IN THE HIGH COURT FOR THE STATE OF TELANGANA
AT HYDERABAD

THE HON'BLE SRI JUSTICE P.SAM KOSHY

AND

THE HON'BLE SRI JUSTICE NARSING RAO NANDIKONDA

WRIT PETITION Nos.30560, 30573 and 30574 of 2025
(CNR No.HBHC010590502025) (CNR No.HBHC010590482025) (CNR No. HBHC010590522025)

DATE:07.09.2026

WRIT PETITION No.30560 of 2025

Between:
M/s. Naandi Foundation.

…Petitioner

AND

The Assistant Commissioner of Income Tax (ACIT),
Exemption Circle – 1(1),
Aayakar Bhawan, Opp. L.B. Stadium,
Basheer Bagh, Hyderabad – 500004 and 4 others.

…Respondents

COMMON ORDER: *(per the Hon'ble Sri Justice P.Sam Koshy)*

Heard Mr. V. Sridharan, learned Senior Counsel appearing for Mr. Chanda Sumanth, learned counsel for the petitioner; Mr. Vijhay K. Punna, learned Senior Standing Counsel for Income Tax Department appearing for respondent Nos.1 and 2, and Mr. Srinarayan Toshniwal, learned counsel appearing on behalf of

Mr. N. Praveen Reddy, learned Senior Standing Counsel for Income Tax Department for respondent Nos.3 and 4.

2. Since the issue involved in the instant Writ Petitions and the parties also being the same and the arguments advanced on either side also being the same, we proceed to decide them by this Common Order.

3. For convenience, the facts in Writ Petition No.30560 of 2025 are discussed hereunder.

4. The Writ Petition under Article 226 of the Constitution of India has been filed by the petitioner assailing the order dated 27.06.2025, passed by respondent No.1 with the approval of respondent No.2 under Section 148A(3) of the Income Tax Act, 1961 (for short the 'Act') initiating reassessment proceedings on the petitioner for the assessment year 2019-20 and the report compiled by respondent No.3 based on proceedings conducted under Section 131(1A) of the Act which was approved by respondent No.4.

5. *Vide* the impugned order dated 27.06.2025, respondent No.1 initiated assessment proceedings against the petitioner under Section 148A(3) of the Act for the assessment year 2019-20.

6. The facts of the case are that the petitioner was an autonomous public charitable trust, registered in the year 1998 and registered under the Indian Trusts Act, 1882 with its primary object directed towards the economic development of the marginalised, underserved, and underprivileged communities, and its activities principally carried on in the fields of education, healthcare, improving livelihoods, and provision of safe drinking water. The petitioner, as a charitable institution, stood registered under Section 12A of the Act, vide order of the Commissioner of Income Tax, Hyderabad-II, bearing reference H.Qrs.II/12A-80G/112/98-99, dated 31.05.1999, which remained operative for the assessment year 2019-20.

7. For the period pertaining to the assessment year 2019-20, the petitioner filed its return of income on 26.10.2019 computing NIL total income after claiming exemption under Sections 11 and 12 of the Act, and claiming a refund of Rs.6,37,010/-, which came to be processed by the Centralized Processing Centre (for short ‘CPC’) resulting in an intimation dated 28.04.2020 under Section 143(1) of the Act, bearing DIN: CPC/1920/A7/1970843763, accepting the returned income of the petitioner for the said assessment year.

8. On 05.07.2024, respondent No.3 issued summons under Section 131(1A) of the Act bearing DIN and Notice No. ITBA/INV/S/131/2024-25/1066460264(1), requiring petitioner to furnish data pertaining to the financial years 2017-18, 2018-19, 2019-20 and 2020-21, relevant to the assessment years 2018-19, 2019-20, 2020-21 and 2021-22 respectively. By the said summons, respondent No.3 called for, *inter alia*, a detailed note on the activities carried out by the petitioner during the financial year 2020-21; audited financial statements for the financial years 2017-18 to 2020-21, details of credits received from KC Mahindra Educational Trust (for short "KC MET") during financial year 2020-21, a detailed note on the utilisation of such funds and their treatment in the financials, copies of all bank account statements for the financial year 2020-21 pertaining to the petitioner, and the latest communication address, e-mail ID and phone number of all members / trustees of the petitioner.

