awaited (November 2025).
27	Mumbai PCIT 2 Mumbai	Private Bank	I4	2015-16	42.70	21.34	Reply was awaited (November 2025).
28	Mumbai PCIT 3 Mumbai	NBFC	S10	2016-17	1.44	0.66	Accepted (February 2023) and remedial action taken under Section 147 in March 2022.
29	Kolkata PCIT 2 Kolkata	NBFC	S3	2015-16	14.55	4.95	Reply was awaited (November 2025).
30	Kolkata PCIT 2 Kolkata	NBFC	S3	2016-17	29.27	10.13	Reply was awaited (November 2025).
31	Kolkata PCIT 2 Kolkata	NBFC	S3	2017-18	49.34	11.38	Reply was awaited (November 2025).
32	Delhi PCIT-4 Delhi	NBFC	I21	2017-18	12.17	4.21	Accepted (August 2023) and remedial action taken under Section 154 read with Section 143(3) in May 2023.
Total					1,431.10	531.18	

Annexure 5.6

{Refer Para 5.5.4.2}

Incorrect disallowance of expenditure under Section 14A against exempt income										(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Exempt income claimed	Expenses disallowed by Assessee/ ITD	Expenses disallowable as per audit	Under assessment	Tax Effect	Reply of the Department
1	Ahmedabad PCIT-1, Ahmedabad	NBFC	M4	2018-19	0.05	0.02	0.11	0.09	0.04	Remedial action initiated under Section 263 (March 2023). Further details are awaited. (November 2025)
2	Ahmedabad PCIT-3, Ahmedabad	NBFC	G4	2018-19	3.79	0.40	0.89	0.49	0.24	Reply awaited (November 2025).
3	Ahmedabad PCIT-Valsad	NBFC	M13	2015-16	10.50	0.00	2.26	2.26	0.47	Not Accepted (December 2022). Rebuttal was issued (November 2025).
4	Ahmedabad PCIT-Valsad	NBFC	M13	2016-17	15.13	0.00	2.69	2.69	0.57	Not Accepted (December 2022). Rebuttal was issued (November 2025).
5	Ahmedabad PCIT-Valsad	NBFC	M13	2017-18	5.74	0.00	2.24	2.24	0.48	Not Accepted (December 2022). Rebuttal was issued (November 2025).
6	Bengaluru PCIT-2 Bengaluru	Public Bank	S15	2015-16	26.31	0.07	75.61	75.54	25.68	Accepted (March 2021)
7	Bengaluru PCIT- Panaji (erstwhile jurisdiction: PCIT – Mangaluru)	Private Bank	T15	2019-20	0.31	0.00	158.15	158.15	71.84	Reply was awaited (November 2025)
8	Kerala Prl.CIT Kochi 1	Private Bank	T11	2015-16, 2016-17, 2017-18, 2018-19, 2019-20	31.11	23.86	105.68	81.82	33.74	Reply was awaited (November 2025)
9	Kerala PCIT, Kozhikode	Private Bank	T10	2018-19 & 2019-20	0.13	0.13	0.62	0.49	0.15	Accepted and remedial action taken under Section 143(3) for AY 2018-19 in September 2021 and reply awaited for AY 2019-20 (November 2025).
10	Kerala PCIT, Kozhikode	NBFC	M6	2015-16 & 2017-18	0.00	0.00	11.15	11.15	4.70	Accepted and remedial action taken under Section 143(3)

Incorrect disallowance of expenditure under Section 14A against exempt income										(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Exempt income claimed	Expenses disallowed by Assessee/ ITD	Expenses disallowable as per audit	Under assessment	Tax Effect	Reply of the Department
										read with Section 147 in February 2024 (AY 2015-16). Reply is awaited for AY 2017-18 (November 2025).
11	Kerala PCIT, Kozhikode	Private Bank	T10	2016-17	0.00	0.36	2.17	1.81	0.56	Accepted and remedial action taken under Section 154 in March 2023.
12	Chennai PCIT-1, Chennai	NBFC	I10	2015-16 to 2016-17	343.67	176.50	406.24	229.74	79.37	Remedial action taken under Section 147 in March 2022 for both AY 2015-16 and AY 2016-17.
13	Chennai PCIT-3, Chennai	NBFC	S32	2016-17	2.79	0.01	1.38	1.37	0.48	Remedial action has been taken under Section 154 (March 2023).
14	Chennai CIT (IT), CHENNAI	Foreign Bank	W2	2016-17	2.42	0.00	2.42	2.42	0.84	Reply was awaited (November 2025)
15	Chennai PCIT-1, Chennai	Private Bank	I28	2016-17	9.89	30.82	32.99	2.17	0.75	Reply was awaited (November 2025)
16	Chennai PCIT-4, Chennai	NBFC	R8	2013-14	0	0.04	0.49	0.45	0.15	Reply was awaited (November 2025)
17	Chennai PCIT-1, Madurai	Private Bank	T3	2018-19	0.00	0.03	1.39	1.36	0.47	As per reply March 2024, remedial action initiated under Section 263(March 2023). Further details are awaited. (November 2025).
18	Chennai PCIT-1, Chennai	Public Bank	I9	2017-18 & 2018-19	15.44	10.19	21.41	11.22	3.88	For AY 2017-18, remedial action taken under Section 147 in March 2022 as per reply (May 2022) However audit point was not considered. Reply was awaited for AY 2018-19 (November 2025).
19	Delhi PCIT-7	NBFC	P9	2017-18	2.27	0.25	5.42	5.17	1.79	Reply was awaited (November 2025).
20	Delhi PCIT-4	NBFC	I22	2016-17	3.93	0.00	0.51	0.51	0.18	Reply was awaited (November 2025).
21	Chattishgarh	NBFC	X1	2019-20	0.00	0.00	0.12	0.12	0.04	Reply was awaited (November 2025).

Report No. 40 of 2025 (Performance Audit)

Incorrect disallowance of expenditure under Section 14A against exempt income										(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Exempt income claimed	Expenses disallowed by Assessee/ ITD	Expenses disallowable as per audit	Under assessment	Tax Effect	Reply of the Department
	PCIT-1 Raipur									
22	Kolkata PCIT, Kolkata-1	NBFC	O5	2017-18	9.12	0.64	1.64	1.00	0.35	Reply was awaited (November 2025)
23	Mumbai PCIT-2 Mumbai	Public Bank	C4	2017-18	28.50	18.47	28.10	9.63	4.43	Accepted (March 2022) and remedial action under Section 154 is recommended.
24	Mumbai PCIT-2 Mumbai	Private Bank	Y1	2015-16	263.95	317.28	323.34	6.06	2.06	Accepted (September 2022) and remedial action initiated under Section 148 in March 2021.
25	Mumbai PCIT-6 Mumbai	NBFC	B1	2017-18	0.67	0.10	0.42	0.32	0.11	Reply was awaited (November 2025)
26	Mumbai PCIT-6 Mumbai	NBFC	B1	2015-16	2.06	0.04	0.11	0.07	0.02	Not accepted and rebuttal issued (November 2025)
27	Mumbai PCIT-2 Mumbai	NBFC	S1	2017-18	1.77	0.18	1.77	1.59	0.55	Reply was awaited (November 2025)
28	Mumbai PCIT-2 Mumbai	Public Bank	D3	2015-16	12.04	24.59	200.12	175.53	59.65	Accepted (March 2021) and remedial action taken under Section 263 in March 2020.
Total					791.59	603.98	1,389.44	785.46	293.59	

Annexure 5.7

{Refer Para 5.5.5.4 }

Income not assessed under various provisions of the Act							
							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
1	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2014-15	26.10	13.84	Reply was awaited (November 2025).
2	Kerala PCIT, Kozhikode	Private Bank	T12	2017-18	5.45	1.89	Not accepted ¹⁴¹ (October 2022)
3	Kerala PCIT, Thiruvananthapuram	NBFC	K7	2017-18	8.98	2.78	The Department (October 2022) replied that the matter would be looked into. Final reply is awaited (November 2025).
4	Kerala PCIT (Central), Kochi	NBFC	M8	2017-18	291.25	100.77	Not accepted ¹⁴² (October 2022)
5	Delhi PCIT-7 Delhi	Public Bank	P1	2016-17	2,297.58	1,152.96	Reply was awaited (November 2025).
6	Delhi PCIT-7 Delhi	Public Bank	P1	2017-18	2,132.99	981.78	Reply was awaited (November 2025).
7	Delhi PCIT-7 Delhi	Public Bank	P1	2019-20	1,808.00	821.32	Reply was awaited (November 2025).
8	Delhi PCIT-7 Delhi	Public Bank	P1	2015-16	1,017.24	501.35	Reply was awaited (November 2025).
9	Delhi PCIT-7 Delhi	Public Bank	P1	2014-15	514.84	175.00	Reply was awaited (November 2025).
10	Hyderabad PCIT-1 Hyderabad	NBFC	A15	2016-17; 2017-18; 2018-19	14.42	4.77	Accepted Remedial action taken (March 2023)
11	Hyderabad PCIT-1 Hyderabad	NBFC	S23	2017-18	0.89	0.27	Reply was awaited (November 2025)
12	Hyderabad PCIT-1 Hyderabad	NBFC	A15	2017-18	1.78	0.59	Accepted (August 2022), Remedial action pending. Further details are awaited (November 2025).
13	Kolkata PCIT-2, Kolkata	Private Bank	B11	2016-17	480.28	166.21	Reply was awaited (November 2025).
14	Kolkata PCIT, Kolkata-1	NBFC	M7	2017-18	12.91	3.99	Reply was awaited (November 2025).
15	Kolkata PCIT, Kolkata-1	NBFC	M7	2016-17	32.88	11.38	Reply was awaited (November 2025).
16	Kolkata PCIT, Kolkata-1	NBFC	M7	2015-16	24.98	8.49	Reply was awaited (November 2025).
17	Kolkata PCIT, Kolkata-2	NBFC	M16	2017-18	2.11	0.65	Reply was awaited (November 2025).

¹⁴¹ The ACIT 1(1), Thrissur charge stated the effect on profit due to application of ICDS has been correctly taken into account for the computation of total income i.e, the depreciation debited to P& L account has been added back to net profit and only the amount of depreciation allowable under the Income Tax Act has been claimed as deduction. The reply is not acceptable in view of the CBDT notification No.87/2016 dated 29.09.2016 as per which the provisions applicable to ICDS V- Tangible Fixed Assets stipulates that the cost of a Tangible Fixed Asset undergoes changes subsequent to its acquisition or construction on account of factors such as price adjustment, changes in duties, exchange fluctuation as specified in ICDS on the effect of changes in foreign exchange rates. Hence, its impact is to be reported in Form 3CD as against net effect of the depreciation as per Books of account and Income Tax that has been reported in Form 3CD.

¹⁴² The DCIT Circle 1(1), Thrissur charge furnished only the details of return for AYs 2016-17 and 2017-18 filed by the assessee. Audit observed tht assessments for both the AYs had been completed on the same date (29 December 2018) by the same AO. AO did not give specific reply for the treatment of undeclared income offered in search as 'income' in AY 2016-17 and allowed as deduction in the AY 2017-18 in the assessments completed on the same day. The allowance of deduction without verification of the factual position in AY 2017-18 is not in order.

Report No. 40 of 2025 (Performance Audit)

Income not assessed under various provisions of the Act							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Department's reply
18	Kolkata PCIT, Kolkata-2	NBFC	S3	2016-17	3.30	1.14	Reply was awaited (November 2025).
19	Kolkata PCIT, Kolkata-1	NBFC	B7	2012-13	21.14	6.53	Reply was awaited (November 2025).
20	Kolkata PCIT, Kolkata-1	NBFC	B7	2012-13	0.12	0.04	Reply was awaited (November 2025).
21	Kolkata PCIT, Kolkata-1	NBFC	P15	2016-17	0.18	0.06	Reply was awaited (November 2025).
22	Lucknow Pr. CIT, Central Kanpur	NBFC	I6	2018-19	8.53	3.91	Accepted (May 2024), Remedial action was initiated under Section 148A(b) of the Act in May 2024. Further details are awaited (November 2025).
23	Lucknow Pr. CIT, Central Kanpur	NBFC	I6	2018-19	3.01	1.38	Accepted (May 2024), Remedial action was initiated under Section 148A(b) of the Act in May 2024. Further details are awaited (November 2025).
24	Chennai PCIT-4, Chennai	PublicBank	I5	2013-14	3.83	1.24	Accepted (March 2023), Remedial action taken under Section 147 in December 2019.
25	Chennai PCIT-4, Chennai	Public Bank	I5	2014-15	2.33	0.79	Accepted (March 2023), Remedial action taken in December 2019.
26	Chennai PCIT-4, Chennai	Pub Bank	I5	2015-16	0.99	0.34	Accepted (February 2021), Remedial action taken under Section 147 in December 2019.
27	Kolkata PCIT, Kolkata-2	NBFC	W1	2017-18	4.33	1.80	Department in its reply (April 2025) stated that the case has been re-opened and Notice under Section 148 has been issued to the assessee. Further details are awaited (November 2025).
28	Kolkata PCIT, Kolkata-2	NBFC	W1	2017-18	0.61	0.19	Department in its reply (April 2025) stated that the case has been re-opened and Notice under Section 148 has been issued to the assessee. Further details are awaited (November 2025).
Total					8,721.05	3,965.46	

Annexure 5.8

{Refer Para 5.5.6}

Incorrect allowance of deduction for provisions and expenditure							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
1	Ahmedabad PCIT-1 Ahmedabad	Private Bank	A6	2015-16	2.9	0.99	Reply was awaited (November 2025).
2	Ahmedabad PCIT-1 Ahmedabad	Private Bank	A6	2016-17	23.04	7.97	Reply was awaited (November 2025).
3	Ahmedabad PCIT-3, Ahmedabad	NBFC	G4	2018-19	3.18	1.56	Not Accepted (June 2022). Rebuttal was issued (November 2025).
4	Jaipur PCIT-1 Jaipur	NBFC	A5	2019-20	7.62	2.66	Accepted (November 2025). Remedial action taken under section 147 in March 2024.
5	Jaipur PCIT-1 Jaipur	NBFC	A19	2018-19	0.93	0.38	As per reply (September 2022), audit objection is under consideration. Further details are awaited (November 2025).
6	Jaipur PCIT-1 Jaipur	NBFC	A19	2019-20	3.85	1.34	Accepted (November 2025). Remedial action taken under section 147 in March 2024.
7	Jaipur PCIT-1 Jaipur	NBFC	E2	2018-19	1	0.42	Reply awaited (November 2025).
8	Jaipur PCIT-1 Jaipur	NBFC	E2	2019-20	2.95	0.9	Reply awaited (November 2025).
9	Bengaluru PCIT-2 Bengaluru	NBFC	C14	2019-20	0.9	0.32	Accepted (January 2023)
10	Bengaluru PCIT-2 Bengaluru	Public Bank	S15	2017-18	49.2	22.4	Reply was awaited (November 2025).
11	Bengaluru PCIT-Panaji	Private Bank	T15	2019-20	22.55	10.24	Reply was awaited (November 2025).
12	Bengaluru PCIT-2 Bengaluru	NBFC	J5	2017-18	8.73	3.02	Reply was awaited (November 2025).
13	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2017-18	46.54	25.45	Reply was awaited (November 2025)
14	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2016-17	43.28	17.52	Reply was awaited (November 2025).
15	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2018-19	104.91	49.74	Reply was awaited (November 2025).
16	Chandigarh Srinagar	Private Bank	T8	2012-13	0.76	0.25	Reply was awaited (November 2025).
17	Chandigarh Srinagar	Private Bank	T8	2015-16	4.24	1.44	Reply was awaited (November 2025).
18	Chennai PCIT-1, Madurai	Private Bank	T3	2016-17 2017-18 2018-19 2019-20	280.44	97.17	Reply was awaited (November 2025).
19	Chennai PCIT-1, Chennai	Public Bank	A13	2018-19	1428.11	494.20	Reply was awaited (November 2025).
20	Chennai PCIT-1, Chennai	Private Bank	I28	2017-18	111.95	38.74	Reply is awaited (November 2025).

