



TEL HC: Quashes Reassessment Based On Roving Inquiry; Disregarding Assessee's Evidence Vitiates Proceedings

Facts of the Case:

Naandi Foundation ('Petitioner' or 'Assessee'), an autonomous public charitable trust registered under the Indian Trusts Act, 1882 and u/s 12A of the Income-tax Act, 1961, filed its return of income for AY 2019-20 declaring nil total income after claiming exemption u/ss 11 and 12. The return was processed u/s 143(1). Subsequently, the Income-tax Department conducted proceedings u/s 131(1A), primarily concerning the utilisation of funds received from KC Mahindra Educational Trust during FY 2020-21. On the basis of the information gathered, the Investigation Wing alleged that the Assessee had failed to substantiate certain expenditure and utilisation of funds and treated substantial expenditure of Rs. 94.23 crore, Rs. 92.91 crore and Rs. 90.79 crore for FYs 2018-19, 2019-20 and 2020-21 respectively as potentially undisclosed income.

Thereafter, the Assessing Officer issued notices u/s 148A(1) for AY 2019-20, initially alleging escapement of income of Rs. 94.23 crore and subsequently enhancing the alleged escaped income to Rs. 125.43 crore. The Petitioner furnished audited financial statements, bank statements, bank ledgers, summaries of credits and debits and supporting vouchers, explaining that the funds were utilised for its charitable objects and that separate receipt and utilisation bank accounts were maintained for accountability and compliance with donor conditions. Despite the detailed explanation and supporting documents, the Assessing Officer passed an order u/s 148A(3), holding that the large number of transactions required further in-depth scrutiny and consequently issued notice u/s 148.

Contentions of the Petitioner:

The Petitioner contended that the reassessment proceedings were initiated without any tangible or credible information suggesting that income chargeable to tax had escaped assessment. It was submitted that the proceedings u/s 131(1A) were principally concerned with the utilisation of funds received from KC Mahindra Educational Trust during FY 2020-21, whereas the Investigation Wing arbitrarily extended its conclusions to the entire expenditure of the Petitioner for three different financial years, including FY 2018-19 relevant to AY 2019-20.

The Assessee further submitted that it had furnished comprehensive documentary evidence, including audited financial statements, bank statements, bank ledgers, summaries of fund movements, vouchers and payment records, demonstrating that the funds were utilised towards its charitable objects. It was argued that merely because the transactions were voluminous or required further verification could not constitute information suggesting escapement of income. The Assessee therefore contended that the order u/s 148A(3) was passed without proper consideration of its reply and amounted to a roving and fishing inquiry, contrary to the statutory scheme and principles of natural justice.

Contentions of Revenue:

The Revenue defended the initiation of reassessment proceedings by contending that the investigation conducted u/s 131(1A) had revealed substantial transactions and deficiencies in the Petitioner's explanation regarding the utilisation of funds and expenditure. It was submitted that the nature and volume of the transactions warranted further scrutiny and that the Petitioner had not satisfactorily established the genuineness and utilisation of the expenditure in question.



The Revenue also contended that the scope of inquiry u/s 131(1A) was sufficiently wide and that the material gathered during the investigation justified further examination through reassessment proceedings. Accordingly, the Revenue sought to sustain the order u/s 148A(3) and the consequential notice u/s 148.

Observations and ruling of High Court:

The Telangana High Court held that section 148A casts a twofold obligation upon the Assessing Officer before issuing notice u/s 148 that first, a show-cause notice must be issued to the Assessee; and second, such notice must be accompanied by the information suggesting that income chargeable to tax has escaped assessment. Relying upon the Supreme Court decisions in *Ashish Agarwal* and *Rajeev Bansal*, the Court observed that supply of the foundational information is a substantive safeguard enabling the Assessee to meaningfully respond to the proposed reassessment.

The Court further relied upon Chhugamal Rajpal and Lakhmani Mewal Das to hold that a mere desire to investigate or verify transactions cannot be equated with information suggesting escapement of income. There must be a rational nexus or live link between the material available with the Assessing Officer and the formation of the belief regarding escapement of income. The Court observed that the conclusion that transactions require further scrutiny is a basis for conducting an inquiry, and not by itself a determination that income has escaped assessment.

On the facts, the Court found that the section 131(1A) summons were primarily concerned with utilisation of funds received from KC Mahindra Educational Trust during FY 2020-21, whereas the Investigation Wing extended its conclusions to the Assessee's entire expenditure across three financial years, including FY 2018-19, without corresponding independent verification. Against this, the Assessee had furnished audited financial statements, bank statements, bank ledgers, summaries of transactions and supporting vouchers. The impugned order u/s 148A(3), however, did not deal with this material, did not record that the Assessee's explanation was false and did not identify any specific amount remaining unaccounted.

The High Court therefore held that the sole reasoning that the transactions were voluminous and required further in-depth scrutiny amounted to a decision to undertake a roving or fishing inquiry, rather than a determination based on material suggesting escapement of income. The Court also held that section 148A(3) requires actual consideration of the Assessee's reply and material on record, and not merely a formal acknowledgment of the reply. Accordingly, the order dated 27.06.2025 passed u/s 148A(3) and the consequential notice u/s 148 for AY 2019-20 were quashed and set aside. The writ petition was allowed in favour of the Assessee.

Citation:

Naandi Foundation TS-1456-HC-2026(TEL)

Our Comments:

The decision reiterates that reassessment proceedings u/ss 148A and 148 cannot be initiated merely because the Assessing Officer considers that certain transactions require further investigation or verification. There must be identifiable material having a rational nexus with the alleged escapement of income, and the Assessee must be supplied with the foundational information enabling an effective response. The ruling is particularly relevant where reassessment is sought to be initiated on the basis of an Investigation Wing report without independently examining the detailed documentary evidence furnished by the Assessee. It also emphasises that an order u/s 148A(3) must be a reasoned and speaking order demonstrating actual consideration of the Assessee's response, rather than merely recording that the transactions require further scrutiny.