9. Based on the information so furnished, the petitioner came to understand that respondent No.3 *vide* the Impugned Report dated 04.01.2025 submitted to respondent No.4, recorded *inter alia* that the petitioner had received funds in the form of grants, donations, etc. from various domestic and foreign parties, including KC MET. That the petitioner had not furnished satisfactory documentary evidence in respect of the actual payments made, the list of beneficiaries, confirmations from beneficiaries, copies of bills / invoices against expenses and the list of volunteers / community activists to whom honorarium was paid and that the petitioner was unable to substantiate with satisfactory documentary evidence, the nature of utilisation of funds received from KC MET and others during financial year 2018-19, financial year 2019-20 and financial year 2020-21, on which basis respondent No.3 concluded that the expenses claimed by the petitioner were not in line with its aims and objects. On this basis, respondent No.3 alleged that amounts of Rs.94,23,73,869/-, Rs.92,91,09,404/- and Rs.90,79,12,093/-, representing expenses incurred by the petitioner for the financial years 2018-19, 2019-20 and 2020-21 respectively, represented undisclosed income for the respective assessment years, and accordingly sought the approval of respondent No.4 to upload the said information on the Insight Portal.

10. The conclusions reached by respondent No.3 in the Impugned Report were, according to the petitioner, founded purely on conjectures and surmises, unsupported by any tangible information or material suggesting that the donations, grants, or funds received by the petitioner had not been applied towards its stated objects. Further, the figure of Rs.94,23,73,869/- did not, in fact, represent the petitioner's expenditure for the assessment year 2019-20. It was the petitioner's case that respondent No.3, in reaching the said conclusion — namely, that the petitioner had failed to furnish documentary evidence of its expenses for, *inter alia*, the assessment year 2019-20 — proceeded without appreciating that proceedings under Section 131(1A) of the Act were intended merely to gather information and not to constitute an elaborate assessment exercise in themselves. That, in any event, the conclusion so drawn rested on non-furnishing of documentary evidence concerning expenses that were never called for in the summons issued under Section 131(1A) of the Act and that although the summons had been issued to examine the utilisation of funds received specifically from KC MET, respondent No.3 had arbitrarily proceeded to treat the entirety of the petitioner's expenditure as unexplained, notwithstanding that verification had been confined only to the funds received from KC MET. It was the petitioner's grievance that the respondent No.4 without appreciating these aspects, nonetheless accorded approval for the said information to be uploaded on the Insight Portal.

11. Thereafter, acting entirely upon the Impugned Report so uploaded on the Insight Portal, respondent No.1 issued a notice dated 12.03.2025 under Section 148A(1) of the Act for the assessment year 2019-20 (hereinafter referred to as "Notice 1") recording *inter alia* that high-value amounts were being credited to the petitioner from KC MET and subsequently transferred to various accounts held by the petitioner, suggesting possible money laundering on account of amounts being rotated from one account to another. Further, as per the information available, funds had been given to the petitioner with specific directions to be utilised towards programmes such as **Nanhi Kali**, **N Star**, **and Mahindra Pride School**, but that such funds / grants / donations were not being utilised in accordance with the petitioner's aims and objectives. On this basis, respondent No.1 *vide* Notice 1 called upon the petitioner to show cause why a notice under Section 148 of the Act ought not to be issued for the assessment year 2019-20 on the footing that income chargeable to tax amounting to Rs.94,23,73,869/- (representing the petitioner's expenditure for the financial year 2018-19, excluding finance cost, other expenses, and depreciation) had escaped assessment for the said assessment year, being unexplained.

12. In response to Notice 1, the petitioner *vide* response dated 26.03.2025, furnished the documents including its audited financial statements for the financial year 2018-19, its return of income for the assessment year 2019-20, and a statement capturing a summary of credits and debits across its various bank accounts, together with bank ledgers and bank statements for the financial year 2018-19, so as to demonstrate the receipt and utilisation of funds by the petitioner. Thereafter, respondent No.1 issued a further notice dated 31.03.2025 (hereinafter referred to as "Notice 2") stating that further information had been received indicating the petitioner's involvement in additional transactions during the financial year 2018-19 and calling upon the petitioner to show cause why a notice under Section 148 ought not to be issued on the basis that income chargeable to tax amounting to Rs.125.43 crores (inclusive of the amount referred to in Notice 1) had escaped assessment for the assessment year 2019-20.