Incorrect allowance of deduction for provisions and expenditure							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
21	Kerala PCIT, Kozhikode	Private Bank	T10	2018-19 2019-20	0.45	0.14	Reply was awaited (November 2025).
22	Chennai PCIT-4, Chennai	NBFC	N4	2017-18	5.45	1.88	Reply was awaited (November 2025).
23	Chennai PCIT-1, Chennai	NBFC	D7	2016-17	4.4	1.52	Reply was awaited (November 2025).
24	Chennai PCIT-4, Chennai	NBFC	S4	2018-19	3.6	1.25	Reply was awaited (November 2025).
25	Chennai PCIT-1, Chennai	NBFC	I10	2015-16	523.27	177.86	As per reply (May 2022) remedial action taken under Section 147 was completed in March 2022.
26	Chennai PCIT-1, Chennai	Public Bank	I9	2018-19	48.44	16.77	Reply was awaited (November 2025).
27	Chennai PCIT-4, Chennai	Public Bank	I5	2017-18 2018-19	200	55.95	Department replied for AY 2017-18 that audit point was not considered in the reassessment order passed under Section 147/144B in March 2022. Rebuttal was issued (February 2023). Reply for AY 2018-19 is awaited (November 2025).
28	Kerala PCIT, Kozhikode	NBFC	T14	2010-11 2015-16 2016-17 2017-18	1.64	0.66	Not accepted ¹⁴³ (October 2022)
29	Kerala PCIT, Kozhikode	Private Bank	T10	2015-16	0.01	0	Reply was awaited (November 2025).
30	Kerala PCIT, Kozhikode	Private Bank	T10	2015-16	0.08	0.02	Reply was awaited (November 2025).
31	Kerala PCIT, Kozhikode	NBFC	M6	2015-16	13.88	4.72	Reply was awaited (November 2025).
32	Kerala PCIT, Kozhikode	Private Bank	T13	2016-17	3.26	1.01	Accepted and remedial action taken under Section 143(3) read with Section 263 in January 2022 and under Section 154 in March 2022.
33	Chennai PCIT-1, Chennai	Public Bank	A13	2017-18	12.8	4.43	Remedial action has been taken under section 147 read with section 144B in March 2025.
34	Chennai PCIT-1, Chennai	NBFC	H12	2017-18	15.55	5.38	Remedial action taken under Section 147 in March 2022.
35	Kerala PCIT, Kozhikode	Private Bank	T13	2017-18	0.17	0.05	Accepted and remedial action taken under Section 143(3) read with Section 263 in September 2022.
36	Kerala PCIT, Kozhikode	Private Bank	T13	2016-17	0.11	0.03	Reply was awaited (November 2025).
37	Kerala PCIT, Kozhikode	Private Bank	T13	2018-19	0.49	0.15	Reply was awaited (November 2025).
38	Kerala PCIT, Kozhikode	Private Bank	T13	2019-20	6.68	2.08	Reply was awaited (November 2025).
39	Hyderabad PCIT-1 Hyderabad	NBFC	S28	2016-17 & 2017-18	4.41	1.46	Accepted and remedial action taken under Section 147 read with Section 144B in March 2022 for AY 2016-17. For

¹⁴³ The Department, while not accepting the audit observations, stated that the expenditure as shown under 'Prior period expenses' should have been booked under the head 'Arrears of Salary, Arrears of Rent etc'. Since the assessee is following mercantile system of accounting, the expenses towards Salary, Rent etc. were booked in the accounts for relevant financial years. Reply of the Department is not acceptable and the reason for the inclusion of Arrears of salary and rent in the Prior period expenditure is required to be examined further as there were other items booked as well under the 'Prior Period expenditure'.

Incorrect allowance of deduction for provisions and expenditure							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
							AY 2017-18, Ministry partly accepted (September 2025) and remedial action taken under section 154 (June 2025) and disallowed an amount of ₹ 0.49 crore instead pointed out of ₹ 1.03 crore by audit.
40	Odisha PCIT-1 Bhubaneswar	NBFC	O4	2015-16	0.68	0.21	Accepted (December 2024) and remedial action taken under Section 154 vide Order dated 17.03.2022.
41	West Bengal PCIT-2, Kolkata	Private Bank	B11	2018-19	36.61	12.66	Reply was awaited (November 2025).
42	Kolkata-WB PCIT-2, Kolkata	Private Bank	B11	2017-18	3.78	1.3	Reply was awaited (November 2025).
43	Kolkata-WB PCIT-2, Kolkata	NBFC	S30	2014-15	3.04	1.03	Reply was awaited (November 2025).
44	Kolkata-WB PCIT-2, Kolkata	NBFC	S30	2016-17	4.14	1.41	Reply was awaited (November 2025).
45	Kolkata-WB PCIT-2, Kolkata	Public Bank	U2	2017-18	368.39	127.49	Remedial action initiated under Section 148 in April 2024. Further details are awaited (November 2025).
46	Kolkata-WB CIT (IT & TP), Kolkata	Foreign Bank	R7	2014-15	79.11	34.22	Reply was awaited (November 2025).
47	Kolkata-WB PCIT, Kolkata-2	NBFC	S3	2012-13	0.88	0.29	Reply was awaited (November 2025).
48	Kolkata-WB PCIT, Kolkata-1	NBFC	M7	2017-18	47.54	14.69	Not Accepted (March 2022) and rebuttal issued.
49	Kolkata-WB PCIT, Kolkata-1	NBFC	M7	2016-17	40.44	14	Reply received (February 2023) and rebuttal issued.
50	Kolkata-WB PCIT, Kolkata-2	NBFC	L5	2014-15	17.26	5.87	Reply was awaited (November 2025).
51	Kolkata-WB PCIT, Kolkata-2	Public Bank	U2	2018-19	0.17	0.02	Remedial action taken under Section 263 in March 2024.
52	Kolkata-WB PCIT, Kolkata-1	NBFC	M7	2017-18	0.12	0.04	Reply was awaited (November 2025).
53	Kolkata-WB PCIT, Kolkata-1	NBFC	M7	2017-18	0.4	0.12	Reply was awaited (November 2025).
54	Kolkata-WB PCIT, Kolkata-1	Private Bank	B11	2017-18	4.63	1.6	Reply was awaited (November 2025).
55	Lucknow Pr. CIT, Allahabad	NBFC	S24	2015-16	1	0.45	Department's reply on the Rebuttal of Audit is still awaited (November 2025).
56	Mumbai PCIT-2 Mumbai	Public Bank	C4	2018-19	1,101.72	381.28	Reply is awaited (November 2025).
57	Mumbai PCIT-6 Mumbai	NBFC	K9	2019-20	1	0.28	Department stated (November 2025) that remedial action has been taken under section 263 (March 2024)
58	Mumbai PCIT-6 Mumbai	NBFC	R5	2018-19	40.04	13.86	As per field verification the Department has initiated remedial action under 148(A) (August 2025). Further details awaited (November 2025)
59	Mumbai PCIT-6 Mumbai	NBFC	C11	2018-19	23.75	8.22	Ministry accepted (November 2025) and remedial action taken under section 143(3) read with section 263 (March 2025).
60	Mumbai PCIT-6 Mumbai	NBFC	C11	2017-18	31.67	10.96	Ministry accepted (November 2025) and remedial action taken under

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Incorrect allowance of deduction for provisions and expenditure							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
							section 147 read with section 144B (February 2025).
61	Mumbai PCIT-6 Mumbai	NBFC	C11	2016-17	42.23	14.35	Ministry accepted (November 2025) and remedial action taken under section 147 read with section 144B (February 2025).
62	Mumbai PCIT-6 Mumbai	NBFC	C11	2014-15	74.9	25.46	Ministry accepted (November 2025) and remedial action taken under section 147 read with section 144B (May 2023).
63	Mumbai PCIT 2 Mumbai	Public Bank	D3	2015-16	72.15	24.52	Accepted (March 2021) and remedial action taken under Section 263 in March 2020.
64	Mumbai PCIT 2 Mumbai	Public Bank	B2	2015-16	10,180.5	855.12	Accepted (March 2021) and remedial action taken under Section 143(3) read with Section 263 in March 2019.
65	Mumbai PCIT 2 Mumbai	Private Bank	I7	2014-15	3.22	1.09	Accepted (March 2021) and remedial action taken under Section 143(3) read with Section 147 in December 2019.
66	Mumbai PCIT 1 Mumbai	NBFC	T17	2017-18	400	138.43	Accepted (October 2022) and remedial action taken under Section 147 in March 2022.
67	Chennai PCIT-3, Chennai	NBFC	S7	2017-18	3.01	1.04	Reply was awaited (November 2025).
68	Chennai PCIT-3, Chennai	NBFC	S7	2016-17	4.01	1.39	Reply was awaited (November 2025).
69	Kolkata PCIT-2 Kolkata	NBFC	S30	2015-16	64.75	22.01	Reply was awaited (November 2025).
70	Chennai PCIT-1, Chennai	NBFC	H12	2017-18	3.10	1.07	Remedial action taken under Section 147 in March 2022.
Total					15,646.01	2,766.55	

Annexure 5.9

{Refer Para 5.5.7}

Irregularity in computation of Book Profit under Section 115JB								
								(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Deduction claimed	Over-assessment	Tax Effect	Department's reply
1	Chennai PCIT-1, Madurai	Private Bank	T5	2018-19	35.15	---	12.16	Reply was awaited (November 2025)
2	Kerala PCIT, Kozhikode	Private Bank	T13	2018-19	38.82	---	8.29	Reply was awaited (November 2025)
3	Kerala PCIT, Kozhikode	Private Bank	T10	2018-19 to 2019-20	254.31	---	49.08	Reply was awaited (November 2025)
4	Delhi PCIT-7	Public Bank	O2	2018-19	9,498.08	---	994.12	Reply was awaited (November 2025)
5	Delhi PCIT-7	Public Bank	U3	2015-16	124.75	---	37.91	Reply was awaited (November 2025)
6	Lucknow PCIT-Allahabad	NBFC	U6	2019-20	40.99	---	9.59	Reply was awaited (November 2025)
7	Mumbai PCIT-2 Mumbai	Public Bank	S8	2018-19	24,725.74	---	5,276.87	Not accepted (February 2022). Rejoinder issued (February 2022).
8	Mumbai PCIT-2 Mumbai	Public Bank	S8	2019-20	57,381.10	---	10,742.11	Accepted (June 2022) and stated that appropriate remedial action will be taken. Further details awaited (November 2025).
9	Mumbai PCIT-2 Mumbai	Private Bank	I24	2018-19	11,722.20	---	1,360.91	In reply (July 2024) Department stated that proposal for reopening under Section 148 is under Progress. Further details are awaited (November 2025)
10	Mumbai PCIT-2 Mumbai	Private Bank	I24	2018-19	774.24	---	165.23	In reply (July 2024) Department stated that proposal for reopening under Section 148 is under Progress. Further details are awaited (November 2025)
11	Mumbai PCIT-2 Mumbai	Public Bank	B2	2016-17	1,413.80	---	301.73	Not accepted (March 2021) and rebuttal issued (August 2021)
12	Mumbai PCIT-2 Mumbai	Public Bank	D3	2016-17	759.65	---	162.12	Not accepted (January 2022) and rebuttal issued (January 2022)
13	Mumbai	Public Bank	D3	2017-18	833.39	---	177.86	Accepted (February 2022) and remedial

Irregularity in computation of Book Profit under Section 115JB								
								(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Deduction claimed	Over-assessment	Tax Effect	Department's reply
	PCIT-2 Mumbai							action initiated under Section 263. Further details awaited (November 2025).
14	Mumbai PCIT-2 Mumbai	Public Bank	C4	2016-17	24.30	---	5.19	Accepted (January 2020) and remedial action recommended under Section 263. Further details awaited (November 2025).
15	Mumbai PCIT-2 Mumbai	Public Bank	S8	2018-19	1,796.70	---	483.14	Accepted (March 2022). Case reopened under Section 263 and amount added back in March 2023.
16	Mumbai PCIT-2 Mumbai	Public Bank	S8	2018-19	---	985.05	210.22	The assessee is in appeal before CIT(A) (January 2022)
17	Mumbai PCIT-3 Mumbai	NBFC	E1	2017-18	591.26	----	0.00	Reply is awaited (November 2025).
18	Mumbai PCIT-3 Mumbai	NBFC	E1	2018-19	1,445.64	----	303.17	Reply is awaited (November 2025).
19	Mumbai PCIT Central-2 Mumbai	NBFC	B4	2019-20	24.64	----	5.31	Accepted (August 2024). Remedial action has been taken under section 143(3) read with section 147 (March 2024)
20	Mumbai PCIT Central-2 Mumbai	Public Bank	D3	2015-16	70.01	----	14.67	Accepted (March 2021) and remedial action initiated in March 2020.
21	Chennai PCIT-1, Chennai	Public bank	A13	2018-19	3,404.98	---	726.68	Reply is awaited (November 2025).
22	Chennai PCIT-1, Chennai	Public bank	A13	2014-15 2015-16 2016-17 2017-18	8,610.06	---	1,230.86	For AY 2017-18, Remedial action has been taken under section 147 read with section 144B in March 2025. Reply awaited for AY 2014-15, 2015-16 and 2016-17 (November 2025).
23	Delhi PCIT-7 Delhi	Public bank	U3	2018-19	1,024.06	----	294.35	Reply awaited (November 2025)
24	Chandigarh ACIT circle Panchkula	NBFC	H6	2015-16	45.90		12.43	Accepted and remedial action taken by passing order under Section 147 read with Section 144B in March 2023.

Irregularity in computation of Book Profit under Section 115JB								(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Deduction claimed	Over-assessment	Tax Effect	Department's reply
25	Chandigarh ACIT circle Panchkula	NBFC	H6	2016-17	4.96	---	1.34	Accepted and remedial action taken by passing order under Section 147 read with Section 144B in March 2024.
Total					1,24,644.78	985.05	22,585.34	

Annexure 5.10

{Refer Para 5.5.10}

Irregularities in set off/ carry forward of losses							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
1	Ahmedabad PCIT-1, Ahmedabad	NBFC	F2	2019-20	63.78	26.08	ITD replied (May 2024) that the observation was acceptable and the reopening process has been initiated in March 2023. Further details are awaited (November 2025).
2	Ahmedabad PCIT-1, Vadodara	NBFC	N2	2015-16	47.47	21.46	Reply is awaited (November 2025).
3	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2018-19	63.58	30.15	Ministry accepted (July 2025) the audit observation and stated that remedial action is under process. Further details are awaited (November 2025).
4	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2017-18	74.31	40.63	Ministry accepted (July 2025) the audit observation and stated that remedial action is under process. Further details are awaited (November 2025).
5	Bengaluru PCIT-2 Bengaluru	NBFC	K3	2017-18	80.44	19.30	Reply is awaited (November 2025).
6	Bengaluru PCIT-2 Bengaluru	NBFC	K3	2018-19	65.98	30.55	Reply is awaited (November 2025).
7	Chennai PCIT-1, Madurai	Private Bank	T5	2015-16	53.25	18.10	Remedial action taken under Section 154 in September 2021.
8	Chennai PCIT-4, Chennai	Public Bank	I5	2017-18	2.94	1.02	Case was reopened under Section 147 but additions were not made (March 2022). Rebuttal was issued (February 2023).
9	Delhi PCIT Central -1	NBFC	S21	2017-18	40.62	14.06	Reply is awaited (November 2025).
10	Delhi PCIT-4	NBFC	I18	2019-20	27.83	13.91	Reply is awaited (November 2025).
11	Hyderabad PCIT-1 Hyderabad	NBFC	A15	2017-18	295.87	102.39	Accepted (August 2022); Remedial action details are awaited (November 2025)
12	Hyderabad PCIT-1 Bhubaneswar	NBFC	O4	2019-20	6.51	1.81	Ministry accepted (September 2025) the audit observation and stated that remedial action taken under Section 154 (March 2022)
13	West Bengal PCIT, Kolkata-2	NBFC	I30	2017-18	1.37	0.60	Reply is awaited (November 2025).

Irregularities in set off/ carry forward of losses							(₹ in crore)
Sl. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Tax Effect	Reply of the Department
14	West Bengal Circle 7(1), Kolkata	NBFC	C13	2016-17	3.22	0.71	Reply is awaited (November 2025).
15	West Bengal Circle 7(1), Kolkata	NBFC	C13	2017-18	3.31	0.73	Reply is awaited (November 2025).
16	West Bengal Circle 7(1), Kolkata	NBFC	C13	2017-18	26.08	8.06	Reply is awaited (November 2025).
17	West Bengal PCIT (Central), Kolkata-2	NBFC	P14	2015-16	0.11	0.03	Reply is awaited (November 2025).
18	West Bengal PCIT, Kolkata-1	Public Bank	U2	2010-11	42.87	13.25	Reply is awaited (November 2025).
19	Mumbai PCIT-8 Mumbai	NBFC	R9	2016-17 2017-18 2018-19	302.63	103.29	Reply is awaited (November 2025).
20	Mumbai PCIT-2, Mumbai	Private Bank	D8	2019-20	813.97	0 ¹⁴⁴	Reply is awaited (November 2025).
21	West Bengal PCIT-2, Kolkata	NBFC	S3	2017-18	277.21	63.96	Reply is awaited (November 2025)
Total					2,293.35	510.09	

¹⁴⁴ Audit ascertained from the Department whether the case was selected under scrutiny as the information was not available on the records. Audit could not quantify tax effect as records of earlier years were not made available.

Annexure 5.11

{Refer Para 5.5.11.1 }

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
1	Ahmedabad PCIT-3, Ahmedabad	NBFC	G4	2019-20	0.00	---	1.69	Reply is awaited (November 2025).
2	Jaipur PCIT Udaipur	NBFC	C9	2017-18	0.00	---	0.04	Reply is awaited (November 2025).
3	Jaipur PCIT Udaipur	NBFC	C9	2018-19	0.00	---	0.02	Reply is awaited (November 2025).
4	Ahmedabad PCIT-1, Ahmedabad	Private Bank	A6	2012-13	0.00	---	6.79	Reply is awaited (November 2025).
5	Ahmedabad PCIT-3, Ahmedabad	NBFC	G4	2018-19	0.00	---	0.18	Reply is awaited (November 2025).
6	Ahmedabad PCIT-3, Ahmedabad	NBFC	S14	2012-13	0.00	---	0.03	Reply is awaited (November 2025).
7	Bengaluru PCIT-Panaji	Private Bank	T15	2018-19	0.00	---	53.66	Reply is awaited (November 2025).
8	Bengaluru PCIT-3 Bengaluru	NBFC	H9	2018-19	0.00	---	44.66	Ministry accepted (July 2025) the audit observation and stated that remedial action is under process. Further details are awaited (November 2025).
9	Bengaluru PCIT-Panaji	Private Bank	T15	2018-19	0.00	---	19.80	Reply is awaited (November 2025).
10	Bengaluru PCIT-2 Bengaluru	NBFC	V8	2018-19	0.00	---	0.19	Accepted (November 2025) and remedial action initiated under section 154. Further details are awaited (November 2025).
11	Chandigarh Jalandhar-1	NBFC	M5	2015-16	0.00	---	2.19	Reply is awaited (November 2025).
12	Chandigarh Srinagar	Private Bank	T8	2015-16	0.00	---	0.12	Reply is awaited (November 2025).
13	Chandigarh Panchkula	NBFC	H5	2015-16	0.00	---	205.07	Ministry not accepted (January 2025) the audit observation and stated that the assessee did not claim any MAT credit in AY 2015-16. Details of rebuttal are in box 5.40 (c) of para 5.5.11.1.

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
14	Chennai PCIT-1, Madurai	Private Bank	C3	2016-17	0.00	---	42.32	Remedial action was taken under Section 154 in March 2023 and the demand of ₹ 42.36 crore was collected in July 2023.
15	Chennai PCIT-4, Chennai	Public Bank	I5	2018-19	0.00	---	6.51	Reply is awaited (November 2025).
16	Chennai PCIT-4, Chennai	NBFC	L2	2016-17	0.00	---	1.65	Reply is awaited (November 2025).
17	Chennai PCIT-1, Madurai	Private Bank	T5	2015-16	0.00	---	2.53	Reply is awaited (November 2025).
18	Chennai PCIT-4, Chennai	NBFC	S4	2012-13	0.00	---	0.33	Reply is awaited (November 2025).
19	Chennai PCIT-1, Madurai	Private Bank	T6	2015-16	0.00	---	31.19	Remedial action was taken by passing rectification order under section 154 in March 2022 and recovery of ₹ 31.18 crore has been made during November 2022 to January 2025.
20	Chennai PCIT-1, Madurai	Private Bank	T3	2018-19	0.00	---	35.57	ITD stated (July 2025) that remedial action has been taken and recovery of ₹ 35.57 crore has been made in October 2024.
21	Chennai PCIT-1, Madurai	Private Bank	T3	2019-20	0.00	---	5.56	Remedial action has been initiated by issuing notice under Section 154 in August 2025.
22	Kerala PCIT, Kozhikode	NBFC	M6	2015-16	0.00	---	0.59	Accepted and remedial action taken under Section 143 read with Section 147 in February 2024.
23	Delhi PCIT Central - 2 Delhi	NBFC	P7	2017-18	0.00	---	12.68	As per reply (November 2021), remedial action has been taken under Section 154 in September 2021.
24	Delhi PCIT-7 Delhi	Public Bank	O2	2014-15	0.00	---	8.91	Reply is awaited (November 2025).

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
25	Delhi PCIT-7 Delhi	Public Bank	O2	2013-14	0.00	---	7.73	Reply is awaited (November 2025).
26	Delhi PCIT Central - 1 Delhi	NBFC	C10	2018-19	3.77	---	4.36	As per reply (February 2022), action under Section 263 has been proposed. Further details awaited (November 2025).
27	Delhi PCIT Central - 1 Delhi	NBFC	C10	2019-20	4.05	---	4.31	As per reply (February 2022), action under Section 263 has been initiated Further details awaited (November 2025).
28	Delhi PCIT-7 Delhi	NBFC	R10	2017-18	0.00	---	3.82	Reply awaited (November 2025).
29	Delhi PCIT Central - 1 Delhi	NBFC	C10	2017-18	3.08	---	3.68	As per reply (February 2022), action under Section 263 has been proposed. Further details awaited (November 2025).
30	Delhi PCIT-7 Delhi	Public Bank	P4	2018-19	0.00	---	2.95	Reply awaited (November 2025).
31	Delhi CIT(IT)-2 Delhi	Foreign Bank	M9	2013-14	0.00	---	2.34	Reply awaited (November 2025).
32	Delhi PCIT-1 Delhi	NBFC	A3	2017-18	0.00	---	1.36	Reply awaited (November 2025).
33	Delhi PCIT-7 Delhi	NBFC	P6	2017-18	0.00	---	0.82	Reply awaited (November 2025).
34	Delhi CC-4 Delhi	NBFC	C10	2013-14	0.00	---	0.56	As per reply (February 2022), action under Section 263 has been proposed. Further details awaited (November 2025).
35	Delhi CC-4 Delhi	NBFC	C10	2016-17	1.74	---	0.54	As per reply (February 2022), action under Section 263 has been proposed. Further details awaited (November 2025).
36	Delhi PCIT Central - 2 Delhi	NBFC	P2	2017-18	0.00	---	0.44	As per reply (June 2022), remedial action has been taken under Section 154 in May 2022.
37	Delhi	NBFC	P2	2015-16	0.00	---	0.37	As per reply (June 2022), remedial action

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
	PCIT Central - 2 Delhi							has been taken under Section 154 in May 2022.
38	Delhi PCIT Central - 2 Delhi	NBFC	P2	2014-15	0.00	---	0.34	As per reply (June 2022), remedial action has been taken under Section 154 in May 2022.
39	Kolkata-NER PCIT, Guwahati	NBFC	P10	2012-13	0.00	---	0.05	Department reply (December 2024) is not related to Audit query.
40	Kolkata-WB PCIT, Siliguri	NBFC	U5	2017-18	0.00	---	0.58	Reply is awaited (November 2025).
41	Kolkata-WB CIT (IT & TP), Kolkata	Foreign Bank	N6	2018-19	0.00	---	5.31	Reply is awaited (November 2025).
42	Kolkata-WB PCIT, Kolkata-2	NBFC	A11	2016-17	0.00	---	0.08	Reply is awaited (November 2025).
43	Kolkata-WB PCIT, Kolkata-2	NBFC	A9	2015-16	---	0.25	0.10	Reply is awaited (November 2025).
44	Kolkata-WB PCIT (Central), Kolkata-1	NBFC	H7	2017-18	0.00	---	0.04	Reply is awaited (November 2025).
45	Kolkata-WB PCIT (Central), Kolkata-1	NBFC	H7	2017-18	0.00	---	0.11	Reply is awaited (November 2025).
46	Kolkata-WB PCIT (Central), Kolkata-1	NBFC	H7	2016-17	0.00	---	0.04	Reply is awaited (November 2025).
47	Kolkata-WB PCIT, Kolkata-2	NBFC	A11	2016-17	1.39	---	0.46	Reply is awaited (November 2025).
48	Mumbai PCIT(IT), Mumbai	Foreign Bank	S11	2017-18	0.00	---	215.71	Accepted (July 2025) and remedial action taken under section 154 in August 2023.
49	Mumbai PCIT(IT), Mumbai	Foreign Bank	S9	2017-18	0.00	---	16.68	Not Accepted (March 2025) as per details as per para 5.5.11.1/Box 5.40e.
50	Mumbai PCIT-2, Mumbai	Private Bank	I7	2018-19	0.00	---	30.39	Reply is awaited (November 2025).

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
51	Mumbai PCIT-2, Mumbai	Private Bank	K1	2018-19	0.00	---	9.64	Reply is awaited (November 2025).
52	Mumbai PCIT(IT), Mumbai	Foreign Bank	H8	2018-19	0.00	---	2.28	Accepted and remedial taken under Section 154 in August 2022.
53	Mumbai PCIT 6 Mumbai	NBFC	L4	2018-19	1.48	---	0.51	Reply is awaited (November 2025).
54	Mumbai PCIT 1 Mumbai	NBFC	H3	2017-18	64.65	---	10.19	Not accepted (June 2025) ¹⁴⁵
55	Mumbai PCIT 1 Mumbai	NBFC	H3	2016-17	23.11	---	5.47	Not accepted (June 2025) ¹⁴⁶
56	Mumbai PCIT 6 Mumbai	NBFC	A14	2019-20	0.00	---	0.80	Reply is awaited (November 2025).
57	Mumbai PCIT 2 Mumbai	Public Bank	S8	2017-18	349.61	0	499.64	Accepted (February 2022) and initiated remedial action under Section 154. Further details are awaited (November 2025).
58	Mumbai PCIT 2 Mumbai	Public Bank	S8	2016-17	---	0	209.88	Accepted in principle (February 2022). Further details are awaited (November 2025).
59	Mumbai PCIT 2 Mumbai	Public Bank	S8	2018-19	---	0	309.59	Accepted in principle. (February 2022). Further details are awaited (November 2025).

¹⁴⁵ In reply DCIT 2(3)(1), Mumbai did not accept the audit observation stating that the case was reassessed u/s 147 rws 144B of the Act on 21.03.2022 wherein it was found that the sale of Delta Brac Company shares had been duly reflected in the annual accounts and taken into the profit & loss account. Thus, there was no escapement of income thereby no excess allowance of FTC. A rebuttal was issue to the DCIT 2(3)(1), Mumbai (July 2025) stating from the assessee's computation of income it is evident that the amount of ₹ 64.65 crore on account of capital gain on sale of shares had been reduced from business income but was not offered to tax under capital gain whether long-term or short-term and hence, the audit observation may be reconsidered. Further details are awaited. (November 2025).

¹⁴⁶ In reply DCIT 2(3)(1), Mumbai did not accept the audit observation stating that the case was reassessed u/s 147 rws 144B of the Act on 22.03.2022 and during the said reassessment it was found that the sale of Delta Brac Company shares had been duly reflected in the annual accounts and taken into the profit & loss account and hence there was no escapement of income. A rebuttal was issue to the DCIT 2(3)(1), Mumbai (July 2025) stating from the assessee's computation of income it is evident that the amount of ₹ 23.11 crore on account of capital gain on sale of shares and redemption of units had been reduced from business income but was not offered to tax under capital gain whether long-term or short-term and hence, the audit observation may be reconsidered. Further details are awaited. (November 2025).

Mistakes in computation of income, levy of tax, surcharge, interest, MAT credit, penalty etc.								
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment (₹ in crore)	Overassessment (₹ in crore)	Tax Effect (₹ in crore)	Reply of the Department
60	Mumbai PCIT 2 Mumbai	Public Bank	S8	2019-20	0	---	219.38	Accepted (June 2022) and stated that appropriate remedial action will be taken. Further details are awaited (November 2025).
61	Mumbai PCIT 2 Mumbai	Private Bank	I4	2018-19	0	---	107.70	Reply is awaited (November 2025)
62	Mumbai CIT (IT), Mumbai -2	Foreign Bank	D1	2018-19	0	---	9.12	Accepted (August 2023). Remedial action initiated under Section 154. Further details are awaited (November 2025).
63	Ahmedabad PCIT-1, Ahmedabad	NBFC	F2	2017-18	0	---	0.66	Reply is awaited (November 2025)
64	Ahmedabad PCIT-1, Ahmedabad	NBFC	F2	2018-19	0	---	0.15	Reply is awaited (November 2025).
65	Ahmedabad PCIT-3, Ahmedabad	NBFC	G4	2018-19	0	---	0.12	Reply is awaited (November 2025).
66	Chennai PCIT-1, Madurai	Private Bank	T5	2017-18	0	---	41.36	Remedial action taken under Section 154 in September 2021.
Total					452.88	0.25	2,211.94	

Annexure 5.12

{Refer Para 5.5.11.3}

Arithmetical errors in computation of income and tax								(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Overassessment	Tax Effect	Reply of the Department
1	Chandigarh Gurgaon	NBFC	S29	2017-18	---	23.43	18.10	Department replied (November 2025) and stated that action has been taken under Section 154.
2	Chandigarh Gurgaon	NBFC	S29	2016-17	---	9.80	3.39	Department replied (November 2025) and stated that action has been taken under Section 154.
3	Chennai PCIT-1, Madurai	Private Bank	T6	2014-15	0	---	43.25	Remedial action taken and recovery of ₹ 5.33 crore has been made in November 2022.
4	Kerala PCIT, Thiruvananthapuram	NBFC	K7	2015-16	0.27	---	0.12	The Department (November 2022) replied that the matter would be looked into. Further details are awaited (November 2025)
5	Delhi PCIT-7	Public Bank	P1	2019-20	0.00	---	80.56	Reply is awaited (November 2025)
6	Delhi PCIT-7	NBFC	R11	2017-18	21.01	---	13.24	Reply is awaited (November 2025)
7	Delhi PCIT-7	Public Bank	P1	2014-15	25.54	---	8.68	Reply is awaited (November 2025)
8	Delhi CIT(IT)-1	Foreign Bank	C5	2019-20	34.20	---	2.30	Reply is awaited (November 2025)
9	Delhi PCIT-7	NBFC	R3	2017-18	4.97	---	2.21	Reply is awaited (November 2025)
10	Delhi CIT(IT)-1	Foreign Bank	C5	2016-17	13.69	---	1.02	Reply is awaited (November 2025)
11	Delhi PCIT-4	NBFC	I8	2018-19	0.00	---	1.02	Reply is awaited (November 2025)
12	Delhi PCIT-4	NBFC	G3	2017-18		1.36	0.59	As per reply (August 2022), remedial action has been taken under Section 154 in May 2022.
13	Delhi PCIT-7	Public Bank	P4	2018-19	0.39	---	0.19	Reply is awaited (November 2025)
14	Kolkata-WB PCIT, Kolkata-2	NBFC	S30	2012-13	1.52	---	0.49	Reply is awaited (November 2025)
15	Kolkata-WB PCIT (Central), Kolkata-1	NBFC	S25	2012-13	0.04	---	0.02	Reply is awaited (November 2025)
16	Mumbai	NBFC	I20	2015-16	0.00	---	0.55	Reply is awaited (November 2025)

Arithmetical errors in computation of income and tax								(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Overassessment	Tax Effect	Reply of the Department
	PCITCC 3 Mumbai							
17	Mumbai PCIT 6 Mumbai	NBFC	I12	2019-20	---	894.21	0.00	Reply is awaited (November 2025)
18	Mumbai PCIT 6 Mumbai	NBFC	L4	2019-20	23.49	---	8.21	Reply is awaited (November 2025)
19	Mumbai PCIT 3 Mumbai	NBFC	E5	2016-17	---	19.29	6.68	Reply is awaited (November 2025)
20	Mumbai PCIT (IT) 3 Mumbai	NBFC	M11	2014-15	0.00	---	0.00	Reply is awaited (November 2025)
21	Mumbai PCIT 2 Mumbai	Public Bank	S8	1997-98	0.00	---	2.19	Accepted (March 2021) and remedial action taken under Section 263 in March 2018.
22	Mumbai PCIT (IT) 2 Mumbai	Foreign Bank	C1	2017-18	0.00	---	25.61	Accepted (August 2022) and remedial action taken under Section 154 in February 2022.
23	Mumbai PCIT (IT) 2 Mumbai	Foreign Bank	C1	2018-19	62.19	---	33.52	Accepted (August 2022) and remedial taken under Section 154 in July 2022.
24	Mumbai CIT (IT), Mumbai-2	Foreign Bank	D1	2016-17	36.39	---	15.74	Accepted. (August 2023). Remedial action taken under Section 147 (May 2022).
25	Mumbai CIT (IT), Mumbai-2	Foreign Bank	D1	2015-16	1.84	---	0.80	Accepted. (August 2023). Remedial action taken under Section 154 (March 2022).
26	Kerala PCIT Kozhikode	Private Bank	T12	2018-19	0.98	---	0.34	Department in reply (October 2022) stated that remedial action is under process. Further details are awaited (November 2025).
27	Mumbai PCIT-2, Mumbai	Public Bank	D3	2018-19	689.51	---	238.63	Ministry accepted (September 2025) the audit observation and stated that remedial action has been taken under section 154 of the Income tax Act (November 2024).
28	Chennai PCIT-1 Chennai	NBFC	I10	2017-18	---	0.00	21.87	Reply is awaited (November 2025)