13. *Vide* notice dated 17.04.2025, respondent No.1 granted the petitioner a final opportunity to file its submissions in response to Notice 1 and Notice 2 on or before 25.04.2025. The petitioner *vide* response dated 25.04.2025 filed a detailed reply submitting *inter alia* that no information suggesting escapement of income for the subject assessment year had in fact been supplied along with Notice 1 or Notice 2, the said notices being, in substance, confined to gathering information for the purpose of carrying out further proceedings explaining the rationale for maintaining separate bank accounts, namely to ensure control, clarity and prudence in transactions, to ensure that grants / donations were spent for the specific purposes of the respective programmes, to adhere to the conditions stipulated in the donor agreements, and to achieve accountability and transparency and furnishing explanations and documents in respect of the information referred to in Notice 2, on the basis of which the petitioner prayed that no income had escaped assessment for the subject assessment year.

14. The petitioner also filed a further submission dated 24.06.2025 furnishing a detailed note on its bank transactions, together with a summary of credits and debits in each bank account during the financial year 2018-19, so as to demonstrate that funds received in its “Receipts” accounts were utilised through its “Utilisation” accounts solely in pursuance of the petitioner’s objects, with no escapement of income. It was highlighted that the trust had followed the very same methodology of operating its bank accounts for several years, a methodology that had been accepted by the Income Tax Department in the course of assessment proceedings as recently as for the assessment year 2017-18, thereby negating any suggestion of laundering in the said model of operation. Sample party accounts, along with vouchers, bills and related payment records, were also furnished in support.

15. Despite the detailed submissions that were filed by the petitioner, respondent No.1 *vide* the impugned order held the petitioner’s case to be a fit one for reopening of assessment under

Section 147 of the Act on the ground that the transactions involved were huge in number and required further in-depth scrutiny. Consequently, respondent No.1 having obtained the approval of respondent No.2, issued the impugned reassessment notice.

16. It was the petitioner's case that the impugned order and the consequential impugned reassessment notice were illegal and bad in law, inasmuch as no income of the petitioner for the assessment year 2019-20 had, in fact, escaped assessment and the proceedings having been initiated on an arbitrary basis are devoid of any tangible information suggesting that income chargeable to tax had escaped assessment in the petitioner's case for the said assessment year and in these circumstances the petitioner was left with no alternative but to invoke the extraordinary writ jurisdiction of this Hon'ble Court under Article 226 of the Constitution of India for quashing the impugned order passed under Section 148A(3) of the Act and the consequential impugned reassessment notice issued under Section 148 of the Act, as being arbitrary, illegal, without jurisdiction, and contrary to the statutory scheme mandated under the Act.

17. Learned Senior Counsel appearing for the petitioner submitted that the initiation of proceedings under Section 148 of the Act is without jurisdiction, inasmuch as there is no valid information suggesting escapement of income and none was provided to the petitioner and therefore the reassessment proceedings have been initiated in breach of statutory mandate and principles of natural justice.

18. In response to summons issued and information / explanations sought by respondent No.3 from time-to-time, petitioner had *inter alia* furnished a note on activities carried out by the petitioner in general and specifically with respect to funds received from KC MET, including details with respect to funds received and accounting treatment of utilisation for projects and copies of bank book and statement along with a summary showing movement of funds between varies bank accounts maintained by the petitioner. In this connection, the learned Senior Counsel for the petitioner humbly submitted that the conclusions reached by respondent No.3 in the Impugned Report are purely based on conjectures and surmises, not backed by any tangible information or material to suggest that the donations / grants /

funds received by the petitioner are not applied towards achieving its objects.