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Arithmetical errors in computation of income and tax								(₹ in crore)
S. No.	Region/ PCIT Charge	Bank/ NBFC	Assessee Name	AY	Under assessment	Overassessment	Tax Effect	Reply of the Department
29	Chennai PCIT, Madurai- 1	Private Bank	T5	2016-17	---	4.32	1.43	Reply is awaited (November 2025)
30	Chennai PCIT-1, Chennai	Private Bank	I28	2018-19	0.00	---	10.94	Reply is awaited (November 2025)
31	Ahmedabad PCIT-1 Ahmedabad	Private Bank	A6	2016-17		0.00	2.62	Reply is awaited (November 2025)
32	Delhi CIT(IT)-1	Foreign Bank	C5	2017-18	12.68	---	3.14	Reply is awaited (November 2025)
Total					928.71	952.41	547.45	

Annexure 5.13

{Refer Para 5.5.12}

Variation in the figures of payments made to related parties											
S. No.	Region/	Pr. CIT/ CIT	Sector	Name of Assessee	AQ issued to main assessee		AQ issued to related party		Tax Effect	(₹ in crore)	
					No	Tax Effect	No	Tax Effect		Department's reply	
1	Ahmedabad	Pr. CIT-1, Ahmedabad	Pvt. Bank	A6	02	0.00	3	1.20	1.20	Reply was awaited (November 2025)	
		Pr. CIT-1, Ahmedabad	NBFC	H10	0	0.00	4	4.93	4.93	Reply was awaited (November 2025)	
2	Mumbai	Pr. CIT-3, Mumbai	Pvt. Bank	I24	5	0.00	0	0.00	0.00	Reply was awaited (November 2025)	
		Pr. CIT-2, Mumbai	Pvt. Bank	H4	6	0.00	0	0.00	0.00	Reply was awaited (November 2025)	
			Pvt. Bank	I4	1	0.00	0	0.00	0.00	Reply was awaited (November 2025)	
			Public Bank	S8	3	0.00	0	0.00	0.00	Reply was awaited (November 2025)	
		CIT(IT)-4, Mumbai	Foreign Bank	S11	11	0.00	0	0.00	0.00	Reply was awaited (November 2025)	
		PCIT-3, Pune	NBFC	B5	2	0.00	0	0.00	0.00	Interim Reply for AY 2016-17 & Accepted for AYs 2017-18 to 2019-20.(April 2024)	
		PCIT-4, Pune	NBFC	B5	2	0.00	0	0.00	0.00		
		PCIT-5, Pune	NBFC	B5	6	0.00	0	0.00	0.00		
									2017-18	Remedial Action initiated under Section 263 on 30.03.2022	
									2018-19	Remedial Action under Section 263 is considered.	
									2019-20	Remedial Action under Section 263 is considered.	
		Pr. CIT-3, Mumbai	NBFC	S5	1	0.00	0	0.00	0.00	Reply was awaited (November 2025).	
3	Kerala	PCIT, Kozhikode	NBFC	M6	3	0.00	9	0.44	0.44	Reply was awaited (November 2025).	
		PCIT, Kochi-1	Pvt. Bank	T11	1	0.00	5	6.56	6.56	Reply was awaited (November 2025).	
		PCIT (Central), Kochi	NBFC	M10	0	0.00	2	0.03	0.03	Reply was awaited (November 2025).	

Variation in the figures of payments made to related parties										
S. No.	Region/	Pr. CIT/ CIT	Sector	Name of Assessee	AQ issued to main assessee		AQ issued to related party		Tax Effect	Department's reply
					No	Tax Effect	No	Tax Effect		
			NBFC	M8	13	1.66	10	1.68	3.34	Reply was awaited (November 2025).
4	Bengaluru	PCIT, Bengaluru-2	NBFC	J5	2	0.59	0	0.00	0.59	Reply was awaited (November 2025).
5	Chandigarh	PCIT, Jalandhar-1	NBFC	M5	4	2.99	0	0.00	2.99	Reply was awaited (November 2025).
			NBFC	M19	2	20.64	0	0.00	20.64	Reply was awaited (November 2025).
		PCIT Faridabad	NBFC	H11	7	8.89	0	0.00	8.89	Reply was awaited (November 2025).
		PCIT Faridabad	NBFC	O1	1	0.16	0	0.00	0.16	Reply was awaited (November 2025).
6	Lucknow	PCIT Central Kanpur	NBFC	I6	1	0.48	0	0.00	0.48	Accepted (May 2024). remedial action was initiated under Section 148A(b) of the Act in May 2024. Further details are awaited (November 2025).
7	Kolkata	PCIT, Kolkata-2	NBFC	S30	2	2.44	0	0.00	2.44	Reply was awaited (November 2025).
8	Delhi	PCIT, Delhi-4	NBFC	P5	0	0.00	7	0.00	0.00	Reply was awaited (November 2025).
			NBFC	R1	0	0.00	1	0.00	0.00	Reply was awaited (November 2025).
9	Hyderabad	PCIT, Hyderabad-2	NBFC	K8	2	1.12	0	0.00	1.12	Department contested the paras. Rebuttal issued.
				Total	77	38.97	41	14.84	53.81	

Annexure 5.14

{Refer Para 5.5.12}

Details of cases not produced with reference to Related Party Transactions				
Sl. No.	Details of Main Assessee	Details of Related Parties	No. of Related Party Cases/ transactions not produced	List of records/documents not furnished in respect of Related Parties
1	A6 AY 2011-12, 2012-13, 2016-17 Pr. CIT-1, Ahmedabad	1. A27 2. A17. 3 A26. 4. A25	10	ITR, 3CD, Annual Accounts, Assessment Order, Tax Computation Sheet, Demand Notice, 26AS, Ledger Account in respect of transaction 'Interest paid, Fees and Commission' & any other relevant records viz. Appeal orders, 3CEB etc.,
2	F2 AY 2017-18, 2018-19 Pr. CIT-1, Ahmedabad	1. I46 2. F7	2	Cases referred to O/o the PDA(C), Bengaluru for verification, no details received
3	N2 AY 2015-16, 2016-17 Pr.CIT-1, Vadodara	1. M36	2	Cases referred to O/o the DGACR-Delhi for verification, no details received
4	C6 2018-19, 2019-20 PCIT-2, Bengaluru	1. C19	2	Cases referred to O/o the DGACR-Delhi for verification, no details received
5	S15 AY 2015-16 to 2019-20 PCIT 2, Bengaluru	1. S49 2. A22 3. K10 4. P16	8	ITRs, Copy of order under Section 143(3)/143(1)
6	T20 AY 2017-18 PCIT 2, Bengaluru	1. T22	1	ITRs, Copy of order under Section 143(3)/143(1)
7	U4 AY 2017-18 PCIT-2, Bengaluru	1. U8	1	Case referred to O/o the DGACR-Delhi for verification, no details received
8	V8 AY 2017-18, 2018-19 PCIT 2, Bengaluru	1. V10	2	ITRs, Copy of order under Section 143(3)/143(1)
9	J5 AY 2015-16 to 2019-20 PCIT 2, Bengaluru	1. C18	5	ITRs, Assessment Orders
10	K8 AY 2016-17 PCIT 2, Hyderabad	1. K13	1	Audited Financial Report
11	T11, AY 2010-11 to 2012-13 PCIT, Kochi- 1	1. F6	3	Financial Statements, Form 3CD, ITR Form, Copy of order under Section 143(1)
12	M8 AY 2011-12 PCIT(Central), Kochi	1. M22	1	ITR, Form 3CA, Annual Report, Copy of order under Section 143(3)
13	B14 AY 2016-17, 2017-18 PCIT(Central), Kolkata-2	1. C15 2. N7 3. C17	5	No Record produced

Details of cases not produced with reference to Related Party Transactions				
Sl. No.	Details of Main Assessee	Details of Related Parties	No. of Related Party Cases/ transactions not produced	List of records/documents not furnished in respect of Related Parties
14	B11 AY 2016-17 to 2019-20 PCIT, Kolkata-2	1 D10 2. V9 3 A23 4. N7 5 C15 6. B16 7 S44 8. T24	30	No Record produced
15	M7 AY 2012-13,2015-16, 2016-17, 2017-18 PCIT, Kolkata-2	1 M32 2. S54 3 S58 4. C20. 5. M26 6. H14	22	No Record produced
16	S3 AY 2014-15, 2016-17 PCIT 2, Kolkata	1. S60 2. S53 3. C17	5	No Record produced
17	R16 AY 2017-18 PCIT 2, Kolkata	1. A35 2. R17	2	No Record produced
18	I18 AY 2016-17, 2018-19, 2019-20 PCIT 4, New Delhi	1. I42 2 I43 3. T29	8	Annual Accounts, Processing of return under Section 143(1), Form 10B & approval for claim of deduction under Section 80G.
19	R1 AY 2015-16, 2016-17, 2018-19, 2019-20 PCIT 4, New Delhi	1. R18 2. R12	6	Annual Accounts, Processing of return under Section 143(1)
20	P6 AY 2018-19 PCIT 7, Delhi	P17	1	Computation Sheet
21	K14 AY 2014-15 PCIT Gwalior	H13	1	No Record produced
22	C7 AY 2015-16 to 2019-20 DCIT 1(1), Bhopal	1. B19 2. S55 3. C4 4. H13 5. A33 6. S61 7. S56 8. N9	14	Cases referred to O/o the DGA(C)/ PDA(C) Mumbai, Chennai, Kolkata for verification, no details received
23	M12 AY 2015-16, AY 2017-18 to 2019-20 PCIT 1, Indore	1. M25 2. S59	4	PAN Not Available in 3CD
24	C1 AY 2015-16 to 2018-19 CIT(IT)-2, Mumbai	1. C23 2. C22 3. C24 4. C21	10	ITR, Acknowledgement of ITR (ITR V), 3CD/3CEB report, Assessment order, ITNS, Computation of Income, Annual Accounts.

Details of cases not produced with reference to Related Party Transactions				
Sl. No.	Details of Main Assessee	Details of Related Parties	No. of Related Party Cases/ transactions not produced	List of records/documents not furnished in respect of Related Parties
25	L1 AY 2016-17 to 2019-20 PCIT, Mumbai-2	1. L6	4	ITR, Assessment Order, Form 3CD report, Tax Computation & financial accounts
26	T19 AY 2016-17 PCIT, Mumbai-2	1. T27	4	Form 3CD report, Tax Computation & Financial Accounts
27	S26 AY 2016-17 to 2019-20 PCIT, Mumbai-1	1. B20	16	26AS, AIS data, ITS, 360 Degree View
28	R9 AY 2015-16, 2016-17, 2019-20 PCIT-8, Mumbai	1. R19 2. R21 3. R2 4. R20	5	No Record produced
29	M1 AY 2017-18 to 2019-20 PCIT-8, Mumbai	1. M28 2. M31 3. M30 4. M29	9	Assessment Order, ITR, Computation sheet, Tax Audit Report, Financial Accounts
30	S24 AY 2015-16, 2017-18 PCIT, Allahabad	1. A34 2. A30 3. G11	3	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
31	U6 AY 2017-18 to 2019-20 PCIT, Allahabad	1. U11 2. U10 3. G11 4. U9 5. A29 6. A32 7. A34	10	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
32	F8 AY 2016-17 to 2017-18 PCIT Allahabad	1. S57 Name of one related party not available	2	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
33	P18 AY 2015-16, 2017-18 PCIT Central Kanpur	1. P19 2. A31 3. A28 4. M35	5	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
34	I6 AY 2017-18 to 2019-20 PCIT Central Kanpur	1. D13 2. L7 3. B22 4. R15 5. V12 6. S62 7. B21 8. I45 9. S63 10. M34 11. C25 12. H15 13. I44	29	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.

Details of cases not produced with reference to Related Party Transactions				
Sl. No.	Details of Main Assessee	Details of Related Parties	No. of Related Party Cases/ transactions not produced	List of records/documents not furnished in respect of Related Parties
35	M27 AY 2016-17 to 2017-18 PCIT, Patna-1	Name of two related parties not available	2	
36	M33 AY 2017-18 PCIT, Bareilly	Name of the related parties not available	1	
37	T7 AY 2015-16 to 2019-20 PCIT, Bareilly	1. V11 2. N10 3. M37 4. K12 5. S52 6. B2 7. M38 8. V13 • Name of one related party not available	34	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
38	T28 AY 2016-17 to 2019-20 PCIT Lucknow	• S51 • Name of three related party not available	4	Since the transaction with Related Party was not related to loan given, the related party was not subjected to audit in PA.
39	C26 AY 2017-18, 2019-20 PCIT, Patna-1	Name of the related party not available	2	
40	V14 AY 2016-17, 2017-18 PCIT, Patna-1	Name of the related party not available	2	
Total			278	

Annexure 6.1

{Refer Para 6.2.1}

Recovery against bad debts written off- not matching with RBI Data								(₹ in crore)
S. No.	Region	Sector	Name of Bank	AY	Recovery as reported to RBI	Recovery reported in form 3CD	Difference	Reply of the Department
1	Mumbai	Public Bank	C4	2016-17	111	0	111	Accepted (June 2022). Further details are awaited (November 2025).
2	Mumbai	Public Bank	C4	2017-18	121	0	121	Accepted (June 2022). Further details are awaited (November 2025).
3	Mumbai	Public Bank	C4	2018-19	410	0	410	Accepted (June 2022). Further details are awaited (November 2025).
4	Mumbai	Public Bank	B2	2016-17	221	179	42	Accepted (June 2022). Further details are awaited (November 2025).
5	Mumbai	Public Bank	B2	2017-18	327	224	103	Accepted (June 2022). Further details are awaited (November 2025).
6	Mumbai	Public Bank	B2	2018-19	621	569	52	Accepted (June 2022). Further details are awaited (November 2025).
7	Mumbai	Public Bank	S17	2016-17	88	0	88	Accepted (June 2022). Further details are awaited (November 2025).
8	Mumbai	Public Bank	S17	2017-18	59	0	59	Accepted (June 2022). Further details are awaited (November 2025).
9	Mumbai	Public Bank	S13	2016-17	119	0	119	Accepted (June 2022). Further details are awaited (November 2025).
10	Mumbai	Public Bank	S13	2017-18	150	0	150	Accepted (June 2022). Further details are awaited (November 2025).
11	Mumbai	Private Bank	I4	2018-19	279	214	65	Accepted (June 2022). Further details are awaited (November 2025).

Recovery against bad debts written off- not matching with RBI Data								(₹ in crore)
S. No.	Region	Sector	Name of Bank	AY	Recovery as reported to RBI	Recovery reported in form 3CD	Difference	Reply of the Department
12	Mumbai	Private Bank	I4	2019-20	1,727	577	1,150	Accepted (June 2022). Further details are awaited (November 2025).
13	Mumbai	Foreign Bank	C1	2016-17	55	0	55	Reply was awaited (November 2025).
14	Mumbai	Foreign Bank	C1	2017-18	72	0	72	Reply was awaited (November 2025).
15	Mumbai	Foreign Bank	C1	2018-19	83	0	83	Reply was awaited (November 2025).
16	Mumbai	Foreign Bank	C1	2019-20	100	0	100	Reply was awaited (November 2025).
17	Mumbai	Foreign Bank	H8	2016-17	17	0	17	Reply was awaited (November 2025).
18	Mumbai	Foreign Bank	H8	2017-18	19	0	19	Reply was awaited (November 2025).
19	Mumbai	Foreign Bank	H8	2018-19	26	0	26	Reply was awaited (November 2025).
20	Mumbai	Foreign Bank	H8	2019-20	36	0	36	Reply was awaited (November 2025).
21	Delhi	Public Bank	P4	2016-17	34	20.40	13.60	Reply was awaited (November 2025).
22	Delhi	Public Bank	P4	2017-18	26	10.53	15.47	Reply was awaited (November 2025).
23	Delhi	Public Bank	P4	2018-19	49	7.79	41.21	Reply was awaited (November 2025).
24	Delhi	Public Bank	P4	2019-20	160	14.10	145.90	Reply was awaited (November 2025).
25	Delhi	Public Bank	U3	2016-17	111	94.70	16.30	Reply was awaited (November 2025).
26	Delhi	Foreign Bank	M9	2017-18	53	0	53	Reply was awaited (November 2025).
27	Delhi	Public Bank	P1	2016-17	2,298	0	2,298	Reply was awaited (November 2025).
28	Delhi	Public Bank	P1	2017-18	2,133	0	2,133	Reply was awaited (November 2025).
29	Delhi	Public Bank	P1	2019-20	1,808	0	1,808	Reply was awaited (November 2025).
30	Chennai	Public Bank	I9	2016-17	353	0	353	Reply was awaited (November 2025).
31	Chennai	Public Bank	I9	2017-18	150	0	150	Reply was awaited (November 2025).
32	Chennai	Public Bank	I9	2018-19	249	0	249	Reply was awaited (November 2025).
33	Chennai	Public Bank	I9	2019-20	158	0	158	Reply was awaited (November 2025).
34	Chennai	Private Bank	I28	2016-17	2	0	2	Reply was awaited (November 2025).
35	Chennai	Private Bank	I28	2019-20	86	0	86	Reply was awaited (November 2025).

Recovery against bad debts written off- not matching with RBI Data								(₹ in crore)
S. No.	Region	Sector	Name of Bank	AY	Recovery as reported to RBI	Recovery reported in form 3CD	Difference	Reply of the Department
36	Chennai	Public Bank	I5	2018-19	3	0	3	Reply was awaited (November 2025).
37	Chennai	Public Bank	I5	2019-20	28	0	28	Reply was awaited (November 2025).
38	Chennai	Private Bank	T5	2019-20	22	0	22	Reply was awaited (November 2025).
39	Chennai	Private Bank	T3	2016-17	26	0	26	In reply (September 2025) and stated that the same was considered and offered for taxation. Further details are awaited (November 2025)
40	Chennai	Private Bank	T3	2017-18	5	0	5	In reply (June 2025) and stated that the same was considered and offered for taxation. Further details are awaited (November 2025)
41	Chennai	Private Bank	T3	2018-19	44	0	44	
42	Chennai	Private Bank	T3	2019-20	70	0	70	
43	Chennai	Private Bank	C3	2016-17	37	0	37	Reply was awaited (November 2025).
44	Chennai	Private Bank	T6	2016-17	37	0	37	Reply was awaited (November 2025).
45	Chennai	Private Bank	T6	2017-18	27	0	27	Reply was awaited (November 2025).
46	Chennai	Private Bank	T6	2018-19	80	0	80	Reply was awaited (November 2025).
47	Chennai	Private Bank	T6	2019-20	41	0	41	Reply was awaited (November 2025).
48	Kerala	Private Bank	T10	2017-18	7	0	7	Reply was awaited (November 2025).
49	Kerala	Private Bank	T10	2018-19	14	0	14	Reply was awaited (November 2025).
50	Kerala	Private Bank	T10	2019-20	11	0	11	Reply was awaited (November 2025).
51	Bengaluru	Public Bank	C6	2018-19	236	185.58	50.42	Reply was awaited (November 2025).
52	Bengaluru	Public Bank	C6	2019-20	1,304	2.25	1,301.75	Reply was awaited (November 2025).
Total					14,491.00	2,294.60	12,196.40	

Annexure 6.2

{Refer Para 6.2.1.1}

List of cases where amount of recovery as reported to RBI matched with the amount of recovery shown in Form 3CD							
S. No.	Region	Sector	Name Of Bank	AY	Recovery as reported to RBI (₹ in crore)	Recovery reported in form 3CD (₹ in crore)	Difference (₹ in crore)
1	Delhi	Foreign Bank	C5	2016-17	0	0	0
2	Delhi	Foreign Bank	C5	2017-18	0	0	0
3	Delhi	Foreign Bank	C5	2018-19	0	0	0
4	Delhi	Foreign Bank	C5	2019-20	0	0	0
5	Delhi	Foreign Bank	J4	2016-17	0	0	0
6	Delhi	Foreign Bank	M9	2016-17	0	0	0
7	Delhi	Foreign Bank	M9	2018-19	0	0	0
8	Delhi	Foreign Bank	M9	2019-20	69	69	0
9	Delhi	Foreign Bank	S12	2017-18	0	0	0
10	Delhi	Foreign Bank	S12	2018-19	0	0	0
11	Delhi	Foreign Bank	S12	2019-20	0	0	0
12	Delhi	Foreign Bank	I27	2016-17	0	0	0
13	Delhi	Foreign Bank	I27	2017-18	0	0	0
14	Delhi	Foreign Bank	I27	2018-19	0	0	0
15	Delhi	Foreign Bank	I27	2019-20	0	0	0
16	Delhi	Public Bank	O2	2016-17	234	234	0
17	Delhi	Public Bank	O2	2017-18	291	291	0
18	Delhi	Public Bank	O2	2018-19	264	264	0
19	Delhi	Public Bank	O2	2019-20	1,062	1,062	0
20	Delhi	Public Bank	U3	2017-18	127	127	0
21	Mumbai	Public Bank	U1	2016-17	186	186	0
22	Mumbai	Public Bank	S18	2016-17	28	28	0

List of cases where amount of recovery as reported to RBI matched with the amount of recovery shown in Form 3CD							
S. No.	Region	Sector	Name Of Bank	AY	Recovery as reported to RBI (₹ in crore)	Recovery reported in form 3CD (₹ in crore)	Difference (₹ in crore)
23	Mumbai	Public Bank	S18	2017-18	79	79	0
24	Mumbai	Public Bank	S8	2019-20	8,345	8,345	0
25	Mumbai	Public Bank	B8	2016-17	68	68	0
26	Mumbai	Public Bank	B8	2017-18	38	38	0
27	Mumbai	Public Bank	D3	2016-17	66	66	0
28	Mumbai	Public Bank	D3	2018-19	142	142	0
29	Mumbai	Private Bank	I4	2016-17	193	193	0
30	Mumbai	Private Bank	Y1	2016-17	8	8	0
31	Mumbai	Private Bank	Y1	2017-18	49	49	0
32	Mumbai	Private Bank	D2	2016-17	10	10	0
33	Mumbai	Private Bank	D2	2017-18	5	5	0
34	Mumbai	Private Bank	H4	2016-17	808	808	0
35	Mumbai	Private Bank	H4	2017-18	864	864	0
36	Mumbai	Private Bank	H4	2018-19	1,094	1,094	0
37	Mumbai	Private Bank	H4	2019-20	1,431	1,431	0
38	Mumbai	Private Bank	I7	2016-17	72	72	0
39	Chennai	Private Bank	T5	2018-19	47	47	0
Total					15,580	15,580	

Annexure 6.3

{Refer Para 6.2.2}

Recovery against bad debts not offered to tax by HFCs						
Sr. No	PCIT Charge	Name of assessee	AY	Amount Recovered under Section 41(4) as per Tax Audit Report (₹ in crore)	Amount Recovered under Section 41(4) as per NHB (₹ in crore)	Reply of the Department
1	PCIT (Central)-3, Mumbai	I20	2015-16	0	96.02	Reply was awaited (November 2025).
2	PCIT-1 Mumbai	T18	2018-19	0	2.08	As per reply (May 2024) Notice under Section 133(6) issued to the assessee. Further details awaited (November 2025).
3	PCIT-1 Mumbai	T18	2019-20	0	12	As per reply (May 2024) Notice under Section 133(6) issued to the assessee. Further details awaited (November 2025).
4	PCIT-1 Mumbai	H2	2015-16	0	0.92	Reply was awaited (November 2025).
5	PCIT-1 Mumbai	H2	2016-17	0	0.87	Reply was awaited (November 2025).
6	PCIT-1 Mumbai	H2	2018-19	0	0.61	Reply was awaited (November 2025).
7	PCIT-1 Mumbai	H2	2019-20	0	0.93	Reply was awaited (November 2025).
8	PCIT-1 Mumbai	H2	2017-18	0	0.74	Reply was awaited (November 2025).
9	PCIT-8 Mumbai	M14	2017-18	0	0.09	Reply was awaited (November 2025).
10	PCIT-2 Mumbai	L1	2018-19	0	7.18	Reply was awaited (November 2025).
11	PCIT-2 Mumbai	L1	2019-20	0	13.22	Reply was awaited (November 2025).
12	PCIT-2 Mumbai	G2	2017-18	0	0.12	Reply was awaited (November 2025).
13	PCIT-2 Mumbai	G2	2018-19	0	1.65	Reply was awaited (November 2025).
14	PCIT-4 Mumbai	I23	2018-19	0	1.09	Reply was awaited (November 2025).
15	PCIT-4 Mumbai	I23	2019-20	0	0.37	Reply was awaited (November 2025).
Total					137.89	

Annexure 6.4

{Refer Para 6.2.3}

Bad debts allowed more than RBI /NHB data									(₹ in crore)
Sl. No.	Region	Name of assessee	Bank/ NBFC	AY	Total amount of bad debts claimed in the return (₹ in crore)	Total amount of bad debts allowed in the assessment order (₹ in crore)	Bad debts as per RBI (₹ in crore)	Difference (₹ in crore)	Reply of the Department
1	Mumbai	I4	Private Bank	2017-18	12,891.19	12,891.19	12,192	699.19	Accepted (June 2022). Further details are awaited (November 2025).
2	Mumbai	I4	Private Bank	2018-19	8,720.60	8,720.60	8,350	370.60	Accepted (June 2022). Further details are awaited (November 2025).
3	Mumbai	Y1	Private Bank	2016-17	261.08	261.08	258	3.08	Accepted (June 2022). Further details are awaited (November 2025).
4	Mumbai	Y1	Private Bank	2017-18	181.66	181.66	142	39.66	Accepted (June 2022). Further details are awaited (November 2025).
5	Mumbai	Y1	Private Bank	2018-19	711.06	711.06	709	2.06	Accepted (June 2022). Further details are awaited (November 2025).
6	Mumbai	Y1	Private Bank	2019-20	483.30	483.30	469	14.30	Accepted (June 2022). Further details are awaited (November 2025).
7	Mumbai	D2	Private Bank	2017-18	44.36	44.36	44	0.36	Accepted (June 2022). Further details are awaited (November 2025).
8	Mumbai	D2	Private Bank	2018-19	33.01	33.01	32	1.01	Accepted (June 2022). Further details are awaited (November 2025).
9	Mumbai	H4	Private Bank	2016-17	1,942.44	1,942.44	1,854	88.44	Accepted (June 2022). Further details are awaited (November 2025).
10	Mumbai	H4	Private Bank	2017-18	2,385.93	2,385.93	2,323	62.93	Accepted (June 2022). Further details are awaited (November 2025).
11	Mumbai	H4	Private Bank	2019-20	4,580.38	4,580.38	4,568	12.38	Accepted (June 2022). Further details are awaited (November 2025).

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Bad debts allowed more than RBI /NHB data									(₹ in crore)
Sl. No.	Region	Name of assessee	Bank/ NBFC	AY	Total amount of bad debts claimed in the return (₹ in crore)	Total amount of bad debts allowed in the assessment order (₹ in crore)	Bad debts as per RBI (₹ in crore)	Difference (₹ in crore)	Reply of the Department
12	Mumbai	I7	Private Bank	2016-17	404.79	404.79	281	123.79	Accepted (June 2022). Further details are awaited (November 2025).
13	Mumbai	I7	Private Bank	2017-18	560.35	560.35	466	94.35	Accepted (June 2022). Further details are awaited (November 2025).
14	Mumbai	I7	Private Bank	2018-19	1,010.55	1,010.55	783	227.55	Accepted (June 2022). Further details are awaited (November 2025).
15	Mumbai	I7	Private Bank	2019-20	2,152.36	2,152.36	1,923	229.36	Accepted (June 2022). Further details are awaited (November 2025).
16	Mumbai	S13	Public Bank	2016-17	3,099.90	3,099.90	1,156	1,943.90	Accepted (June 2022). Further details are awaited (November 2025).
17	Mumbai	C4	Public Bank	2016-17	1,431.46	1,431.46	1,334	97.46	Accepted (June 2022). Further details are awaited (November 2025).
18	Mumbai	C4	Public Bank	2017-18	2,536.15	2,536.15	2,396	140.15	Accepted (June 2022). Further details are awaited (November 2025).
19	Mumbai	C4	Public Bank	2018-19	2,957.22	2,957.22	2,924	33.22	Accepted (June 2022). Further details are awaited (November 2025).
20	Mumbai	V3	Public Bank	2018-19	1,541.26	1,541.26	1,539	2.26	Accepted (June 2022). Further details are awaited (November 2025).
21	Mumbai	I24	Private Bank	2017-18	3,029.21	3,029.21	2,868	161.21	Reply was awaited (November 2025).
22	Mumbai	I24	Private Bank	2019-20	16,053.24	16,053.24	15,918	135.24	Reply was awaited (November 2025).
23	Mumbai	T19	NBFC	2017-18	345.52	345.52	343.2	2.32	Reply was awaited (November 2025).
24	Mumbai	T19	NBFC	2018-19	625.01	625.01	578.43	46.58	Reply was awaited (November 2025).
25	Mumbai	S5	NBFC	2017-18	101.63	101.63	101.24	0.39	Reply was awaited (November 2025).
26	Ahmedabad	A6	Private Bank	2019-20	8,956.31	8,956.31	8,278	678.31	Reply was awaited (November 2025).

Bad debts allowed more than RBI /NHB data									(₹ in crore)
Sl. No.	Region	Name of assessee	Bank/ NBFC	AY	Total amount of bad debts claimed in the return (₹ in crore)	Total amount of bad debts allowed in the assessment order (₹ in crore)	Bad debts as per RBI (₹ in crore)	Difference (₹ in crore)	Reply of the Department
27	Kolkata	U2	Public Bank	2016-17	6,299.34	6,299.34	1,573	4,726.34	Ministry accepted (November 2025) and remedial action has been initiated by issuing notice under Section 263 in September 2025. Further details are awaited (November 2025)
28	Kolkata	U2	Public Bank	2017-18	4,414.68	4,414.68	1,937	2,477.68	Ministry accepted (November 2025) and remedial action has been initiated by issuing notice under Section 148A(d) in April 2024. Further details are awaited (November 2025).
29	Kolkata	U2	Public Bank	2018-19	7,343.38	7,343.38	2,735	4,608.38	Ministry accepted (November 2025) and remedial action has been taken under Section 143(3) read with section 263 in March 2025.
30	Delhi	A16	Foreign Bank	2016-17	95.31	95.31	82	13.31	Reply was awaited (November 2025).
31	Delhi	A16	Foreign Bank	2017-18	122.50	122.50	106	16.50	Reply was awaited (November 2025).
32	Delhi	O2	Public Bank	2018-19	7,235.20	7,235.20	6,357	878.20	Reply was awaited (November 2025).
33	Kerala	T10	Private Bank	2018-19	134.24	134.24	2	132.24	Reply was awaited (November 2025).
34	Kerala	T10	Private Bank	2019-20	74.69	74.69	3	71.69	Reply was awaited (November 2025).
35	Kerala	T12	Private Bank	2019-20	876.92	876.92	287	589.92	Reply was awaited (November 2025).
36	Kerala	T13	Private Bank	2016-17	217.89	217.89	142.34	75.55	Reply was awaited (November 2025).
37	Kerala	T11	Private Bank	2019-20	630.55	630.55	186.31	444.24	Reply was awaited (November 2025).
38	Chennai	T3	Private Bank	2018-19	860.27	817.51	362	455.51	Reply was awaited (November 2025).