19. Learned Senior Counsel contended that the impugned order and the impugned notice were passed without considering the submissions and objections made by the petitioner. In order to demonstrate how the funds have been received and utilized on various programs, the petitioner had furnished bank statements, bank books and a summary of debits and credits into the bank accounts maintained during the subject financial year in response to Notice 1 and Notice 2 before respondent No.1. Further, a sample of party accounts along with vouchers, their bills and related payments were also furnished before respondent No.1. Disregarding the above submissions / explanations, the respondent No.1 initiated reassessment proceedings in the instant case merely on the basis that the explanation offered by the petitioner is not conclusive and needs further verification. By doing so, respondent No. 1 has not recorded reasons showing due application of mind to the information furnished by the petitioner during the course of proceedings under section 148A of the Act, thereby violating a critical requirement enshrined in section 148A(3) of the Act.

20. Learned Senior Counsel for the petitioner also contended that re-assessment sought to be initiated only for the purpose of verification without recording that income has escaped assessment, is arbitrary and without jurisdiction. It was argued that the re-assessment proceedings initiated under Section 147 of the Act are bad in law and lack the foundational pre-requisite for assuming jurisdiction. Issuance of notices under Section 148A(1) of the Act, the impugned order passed under section 148A(3) of the Act and the subsequent impugned reassessment notice issued under section 148 of the Act, are predicated on a mere suspicion and a desire to conduct a verification or "roving inquiry" into the petitioner's books and activities without a mandatory "reason to believe" that income has escaped assessment.

21. Learned Senior Counsel for the petitioner also relied upon the guidelines issued by CBDT *vide* letter F.No.299/10/2022-Dir (Inv. III)/1522, dated 28.06.2024, which provided for the procedure which an Assessing Officer should follow before issuing a notice under Section 148 of the Act and pass order under Section 148A of the Act. At para 2.1 (xiv) of the said letter, the CBDT had stated that an

Assessing Officer has to mandatorily pass a speaking order under Section 148A(d) (which is *pari materia* to Section 148A(3) of the Act. The relevant extract of the said letter relied upon by the learned Senior Counsel for the petitioner is reproduced hereunder:

> *"The AO shall mandatorily pass a speaking order u/s 148A(d) in all cases with the 'prior approval of the specified authority' (Annexure- A3) for such order u / s. 148A (d), except in the cases covered in Para 2.1 (iii) (search and requisition cases) above of these guidelines, irrespective of whether issuance of notice u/s 148 is being recommended or not."*

22. In support of his contentions, learned Senior Counsel for the petitioner placed reliance on the following judgments:

i. **Chhugamal Rajpal vs. S.P. Chaliha**[1]

ii. **ITO vs. Lakhmani Mewal Das**[2]

iii. **Union of India vs. Ashish Agarwal**[3]

iv. **Union of India vs. Rajeev Bansal**[4]

23. *Per contra*, learned counsel for the respondents submitted that the respondent No.3 only conducted proceedings under Section 131(1A) of the Act for the purpose of collection of information and

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[1] (1971) 1 SCC 453
[2] (1976) 3 SCC 757
[3] (2023) 1 SCC 617
[4] (2024) 469 ITR 46

compiled the report titled “Feedback on Disseminated Information”. The said report was approved by respondent No.4 for uploading on the Insight Portal. The actions of respondent Nos.3 and 4 were strictly within the scope of their statutory functions and in accordance with law. Thereafter, respondent No.3 issued summons dated 05.07.2024 under Section 131(1A) of the Act strictly for the purpose of calling for information relating to the relevant financial years. The information sought through the summons was within the statutory powers conferred under Section 131(1A) of the Act. Hence, the issuance of summons is lawful and valid.

24. Learned counsel for the respondents further submitted that the conclusions recorded by respondent No.3 are solely premised on the material, or lack thereof, furnished by the petitioner during the course of enquiry. Despite repeated opportunities, the petitioner failed to produce full and satisfactory evidence in support of the expenditure claimed. The same has been clearly recorded in the order sheet dated 03.01.2025, wherein documentary evidence towards expenses claimed in the Profit & Loss account was specifically called for, and which was duly signed by the authorised representative of the petitioner during the course of verification. During the course of proceedings, the petitioner itself placed on record that donations and programme funds were being routed and transferred through multiple bank accounts maintained by the Trust. However, though the expenses were recorded in the books of account, no supporting deed or documentary evidence was furnished to substantiate such expenditure and the bank transactions furnished were not reconciled with corresponding documentary evidence substantiating actual expenditure.