Bad debts allowed more than RBI /NHB data								(₹ in crore)	
Sl. No.	Region	Name of assessee	Bank/ NBFC	AY	Total amount of bad debts claimed in the return (₹ in crore)	Total amount of bad debts allowed in the assessment order (₹ in crore)	Bad debts as per RBI (₹ in crore)	Difference (₹ in crore)	Reply of the Department
39	Chennai	T3	Private Bank	2019-20	806.88	806.88	447	359.88	Reply was awaited (November 2025).
40	Chennai	T5	Private Bank	2018-19	298.2	298.2	272	26.20	Reply was awaited (November 2025).
41	Chennai	A13	Public Bank	2018-19	9,886.81	8,088.20	3,635	4,453.20	Reply was awaited (November 2025).
42	Mumbai	M14	NBFC	2017-18	10.42	10.42	9.57	0.85	Not accepted (February 2022) as detailed under para 6.2.3
43	Delhi	U3	Public Bank	2018-19	4,474.08	4,474.08	1,867	2,607.08	Reply was awaited (November 2025).
Total					1,20,821.33	1,18,979.96	91,833.09	27,146.87	

Annexure 6.5

{Refer Para 6.2.3.1}

NPA written off reported to RBI was more than the amount of bad debts allowed to the assessee in the assessment (₹ in crore)								
S. No.	Region	Name of the Bank/ NBFC	Sector	AY	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference	Reply of the Department
1	Mumbai	U1	Public Bank	2016-17	0	792	-792	Reply was awaited (November 2025).
2	Mumbai	U1	Public Bank	2017-18	0	1,264	-1,264	Reply was awaited (November 2025).
3	Mumbai	S18	Public Bank	2016-17	0	643	-643	Reply was awaited (November 2025).
4	Mumbai	S18	Public Bank	2017-18	0	1,560	-1,560	Reply was awaited (November 2025).
5	Mumbai	S17	Public Bank	2016-17	0	1,204	-1,204	Reply was awaited (November 2025).
6	Mumbai	S17	Public Bank	2017-18	0	1,430	-1,430	Reply was awaited (November 2025).
7	Mumbai	S13	Public Bank	2017-18	0	3,528	-3,528	Reply was awaited (November 2025).
8	Mumbai	S8	Public Bank	2016-17	0	15,955	-15,955	Reply was awaited (November 2025).
9	Mumbai	S8	Public Bank	2017-18	19,764.74	20,339	-574.26	Reply was awaited (November 2025).
10	Mumbai	S8	Public Bank	2018-19	24,725.74	39,151	-14,425.26	Reply was awaited (November 2025).
11	Mumbai	S8	Public Bank	2019-20	54,694.33	58,905	-4,210.67	Reply was awaited (November 2025).
12	Mumbai	B8	Public Bank	2016-17	887.7	903	-15.3	Reply was awaited (November 2025).
13	Mumbai	B8	Public Bank	2017-18	1,320.88	1,374	-53.12	Reply was awaited (November 2025).
14	Mumbai	B8	Public Bank	2018-19	0	2,460	-2,460	Reply was awaited (November 2025).
15	Mumbai	V3	Public Bank	2019-20	28.06	1,518	-1,489.94	Reply was awaited (November 2025).
16	Mumbai	B2	Public Bank	2016-17	0	1,554	-1,554	Reply was awaited (November 2025).
17	Mumbai	B2	Public Bank	2017-18	902.33	4,348	-3,445.67	Reply was awaited (November 2025).
18	Mumbai	B2	Public Bank	2018-19	2,202.78	4,948	-2,745.22	Reply was awaited (November 2025).
19	Mumbai	D3	Public Bank	2016-17	697.23	760	-62.77	Reply was awaited (November 2025).
20	Mumbai	D3	Public Bank	2017-18	811.25	833	-21.75	Reply was awaited (November 2025).
21	Mumbai	D3	Public Bank	2018-19	605.08	661	-55.92	Reply was awaited (November 2025).
22	Mumbai	I24	Private Bank	2016-17	5,298.42	5,459	-160.58	Reply was awaited (November 2025).

Report No. 40 of 2025 (Performance Audit)

NPA written off reported to RBI was more than the amount of bad debts allowed to the assessee in the assessment								
(₹ in crore)								
S. No.	Region	Name of the Bank/ NBFC	Sector	AY	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference	Reply of the Department
23	Mumbai	I24	Private Bank	2018-19	12,500.97	12,515	-14.03	Reply was awaited (November 2025).
24	Mumbai	I4	Private Bank	2016-17	974.23	2,955	-1,980.77	Reply was awaited (November 2025).
25	Mumbai	I4	Private Bank	2019-20	10,696.43	11,557	-860.57	Reply was awaited (November 2025).
26	Mumbai	D2	Private Bank	2016-17	58.27	60	-1.73	Reply was awaited (November 2025).
27	Mumbai	D2	Private Bank	2019-20	66.5	67	-0.5	Reply was awaited (November 2025).
28	Mumbai	D8	Private Bank	2018-19	0	144	-144	Reply was awaited (November 2025).
29	Mumbai	K1	Private Bank	2016-17	286.22	289	-2.78	Reply was awaited (November 2025).
30	Mumbai	K1	Private Bank	2017-18	383.98	422	-38.02	Reply was awaited (November 2025).
31	Mumbai	K1	Private Bank	2018-19	395.63	407	-11.37	Reply was awaited (November 2025).
32	Mumbai	K1	Private Bank	2019-20	218.31	220	-1.69	Reply was awaited (November 2025).
33	Mumbai	H4	Private Bank	2018-19	3,265.83	3,266	-0.17	Reply was awaited (November 2025).
34	Mumbai	R6	Private Bank	2016-17	0	73	-73	Reply was awaited (November 2025).
35	Mumbai	R6	Private Bank	2017-18	52.69	69	-16.31	Reply was awaited (November 2025).
36	Mumbai	T19	NBFC	2019-20	514.08	528.04	-13.96	Reply was awaited (November 2025).
37	Mumbai	S5	NBFC	2019-20	48.87	63.55	-14.68	Reply was awaited (November 2025).
38	Mumbai	M1	NBFC	2017-18	845	1,789.37	-944.37	Not accepted (October 2022)
39	Mumbai	M1	NBFC	2018-19	1,057.63	1,961.82	-904.19	
40	Mumbai	M1	NBFC	2019-20	1,133.66	2,340.07	-1,206.41	
41	Delhi	O2	Public Bank	2016-17	0	1,668	-1,668	Reply was awaited (November 2025).
42	Delhi	O2	Public Bank	2017-18	0	2,308	-2,308	Reply was awaited (November 2025).
43	Delhi	P4	Public Bank	2016-17	0	335	-335	Reply was awaited (November 2025).
44	Delhi	P4	Public Bank	2017-18	0	491	-491	Reply was awaited (November 2025).
45	Delhi	P4	Public Bank	2018-19	0	460	-460	Reply was awaited (November 2025).
46	Delhi	P4	Public Bank	2019-20	0	1,635	-1,635	Reply was awaited (November 2025).
47	Delhi	P1	Public Bank	2016-17	0	6,485	-6,485	Reply was awaited (November 2025).
48	Delhi	P1	Public Bank	2017-18	0	9,205	-9,205	Reply was awaited (November 2025).

NPA written off reported to RBI was more than the amount of bad debts allowed to the assessee in the assessment (₹ in crore)								
S. No.	Region	Name of the Bank/ NBFC	Sector	AY	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference	Reply of the Department
49	Delhi	P1	Public Bank	2018-19	0	7,407	-7,407	Reply was awaited (November 2025).
50	Delhi	P1	Public Bank	2019-20	0	12,253	-12,253	Reply was awaited (November 2025).
51	Delhi	U3	Public Bank	2017-18	37.72	714	-676.28	Reply was awaited (November 2025).
52	Delhi	C5	Foreign Bank	2016-17	0	4	-4	Reply was awaited (November 2025).
53	Ahmedabad	A6	Private Bank	2016-17	3,163.94	3,234	-70.06	Reply was awaited (November 2025).
54	Ahmedabad	A6	Private Bank	2017-18	1,350.14	1,987	-636.86	Reply was awaited (November 2025).
55	Ahmedabad	A6	Private Bank	2018-19	11,095.01	11,274	-178.99	Reply was awaited (November 2025).
56	Chandigarh	T8	Private Bank	2016-17	3.44	12	-8.56	Reply was awaited (November 2025).
57	Chandigarh	T8	Private Bank	2017-18	31.61	76	-44.39	Reply was awaited (November 2025).
58	Chennai	A13	Public Bank	2016-17	1,842.70	2,126	-283.30	Reply was awaited (November 2025).
59	Chennai	A13	Public Bank	2017-18	2,123.73	2,442	-318.27	Reply was awaited (November 2025).
60	Chennai	I28	Private Bank	2017-18	111.95	1,371	-1,259.05	Reply was awaited (November 2025).
61	Chennai	I28	Private Bank	2018-19	998	998	0.00	Reply was awaited (November 2025).
62	Chennai	I9	Public Bank	2016-17	0	926	-926.00	Reply was awaited (November 2025).
63	Chennai	I9	Public Bank	2017-18	0	437	-437.00	Reply was awaited (November 2025).
64	Chennai	I9	Public Bank	2018-19	0	1,606	-1,606.00	Reply was awaited (November 2025).
65	Chennai	I9	Public Bank	2019-20	0	2,872	-2,872.00	Reply was awaited (November 2025).
66	Chennai	I5	Public Bank	2016-17	0	2,067	-2,067.00	Reply was awaited (November 2025).
67	Chennai	I5	Public Bank	2017-18	0	3,066	-3,066.00	Reply was awaited (November 2025).
68	Chennai	I5	Public Bank	2018-19	39.04	6,908	-6,868.96	Reply was awaited (November 2025).
69	Chennai	I5	Public Bank	2019-20	0	7,794	-7,794	Reply was awaited (November 2025).
70	Chennai	T5	Private Bank	2016-17	89.88	160	-70.12	Reply was awaited (November 2025).
71	Chennai	T5	Private Bank	2017-18	25.35	92	-66.65	Reply was awaited (November 2025).
72	Chennai	T3	Private Bank	2016-17	223.95	943	-719.05	Reply was awaited (November 2025).

NPA written off reported to RBI was more than the amount of bad debts allowed to the assessee in the assessment (₹ in crore)								
S. No.	Region	Name of the Bank/ NBFC	Sector	AY	Bad debts allowed in the assessment	NPA written off as shown in RBI data	Difference	Reply of the Department
73	Chennai	T3	Private Bank	2017-18	0	264	-264.00	Reply was awaited (November 2025).
74	Chennai	T6	Private Bank	2016-17	96.55	99	-2.45	Reply was awaited (November 2025).
75	Chennai	T6	Private Bank	2017-18	241.72	244	-2.28	Reply was awaited (November 2025).
76	Chennai	T6	Private Bank	2018-19	592.95	594	-1.05	Reply was awaited (November 2025).
77	Lucknow	T7	Private Bank	2017-18	0	1	-1.00	Reply was awaited (November 2025).
78	Lucknow	T7	Private Bank	2018-19	0	13	-13.00	Reply was awaited (November 2025).
79	Lucknow	T7	Private Bank	2019-20	0	1	-1.00	Reply was awaited (November 2025).
80	Kerala	T11	Private Bank	2016-17	0	452	-452.00	Reply was awaited (November 2025).
81	Kerala	T11	Private Bank	2017-18	0	236	-236.00	Reply was awaited (November 2025).
82	Kerala	T11	Private Bank	2018-19	0	212	-212.00	Reply was awaited (November 2025).
Total					1,66,504.52	3,03,787.85	-1,37,283.33	

Annexure 6.6

{Refer Para 6.3.3}

Non-sustainability of addition made in scrutiny assessments								(₹ in crore)
S. No.	Region	Name of the Bank/ NBFC/ Sector/ AY	Returned income	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustainability	Reply of the Department
1	Kerala	M8 NBFC AY 2011-12	792.85	27.09	23.92	3.17	11.7	Not Accepted by Ministry (April 2025). Rebuttal in Annexure 6.17.
2	Kerala	M8 NBFC AY 2012-13	1,363.21	67.50	58.49	9.01	13.35	
3	Kerala	M8 NBFC AY 2013-14	1,594.32	28.84	11.98	16.86	58.46	
4	Kerala	M8 NBFC AY 2014-15	1,214.22	143.87	143.87	0	0	
5	Kerala	M8 NBFC AY 2015-16	1,087.46	26.1	26.1	0	0	
6	Kerala	M8 NBFC AY 2016-17	1,799.41	78.62	45.09	33.53	42.65	
7	Chennai	S4 NBFC 2015-16	569.77	181.87	175.48	6.39	35.1	Reply was awaited (November 2025).
8	Chennai	S4 NBFC 2016-17	625.76	117.8	110.01	7.79	6.61	Reply was awaited (November 2025).
9	Chennai	S4 NBFC 2017-18	610.31	132.98	127.48	5.5	4.14	Reply was awaited (November 2025).
10	Chennai	L2 NBFC 2017-18	0.52	112.16	112.16	0	0	Reply was awaited (November 2025).
11	Chennai	L2 NBFC 2017-18	1.53	21.68	21.68	0	0	Reply was awaited (November 2025).
12	Chennai	H12 NBFC 2016-17	208.54	44	44	0	0	Reply was awaited (November 2025).
13	Chennai	H12 NBFC 2012-13	128.77	0.32	0.32	0	0	Reply was awaited (November 2025).

Non-sustainability of addition made in scrutiny assessments								(₹ in crore)
S. No.	Region	Name of the Bank/ NBFC/ Sector/ AY	Returned income	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustain-ability	Reply of the Department
14	Chennai	K4 NBFC 2013-14	58.21	6.8	6.8	0	0	Reply was awaited (November 2025).
15	Chennai	T3 Private Bank 2015-16	89.36	218.74	194.37	24.37	11.14	Reply was awaited (November 2025).
16	Chennai	A13 Public Bank 2014-15	(-)366.08	1239.13	359.53	879.6	70.99	Reply was awaited (November 2025).
17	Chennai	A13 Public Bank 2015-16	2,274.62	962.82	631.04	331.78	34.46	Reply was awaited (November 2025).
18	Delhi	P1 Public Bank 2014-15	5,469.46	2,553.29	2,553.29	0	0	Reply was awaited (November 2025).
19	Delhi	O2 Public Bank 2013-14	769.94	1,226.49	1,219.73	6.76	0.55	Reply was awaited (November 2025).
20	Delhi	O2 Public Bank 2014-15	665.32	1,331.11	1,324.53	6.58	0.5	Reply was awaited (November 2025).
21	Delhi	U3 Public Bank 2014-15	(-) 1,719.74	988.85	21.02	967.83	97.87	Reply was awaited (November 2025).
22	Delhi	U3 Public Bank 2012-13	326.5	39.84	21.83	18.01	45.2	Reply was awaited (November 2025).
23	Delhi	U3 Public Bank 2010-11	132.38	22.57	18.49	4.08	18.08	Reply was awaited (November 2025).
24	Delhi	U3 Public Bank 2011-12	123.96	64.67	17.59	47.08	72.8	Reply was awaited (November 2025).
25	Ahmedabad	A6 Private Bank 2011-12	5,831	283.89	2.72	281.17	99.04	Reply was awaited (November 2025).

Non-sustainability of addition made in scrutiny assessments								(₹ in crore)
S. No.	Region	Name of the Bank/ NBFC/ Sector/ AY	Returned income	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustainability	Reply of the Department
26	Ahmedabad	A6 Private Bank 2012-13	6,784.49	316.82	88.12	228.70	72.19	Reply was awaited (November 2025).
27	Ahmedabad	A6 Private Bank 2015-16	11,253.00	481	221	260	54	Reply was awaited (November 2025).
28	Ahmedabad	M4 NBFC 2010-11	20.09	0.70	0.70	0	0	Reply was awaited (November 2025).
29	Ahmedabad	M4 NBFC 2011-12	26.68	0.75	0.75	0	0	Reply was awaited (November 2025).
30	Ahmedabad	M4 NBFC 2015-16	60.30	0.91	0.86	0.05	5.39	Reply was awaited (November 2025).
31	Ahmedabad	M4 NBFC 2016-17	83.90	0.87	0.81	0.06	6.32	Reply was awaited (November 2025).
32	Mumbai	I4 Private Bank 2012-13	6,187.13	1,477.99	1,432.63	45.36	3.06	Reply was awaited (November 2025).
33	Mumbai	I4 Private Bank 2014-15	11,404.92	3,789.56	3,071.58	717.98	18.94	Reply was awaited (November 2025).
34	Mumbai	I7 Private Bank 2014-15	2,105.16	189.98	173.32	16.66	8.77	Reply was awaited (November 2025).
35	Mumbai	S8 Public Bank 2016-17	12,338.34	33,991.65	3,555.18	30,436.47	89.54	Reply was awaited (November 2025).
36	Bengaluru	J5 NBFC 2014-15	80.13	6.56	0.08	6.48	98.73	Reply was awaited (November 2025).
37	Bengaluru	J5 NBFC 2015-16	109.58	29.23	0.08	29.15	99.73	Reply was awaited (November 2025).

Non-sustainability of addition made in scrutiny assessments								(₹ in crore)
S. No.	Region	Name of the Bank/ NBFC/ Sector/ AY	Returned income	Addition Made	Relief allowed/ Deletion made	Addition sustained	Percentage of sustain-ability	Reply of the Department
38	Bengaluru	T20 NBFC 2015-16	0	0.26	0.26	0	0	Reply was awaited (November 2025).
39	Bengaluru	T20 NBFC 2016-17	36.07	0.60	0.60	0	0	Reply was awaited (November 2025).
40	Bengaluru	T15 Private Bank 2015-16	910.44	339.20	118.84	220.36	64.96	Reply was awaited (November 2025).
41	Bengaluru	S15 Public Bank 2015-16	504.75	2,838.11	467.87	2,370.24	83.51	Reply was awaited (November 2025).
Total				53,385.22	16,404.20	36,981.02		

Annexure 6.7

{Refer Para 6.4.2}

Proposed outline of SOP for assessment of Banks

The SOP for assessment of Banks may cover the following broad issues.

- a) A gist of the main provisions of the IT Act dealing with issues relating to the assessment of banks, especially deductions and exemptions allowable to banks
- b) A gist of the latest judicial decisions that are relevant to the assessment of banks.
- c) A list of CBDT circulars having a bearing in the assessment of banks
- d) A list of RBI Master Circulars and directions dealing with prudential norms for the classification of NPA and other assets and provisioning norms
- e) A list of reports that banks are supposed to file with RBI and other regulatory authorities having a relation with an accounting of income and expenditure in the books as well as a claim for deductions in the computation of taxable income.
- f) A gist of various issues where additions are usually made in the assessment of banks and the stand to be taken by the assessing officer, keeping in view the latest judicial decision on the issue. The guideline should invariably cover the following issues, among other things:
 - i) Treatment of broken period interest for the purpose of assessment
 - ii) Treatment of amortisation of premium paid on investments held under HTM category.
 - iii) Taxability of accrued interest under Section 43D vis-à-vis Rule 6EA
 - iv) How to compute expenses disallowable under Section 14A read with Rule 8D.
 - v) Taxability of interest accrued but not due
 - vi) Treatment of loss on sale of NPA
 - vii) Treatment of Interest expenses incurred on account of Innovative Perpetual Debt Instruments (IPDI) Bonds
 - viii) Any other issue which the Department feels needs special attention in the case of banks.
- g) Manner of computation of deduction allowable to banks under the provisions of Section 36(1)(vii), 36(1)(viiia) and 36(1)(viii) with some illustrations.
- h) The format of information to be maintained by each AO relating to the deduction allowed under Section 36(1)(viiia) to banks for different years for use by the Assessing Officers while determining allowable bad debts in the subsequent AY.

- i) A list of rural branches for the purpose of computing deduction allowable under Section 36(1)(via) read with Rule 6ABA with respect to aggregate rural advances.
- j) A list of additional information/documents to be called for from the assessee, generally needed and not available in the books, ITR-6, Form 3CA/3CB/3CD, or any other form.
- k) Method to be adopted for disallowing expenses relating to the exempt income.
- l) Method to be adopted for computing deduction allowable under Section 90/91 towards Foreign Tax Credit as prescribed under Rule 128.
- m) The format of communication to be made by the AO of the lender entity to the AO of the borrowing entity regarding bad debts written off and allowed to the lending entity with details of PAN/Aadhar No. or address of the borrower as specified at S.No-47 of the ITR-6 under bad debts debited in the P&L account. The format should clearly specify the principal and interest components included in the bad debts.
- n) Bad debts are one of the major deductions claimed by banks and have a direct impact on the computation of taxable income. One of the primary reasons for the increase in bad debts constitutes the diversion of funds by the borrowing entities to its group concerns. RBI guidelines clearly state that the amount borrowed for a specific purpose must be utilised for the said purpose only. It is, therefore, imperative that AO must check utilisation of funds borrowed by various entities. If he finds any case where funds are diverted for non-business purposes or to any group entity in violation of borrowing conditions, the same may be brought to the notice of the lending entity and also RBI or NHB, as the case may be, for necessary action. This will help the bank or lending entity to foresee the possibility of default in repayment of the loan and take corrective action before it is too late, which will result in bad debt.

Annexure 6.8

{Refer para 6.1.1 and Table 6.1}

Cases on issues relating to deduction for provision for bad and doubtful debts under Section 36(1)(viiia)

- (a) Charge: PCIT-4 Chennai**
Assessee: M/s I5
AY: 2014-15 to 2018-19

The assessee bank claimed a deduction under Section 36(1)(viiia) of ₹ 1,539.56 crore in the AY 2019-20. In the scrutiny assessment (September 2021), it was held by the Department that a check of the population details of random rural branches submitted was found to be more than 10,000 according to the Census 2011. It was concluded that the details submitted by the bank were not credible, and the entire claim for rural advances amounting to ₹ 1,539.56 crore was disallowed. Although deductions pertaining to the same rural branches were allowed as claimed during assessment in the earlier AYs 2014-15 to 2018-19, such deduction were disallowed in AY 2019-20 as the branches did not qualify the criteria of rural branch as per the Census data, implying these claims were allowed in earlier AYs without verifying population census data, as was done for the AY 2019-20. This resulted in incorrect allowance of deductions aggregating to ₹ 4,484.37 crore for the AYs 2014-15 to 2018-19, involving a tax effect of ₹ 1,476.38 crore.

This was brought to the notice of the DCIT CC 1(1), Chennai in May 2022. The DCIT stated (January 2023) that remedial action under Section 147 for the Assessment Years 2014-15 and 2015-16 is barred by limitation on 31-03-2022, and hence, further action could not be taken. The reply from the DCIT is awaited for AY 2016-17 to AY 2018-19 (November 2025) despite the issue of a reminder (December 2024).

Reply from the Ministry is awaited (November 2025).

- (b) Charge: PCIT-1, Chennai Charge**
Assessee: M/s E4
AY: 2017-18 and 2018-19

Returns filed by the assessee for AYs 2017-18 and 2018-19 were assessed after scrutiny in December 2019 and April 2021, determining incomes at ₹ 101.92 and ₹ 186.69 crore, respectively. Test Check of the population details of the rural branches revealed that the population as per the 2011 Census data exceeded 10,000, so these branches did not qualify as "rural branches" and they were not eligible for deduction under Section 36(1)(viiia) for the AYs 2017-18 and 2018-19. This resulted in an excess allowance of deduction of ₹ 35.17 crore under Section 36(1)(viiia) for AYs 2017-18 and 2018-19, involving an aggregate tax effect of ₹ 12.17 crore.

This was brought to the notice of the DCIT non-corporate Circle 8 in May 2022. The reply from the DCIT is awaited (November 2025) despite the issue of a reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.9

{Refer para 6.1.2.3 and Table 6.4}

Cases on lack of co-ordination with other jurisdictional officers

Charge: PCIT 1 & 2 Kolkata

Assessee: M/s M7

AY: 2015-16 to 2017-18

Scrutiny of the assessment records of two NBFCs viz., M7 (AYs 2015-16 and 2016-17) and M16 (AY 2017-18) under PCIT-1, Kolkata, revealed that the assessee claimed exemption on income received from their sponsored securitisation trusts under Section 10(35A) of the Act. The assessee furnished certificates of income from the respective trusts, where details of payment after deduction of the requisite tax under Section 115TA were mentioned. Scrutiny of these certificates revealed that the said trust deducted/ deposited to the government account a lower tax of ₹ 17.25 crore, which resulted in excess income in the hands of the NBFCs, which were subsequently claimed exemption under Section 10(35A) by them. This resulted in a short deduction of tax for ₹ 17.25 crore by the securitisation trust and an excess allowance of exemption to the same extent to the NBFC.

The short deduction of tax could have been recovered had it been communicated in time to the jurisdictional assessment charges of securitisation trusts. However, as per the assessment records, the AOs of these NBFCs did not pass on this information to the respective jurisdictional AOs, which caused revenue to remain unrecovered.

The issue was pointed out to the DCIT Circle 7(1) Kolkata (April 2022). Reply from the DCIT is awaited (November 2025) despite the issue of a reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.10

{Refer para 6.1.2.5 and Table 6.6}

Cases on Other issues under Quality of Assessments**(a) Charge: PCIT-Kozhikode****Assessee: M/s T14****AY: 2017-18****Subject: Non-disclosure of deposits made during the demonetisation period**

The assessee filed an original return for AY 2017-18 in October 2017, while a revised return was filed in March 2018 declaring a total income of ₹ 182.41 crore. The case was selected for scrutiny by CASS, and the assessment was completed under Section 143(3) in December 2019, determining income at ₹ 407.42 crore.

The Income Tax Officer, Ward 2(3), Mangaluru, had informed the DCIT Circle 1(1) & TPS Thrissur in June 2019 that the assessee had deposited ₹ 0.67 crore in the K11, Uppala Branch, Kasaragod during the demonetisation period, which the ITO came to know during the investigation proceedings of an assessee under his jurisdiction. The DCIT sought details of cash deposits made during demonetization period from 9.11.2016 to 30.12.2026 with details of SBNs deposited, source of cash deposited and evidence for the same vide notice under Section 142(1) of the Income Tax Act in November 2019. In reply to the said notice, the assessee intimated (November 2019) that the details would be furnished. However, the assessee did not furnish any details of deposits till the date of assessment. In the scrutiny assessment order, the AO did not mention details of examination made in respect of cash deposits made during demonetization as had been brought to his notice. Thus, Audit could not ascertain the efforts made by the DCIT to obtain further information relating to the above deposits made during the demonetisation period as no addition was made to the taxable income on this account.

This was indicative of the fact that the issue identified during the assessment process was not examined and documented in the assessment order. Further, follow up on information shared by other jurisdictional offices was also not been monitored and documented.

The observation was pointed out to the DCIT Circle 1(1) & TPS Thrissur in May 2022. In response, Ministry (November 2025) did not accept the audit observation stating that the information here is whether the cash deposited by the assessee came out of the cashbook and whether there was sufficient cash balance in the cashbook to make this deposit. Further, the assessee is 100% Government owned company and the business of assessee is conducting chities. A cash deposit in bank account can be made out of cashbook, only unless otherwise proved. The accounts of assessee are also subjected to audit by Internal Auditors, Statutory Auditors and AG. There is no mention anywhere that there is a negative cash balance on any day. Only negative cash balances in the cash book can lead to assessing this deposit as income of the assessee. The very fact that the bank account is reflected in balnce sheet is sufficient proof that source for deposit is explained. *Reply of the Ministry is not tenable as the documentary evidence has not been furnished to Audit in support of facts brought out in the response. In view of the same Ministry may reconsider it's reply.*

(b) Charge: PCIT-3, Ahmedabad**Assessee: M/s S14****AY: 2010-11 & 2011-12**

Assessments of the assessee for AYs 2010-11 and 2011-12 were finalised under Section 143(3), read with Section 147, in December 2017, without making any additions. Audit observed that information was received from DDIT(Investigation), Unit-2(2), Ahmedabad, in March 2017 that the assessee had

received ₹ 3.81 crore during AY 2010-11 and 2011-12 from six parties that were neither existent nor traceable.

The AO asked the assessee to prove the genuineness and existence of the parties in March 2017, and the assessee, in its submission, stated (April 2017) that it was an NBFC and was permitted by the RBI to carry on financial business. However, the assessee did not prove the existence of parties. The AO made an enquiry about these six parties to H8 in October 2017. The H8 replied (November 2017) that the account of these parties opened in 2009 and was closed in 2011, and the Bank submitted no further details. Hence, the existence of these parties remained unproven. As the source of the cash deposit remained unexplained and therefore, the amount deposited was required to be taxed under Section 68 of the Income Tax Act. Omission resulted in The escapement of income of ₹ 3.81 crore involving tax effect of ₹ 1.29 crore.

This observation was pointed out to the ITO Ward 4(1)(1), Ahmedabad (February 2022). Reply from the ITO is awaited (November 2025) despite the issue of a reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

(c) Charge: PCIT 2, Bengaluru
Assessee: M/s K3
AY: 2016-17

Every year, cases are selected under CASS based on broad-based selection filters. The Director General of Income Tax (Systems) intimates a list of such cases to the jurisdictional authorities concerned for further scrutiny assessment proceedings. It is seen from the audited cases that the ITD predominantly selects cases for scrutiny under CASS.

Audit observed that the CASS selection criteria for the AYs 2014-15 to 2019-20, and observed that most cases were selected for scrutiny on the criteria of 'large deductions claimed' or 'large exemptions claimed'. Audit observed that M/s K3 was selected regularly for scrutiny assessment under the CASS criteria of 'large deductions claimed' or 'large exemptions claimed'. However, this case was not selected for scrutiny assessment under CASS in the AY 2016-17 because it did not fulfil the above criteria despite significant additions under the same criteria in every preceding and succeeding Assessment years".

A review of the summary assessment order issued under Section 143(1) for AY 2016-17, however, revealed that the assessee had incurred expenditure of ₹ 33.31 crore towards earning exempt income as per Section 14A of the Income Tax Act read with rule 8D of Income Tax Rules, 1962 and Guarantee Commission paid to the Government amounting to ₹ 16.04 crore, that was liable for disallowance under Section 40 (a)(iib) , if the case had been selected for scrutiny. This resulted in under assessment of income for ₹ 49.35 crore, involving short levy of tax of ₹ 19.77 crore. Further, the case was also not selected for scrutiny assessment manually despite enabling CBDT's Instruction in No. 5/2017 dated 7th July 2017 . Non-selection of the case for scrutiny by CASS and manual selection resulted in a probable revenue loss of ₹ 19.77 crore.

The Audit observation was pointed out to the DCIT Circle 4(3)(1) Bengaluru (August 2022). Reply from the DCIT is awaited (November 2025) despite the issue of a reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

(d) Charge: PCIT-3, Mumbai
Assessee: M/s S5
Assessment Year: 2017-18

Assessment of the assessee for AY 2017-18 was finalised after complete scrutiny under Section 143(3) in December 2019. Audit noticed that the assessee, in which the Government of Maharashtra held 49.07 *per cent* of shares, had given a loan of ₹ 106.05 crore to its 100 *per cent* subsidiary company M/s S43, which is also an NBFC. The loan was categorised as NPA by S5 due to non-repayment of the loan and interest. The reason for non-recovery, as per records, was that S43 used these funds to give loans and advances of ₹ 219.26 crore to 23 private entities, which also turned NPA in the books of M/s S43.

The financial statements of M/s S43 for the FYs 2017-18, 2018-19 and 2019-20 revealed that the loans and advances of ₹ 219.26 crore sent to 23 private borrowers had become doubtful during FY 2017-18 and remained so during FYs 2018-19 and 2019-20 also. The assessment records of these 23 private entities for three AYs from 2017-18 to 2019-20 were examined to ascertain whether these borrowers were in a position to repay the loans to M/s S43. Audit examination revealed the following:

- (i) In the cases of two borrowers, M/s T21 and M/s D12, no data was found in the ITBA search query to support their existence.
- (ii) In cases of seven borrowers, viz. M/s U7, M/s M18, M/s M20, W3, M/s S35, M/s D9 and M/s S45, no income tax returns for all three AYs had been filed. Moreover, M/s U7 was shown under liquidation on the Ministry of Corporate Affairs' website.
- (iii) In the case of one borrower, M/s T25, it was seen that the assessee in its accounts for the year 2016-17 (AY 2017-18) had not even confirmed the loans from M/s S43 and did not provide for interest expenses at all. The statutory auditor stated that the assessee's net worth had been eroded substantially, and there was significant doubt about the assessee's ability to continue as a going concern.
- (iv) In the case of one borrower, M/s S37, it was seen that the assessee had been undergoing the Corporate Insolvency Resolution Process as per order dated 13/02/2019 of the NCLT, Mumbai Bench, and
- (v) In cases of six borrowers viz., M/s E8, M/s T23, M/s A20, M/s A21, M/s D11 and M/s S38, no scrutiny assessment in all the three AYs had been carried out. Hence, the status of loans and advances given to them by M/s S43 could not be ascertained.

In light of the above, it can be inferred that the loans and advances of ₹ 219.26 crore given by M/s S43 to the 23 borrowers, which were kept under the doubtful assets category for three continuous years, are not recoverable.

Provision created for NPA appears to be a colourable device to enable S5 to claim deduction under Section 36(1)(viia), though there was no probability of any recovery for loans advanced through the group company.

The audit observation was pointed out to the DCIT 3(3)(1) Mumbai (May 2022). Reply from the DCIT is awaited (November 2025) despite the issue of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.11

{Refer para 6.1.3 and Table 6.7}

Case related to irregularity in the computation of income under faceless assessment scheme

- (a) **Charge: PCIT-2, Mumbai**
Assessee: M/s Y1
AY: 2019-20

Scrutiny assessment for AY 2019-20 was finalised under Section 144 read with Section 144B after complete scrutiny under the faceless assessment scheme in September 2021, accepting the returned income at ₹ 6,223.86 crores under normal provisions. As per the assessment records, the case was selected for scrutiny by issue of notice under Section 143(2) on 31.3.2021 followed by the notice under Section 142(1) issued on 13.9.2021 and the assessee failed to respond despite issue of reminder on 17.09.2021. As per the order, the assessee filed only a vague reply for each of the points for which the case was selected for scrutiny in response to notice issued in March 2021. Although the assessee failed to respond to notice issued in September 2021, AO proceeded to finalise the assessment under Section 144, accepting the returned income without verifying past assessment records and without disallowing inadmissible expenses, as determined in the past assessments, as discussed below.

Additions/disallowances of ₹ 837.66 crore and ₹ 1,545.72 crore were made during AY 2017-18 and 2018-19 respectively under Section 14A, Section 35D, brokerage paid on investment, broken period interest on HTM securities, amortization of premium on HTM, commission on bank guarantee, interest on NPA, provision of rural advances, amount paid on a perpetual bonds, ESOP and most of these issues were pending in appeals at different levels. The inconsistent stand of the Department in a particular AY (AY 2019-20) without giving any justification would jeopardise the Department's stand in the appellate proceedings in respect of the earlier years. Audit further noticed that deductions of ₹ 20.42 crore, ₹ 527.37 crore and ₹ 12.59 crore were claimed and allowed under Section 80G, Section 80LA, and Section 80JJAA respectively although supporting documents were not available on record. The allowability of these deductions needs examination.

This was pointed out to the DCIT Circle 2(2)(1), Mumbai in March 2022. Ministry accepted (September 2025) the audit observation and stated that remedial action has been initiated by issuing notice 148A(1). Further details are awaited (November 2025).

Annexure 6.12

{Refer para 6.2.1}

Case related to recovery against bad debts written off as per Form 3CD not matching with the RBI data

- (a) **PCIT Charge: PCIT Madurai-1**
Assessee: T6
AYs: 2016-17, 2017-18, 2018-19 and 2019-20

The bank reported recoveries from earlier year NPAs of ₹ 37 crore, ₹ 27 crore, ₹ 80 crore and ₹ 41 crore pertaining to AYs 2016-17, 2017-18, 2018-19 and 2019-20, respectively, from earlier years' non-performing assets to the Reserve Bank of India. However, the same was not reported in the Tax Audit Report furnished under Section 44AB by the assessee-bank, as required under Section 41(4), though the assessee-bank offered the recovery in the relevant AYs under the head "Other Income", as per details tabulated below.

Difference in amount of recovery reported to RBI and in Form 3CD			(₹ in crore)
AY	Recovery as reported to RBI	Recovery reported in Form 3CD	Recovery reported in Statement of Income
2016-17	37	Nil	36.68
2017-18	27	Nil	26.51
2018-19	80	Nil	80.17
2019-20	41	Nil	41.32

This was pointed out to the DCIT Circle 1, Tirunelveli, in August 2022. Reply from the DCIT is awaited (November 2025) despite the issue of a reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.13

{Refer para 6.2.2}

Case on recovery against bad debts written off as per Form 3CD not matching with the NHB Data

- (a) Charge: PCIT (Central-3), Mumbai**
Assessee: M/s I20
AY: 2015-16

Assessment of the assessee for AY 2015-16 was completed under Section 143(3) read with Section 153A in May 2018 determining income of ₹ 1,240.71 crore under normal provisions and ₹ 2,460.54 crore under special provisions of the Act. Tax was determined under special provisions as per Section 115JB of the Act. Recovery against bad debts written off for AY 2015-16 was disclosed as ₹ Nil in the Tax Audit Report compared to the amount of ₹ 96.02 crore reported in NHB data. The Tax Audit Report did not report actual recovery against bad debts written off. The difference in amount of ₹ 96.02 crore reported in NHB data as against Nil in TAR should have been examined for income escaping assessment.

This was pointed out to the PCIT (Central-3), Mumbai in May 2022. Reply from the PCIT is awaited (November 2025) despite issue of reminder (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.14

{Refer para 6.2.3}

Case related to bad debts written off allowed during assessment not matching with RBI data.

- (a) **Charge: PCIT-2, Kolkata**
Assessee: U2
AY: 2016-17, 2017-18 & 2018-19

When comparing the bad debts data provided by RBI with assessment data on bad debts allowed to the assessee during the assessment, Audit observed significant discrepancies, as given in the Table below.

Difference in data on bad debts written off reported to RBI vis-à-vis assessment data			
(₹ in crore)			
AY	Amounts of bad debts claimed in ITR/Allowed in the assessment order	Amount of bad debt as per RBI	Difference
2016-17	6,299.34	1,573	4,726.34
2017-18	4,414.68	1,937	2,477.68
2018-19	7,343.38	2,735	4,608.38
Total	18,057.40	6,245	11,812.40

As evident from the above details, the assessee bank claimed more bad debts than the actual amount of bad debts reported to RBI. This resulted in under assessment of ₹ 11,812.40 crore due to excess allowance of bad debts.

This audit observation was communicated to the DCIT Circle 5(1) Kolkata in April 2022. Ministry has accepted (November 2025) the audit observation and stated that the remedial action has been initiated by issuing notice under Section 263 in September 2025 for AY 2016-17. For AY 2017-18 remedial action has been initiated under Section 148A(d) in April 2024 whereas for AY 2018-19 remedial action has been taken under Section 143(3) read with Section 263 in March 2025. Further details are awaited (November 2025).

Reply of the Ministry is awaited (November 2025).

Annexure 6.15

{Refer para 6.2.3.1}

Case related to difference in bad debts written off allowed during assessment and as reported to RBI.

Charge: PCIT-2, Mumbai

Assessee: M/s S8

AYs: 2016-17 to 2019-20

In the instant case, the assessee claimed a deduction of ₹ 1,86,196.17 crore towards bad debts written off during the year from AY 2016-17 to AY 2019-20. However, as per the information received from RBI, the NPA written-off reported by S8 to RBI was only ₹ 1,34,350 crore during the said four years as given in table below.

Comparison of bad debts claimed by S8 as per ITR and as reported to RBI					(₹ in crore)
Name of the assessee	AY	Total amount of bad debts claimed in the return	Total amount of bad debts allowed in the assessment order	Bad debts as per RBI	Difference in comparison to bad debts in return
S8	2016-17	27,221.98	0	15,955	11,266.98
	2017-18	32,905.63	19,764.74	20,339	12,566.63
	2018-19	71,374.23	24,725.74	39,151	32,223.23
	2019-20	54,694.33	54,694.33	58,905	-4,210.67
Total		1,86,196.17	99,184.81	1,34,350	51,846.17

Thus, the assessee claimed excess deduction on account of bad debts written off for ₹ 51,846.17 crore compared to the amount of NPA written off reported to RBI. During the assessment, data from RBI was not called for and hence not taken into cognizance. In the assessment completed after scrutiny, AO had allowed a deduction of ₹ 99,184.81 crore in these four years after disallowing the assessee's claim on different grounds.

This audit observation was communicated to PCIT-2 Mumbai (January 2022). The Department has accepted the observation (June 2022). Further details are awaited (November 2025) despite issue of reminders (April 2024, November 2024).

Reply of the Ministry is awaited (November 2025).

Annexure 6.16

{Refer para 6.3.1}

Cases on Lack of monitoring system and non-maintenance of records of deduction allowed under Section 36(1) (viia) for adjusting against future claims and bad debts

(a) Charge: PCIT Kolkata-2
Assessee: M/s U2
AY: 2017-18

In the instant case, the assessee filed a return of income in October 2017, declaring a loss of ₹ 3,033.40 crore, and it was assessed under Section 143(3) in December 2019 at a loss of ₹ 2,935.38 crore.

Audit observed that the assessee debited an amount of ₹ 4,414.68 crore in Profit and Loss Accounts as provisions for bad and doubtful debts (PBDD) but did not debit any amount for bad debts. In the computation of business income, the assessee added back the amount of Provision for bad and doubtful debts and claimed a deduction of ₹ 4,414.68 crore under Section 36(1)(vii) as bad debts written off, which was allowed by the AO during scrutiny. However, AO did not consider the opening balance of ₹ 8,002.08 crore available in the provision for bad and doubtful debts account while allowing ₹ 4,414.68 crore as a deduction under Section 36(1)(vii). This resulted in the excess grant of deduction of bad debts of ₹ 4,414.68 crore, resulting in a short levy of tax to the tune of ₹ 1,527.83 crore.

The audit observation was issued to the DCIT Circle 5(1) Kolkata in March 2022. ITD had initiated remedial action under Section 148 of the Act in April 2024. Further details are awaited (November 2025) despite issue of reminder (November 2024).

Reply of the Ministry is awaited (November 2025).

(b) Charge: PCIT Kozhikode
Assessee: M/s T13
AY: 2018-19

The return for AY 2018-19 filed by the assessee was assessed after scrutiny in September 2021, determining income at ₹ Nil. Audit noticed that the Department had allowed deduction for bad debts amounting to ₹ 7.84 crore under Section 36(1)(vii) of the Act. The assessee had an opening credit balance of ₹ 7.34 crore in the provision for bad and doubtful debts account created under Section 36(1)(viia). It was noticed that the bad debts claimed were not reduced by the opening credit balance available in the provision for bad and doubtful accounts. As the assessee was eligible for a deduction of ₹ 0.50 crore only towards bad debts after adjustment of the opening credit balance, incorrect allowance of bad debts of ₹ 7.34 crore resulted in a short levy of tax amounting to ₹ 2.27 crore.

The observation was pointed out to the DCIT(Circle 1(1)), Thrissur in May 2022. Reply of the Department is awaited (November 2025) despite issue of reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

(c) Charge: PCIT-1, Madurai

Assessee: M/s T3

AY: 2014-15, 2015-16, 2016-17, 2017-18, 2018-19 & 2019-20

The assessee had made a separate claim of deduction amounting to ₹ 2,524.73 crore and ₹ 1,118.66 crore towards bad debts under Section 36(1)(vii) and 36(1)(viiia) for AYs 2014-15 to 2019-20. The bad debts claims were regulated on the grounds of non-compliance with eligibility criteria and also with reference to adjustments to be made against the provision account under Section 36(1)(viiia). However, Audit noticed discrepancies in adopting the correct figures of opening balance of the provision account under Section 36(1)(viiia) due to various disallowances/additions and consequential appeal giving effect orders. The incorrect computation of eligible provisions under Section 36(1)(viiia) resulted in consequential excess allowance of bad debts under Section 36(1)(vii) to the extent of ₹ 696.74 crore involving tax effect of ₹ 240.83 crore for the AYs 2014-15 to 2016-17 and 2018-19 to 2019-20 and short allowance of bad debts of ₹ 222.42 crore involving tax effect of ₹ 76.97 crore for AY 2017-18.

This was brought to the notice of the DCIT Circle 2(1) Trichy in March 2022. The DCIT, in its reply, stated (June 2023) that the adjustment of bad debts are required to be made only when the claim is made under sub-clauses (b) to (d) of Section 36(1)(viiia), citing the Hon'ble Supreme Court ruling in the case of M/s Catholic Syrian Bank . It was further stated, in the case of the assessee being a bank, it falls under sub-clause(a) to Section 36(1)(viiia), and the claim is to be adjusted only for the write-off of rural debts against the provision account under Section 36(1)(viiia). DCIT Circle 2(1) Trichy's contention that the method of adjustment is applicable only in the cases of assesseees who are a Foreign Bank, a public financial institution, a State financial corporation or a State industrial investment corporation, and a non-banking financial company falling under sub-clauses (a) to (d) of Section 36(1)(viiia) is untenable. The first proviso under Section 36(1)(vii) does not prescribe any distinction between sub-clauses (a) to (d) of Section 36(1)(viiia). Moreover, Explanation 2 to Section 36(1)(vii) stipulates that there can be only one provision account under Section 36(1)(viiia) for regulating the claim under Section 36(1)(vii) of the Act.

Reply of the Ministry is awaited (November 2025).

Annexure 6.17

{Refer para 6.3.3}

Cases on Non-sustainability of additions made in scrutiny assessments

- (a) **Charge: PCIT Central Kochi**
Assessee: M/s M8
AY: 2011-12 to 2016-17

Consequent to the search conducted under Section 132 on 05-08-2016 in the premises of M/s M8 and its Directors, notice under Section 153A was issued to the assessee. In response to the said notice, the assessee filed the return of income for AYs 2011-12 to 2016-17, and the assessments were completed under Section 143(3), read with Section 153A, in December 2018. In the assessment orders, the additions made were mainly on account of unaccounted income from the sale of forfeiture of gold and claims made towards interest expense under Section 14A. Total additions made in these cases were ₹ 372.02 crore.

Audit examined the Orders giving effect to the CIT(Appeals) Order (January 2022) pertaining to sample cases to analyse the extent of sustainability of additions made during assessment in the case of M/s M8 for AYs 2011-12 to 2016-17. Audit observed that the first appellate authority [CIT(Appeals)] had deleted ₹ 309.45 crore out of the total additions of ₹ 372.02 crore. The percentage of sustainability in this case was only 16.82 per cent.

The observation was pointed out to the DCIT(CC-I) Kochi in June 2022.

Ministry has not accepted (April 2025) stating that the deletion of additions made in the assessments for the AYs 2011-12 to 2016-17 by the CIT(A) is part of the judicial process. The mere fact that the additions did not sustain at the appellate level cannot be attributed to an improper interpretation of statutory provisions by the A.O. or to a failure to consider existing judicial precedents at the time of assessment. Judicial interpretation of tax laws continues to evolve, and appellate authorities have the jurisdiction to reconsider the matter based on subsequent legal procedures, which may not have been available or adequately presented. It is only at the appellate stage that the assessee relied on various judicial pronouncements which led to the deletion of additions.

The A.O.'s assessment is based on a reasonable interpretation of the law prevailing at time and any modification at the appellate level does not automatically imply an error in the original assessment.

Therefore, the deletion of additions at the appellate level should not be construed as an improper action by the AO, rather, it is a part of the natural legal process where appellate authorities provide a fresh review of the matter, considering additional facts, arguments, and legal precedents that may not have been adequately presented during the assessment proceeding. Since any modification at the appellate level does not automatically imply an error in the original assessment by the assessing officer, the objection is not accepted.

The Ministry reply is not tenable as the assessments were made consequent upon the search conducted by the Department in the premises of the assessee company and its directors. The process of search and seizure and subsequent assessment involves several levels of officers apart from the A.Os. It is necessary to exercise due diligence during the entire process of search and seizure and subsequent assessments in order to minimize litigations as well as undue hardships caused to the taxpayers. The Ministry/CBDT may examine the reasons for low sustainability of additions made during the assessments to ensure uniformity in assessments in similar matters.

(b) Charge: PCIT 2 Mumbai
Assessee: I7
AY: 2014-15

Assessment of the assessee for AY 2014-15 was completed under Section 143(3) read with Section 144C in December 2017 at income of ₹ 2,317.05 crore. Audit examined the Order giving effect to the CIT(Appeals) Order dated 25.02.2019, passed in March 2019, pertaining to the instant case to analyse the extent of sustainability of additions made during assessment. Additions made were mainly on account of broken-period interest, interest expenses disallowed under Section 14A, amortization of HTM securities, and interest accrued but not due. Audit observed that the first appellate authority, CIT(Appeals), itself deleted all the above additions made in the assessments. Thus, the percentage of sustainability in this case was Nil *per cent*.

The observation was pointed out to the DCIT-2(3)(1), Mumbai in April 2022. Reply from the Department is awaited (November 2025) despite issue of reminder (December 2024).

Reply of the Ministry is awaited (November 2025).

GLOSSARY (ACRONYMS)

Abbreviation	Description
ACIT	Assistant Commissioner of Income Tax
ACT	The Income Tax Act, 1961
AUCA	Advance Under Collection Account
AE	Associated Enterprises
ALP	Arm's Length Price
AO	Assessing Officer
AY	Assessment Year
CBDT	Central Board of Direct Taxes
CCIT	Chief Commissioner of Income Tax
PCIT	Principal Commissioner of Income Tax
PCIT(IT)	Principal Commissioner of Income Tax (International Taxation)
CIT	Commissioner of Income Tax
CIT (A)	Commissioner of Income Tax (Appeal)
DCIT	Deputy Commissioner of Income Tax
DGIT (Systems)	Director General of Income Tax (Systems)
FY	Financial Year
ITAT	Income Tax Appellate Tribunal
ITD	Income Tax Department
ITR	Income Tax Return
MAT	Minimum Alternate Tax
NBFC	Non-Banking Financial Company
NPA	Non-Performing Asset
CRR	Cash Reserve Ratio
SLR	Statutory Liquid Ratio
ARCs	Asset Reconstruction Companies
IBC	Insolvency and Bankruptcy Code
ITBA	Income Tax Business Application
NCLT	National Company Law Tribunal
CIRP	Corporate Insolvency Resolution Process
NCLAT	National Company Law Appellate Tribunal
PE	Permanent Establishment
HO	Head Office
DTAA	Double Taxation Avoidance Agreement
TPA	Transfer Pricing Adjustment
TPO	Transfer Pricing Officer
ICDS	Income Computation and Disclosure Standards
NPI	Non-Performing Investment

Abbreviation	Description
FTC	Foreign Tax Credit
SOP	Standard Operating Procedure
GNPA	Gross Non-performing Asset
DGIT	Director General of Income Tax
CSR	Corporate Social Responsibility
TROs	Tax Recovery Officers
NHB	National Housing Bank
HTM	Held to Maturity
HFT	Held for Trading
PSB	Public Sector Bank
SARG	Stressed Assets Resolution Group
NMS	Non-filer Management System
IFSC	Indian Financial System Code
FCTR	Foreign Currency Translation Reserve
TAR	Tax Audit Report
OBST	Order Based Scheduling Technique
DIT	Double Income Tax

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