25. Learned counsel for the respondents further contended that though the Assessing Officer initiated proceedings under Section 148A of the Act based on the information uploaded from the verification report, the petitioner was provided with further opportunity to furnish the requisite information as called for. This, however, does not detract from the fact that the petitioner failed to provide a satisfactory documentary evidence pertaining to the expenditure claimed for assessment years 2019-20, 2020-21 and 2021-22 during the proceedings under Section 131(1A) of the Act. Therefore, the conclusions recorded by respondent No.3 are solely premised on the material furnished by the petitioner during the course of enquiry.

26. Learned counsel for the respondents also contended that Section 131(1A) of the Act expressly empowers the Income Tax Department, particularly the Investigation Wing to call for information wherever there is reason to suspect that income chargeable to tax has escaped assessment. That the scope of the said statutory provision is deliberately wide and does not restrict the Investigation Wing to examine only donor specific funds or a particular stream of receipts. Hence, the assertion that the enquiry ought to have been confined solely to the contributions received from KC Mahindra Educational Trust is contrary to the plain wording of the statute.

27. Having heard the contentions put forth on either side and on perusal of records, the questions that falls for our consideration in this case is :-

(a) Whether the impugned order dated 27.06.2025 passed under Section 148A(3) of the Act and the consequential notice issued under Section 148 of the Act are sustainable without any tangible material or information suggesting escapement of income for the assessment year 2019-20, based only upon the verification report under Section 131(1A)?

(b) Whether the initiation of reassessment on the ground that the transactions being voluminous and require "further in-depth scrutiny" amounts to a verification or roving inquiry rather than a recording that income chargeable to tax has, in fact, escaped assessment and treating the petitioner's entire income as unexplained income, and whether such initiation satisfies the jurisdictional threshold contemplated under Section 147 read with Section 148A of the Act?

28. Since the two questions framed above are inter-connected and arise out of a common set of facts, we proceed to consider and answer them together.

29. At the first instance, we would like to refer to Section 148A of the Act, which for ready reference is reproduced hereunder:

> *"**Procedure before issuance of notice under section 148.***
> ***148A.** (1) Where the Assessing Officer has information which suggests that income chargeable to tax has escaped assessment in the case of an assessee for the relevant assessment year, he shall, before issuing any notice under section 148 provide an opportunity of being heard to such assessee by serving upon him*

> *a notice to show cause as to why a notice under section 148 should not be issued in his case and such notice to show cause shall be accompanied by the information which suggests that income chargeable to tax has escaped assessment in his case for the relevant assessment year.*
>
> *(2) On receipt of the notice under sub-section (1), the assessee may furnish his reply within such period, as may be specified in the notice.*
>
> ***(3) The Assessing Officer shall, on the basis of material available on record and taking into account the reply of the assessee furnished under sub-section (2), if any, pass an order with the prior approval of the specified authority determining whether or not it is a fit case to issue notice under section 148.*** *"*

Upon a bare perusal of the Section 148A of the Act it is evidently clear that it casts a twofold obligation on the Assessing Officer before a notice under Section 148 can be issued. The Assessing Officer must issue a show cause notice and that notice must be accompanied by the information which suggests that income chargeable to tax has escaped assessment. This twin requirement was explained by the Hon'ble Supreme Court in the case of **Ashish Agarwal** (supra) and reiterated in the case of **Rajeev Bansal** (supra) wherein it was held that mere issuance of a show cause notice without supply of the material forming its foundation renders the notice incomplete and the safeguard, illusory. This provision is not a mere formality. It is meant to enable the assessee to meaningfully respond before the jurisdictional threshold for reassessment if it is crossed.

30. It would be also relevant at this juncture to refer to a few judgments on the subject matter.

31. In the case of the **Ashish Agarwal** (supra) the Hon'ble Supreme Court has held as under:

> *"**28.1.** The impugned Section 148 notices issued to the respective assessees which were issued under unamended Section 148 of the IT Act, which were the subject-matter of writ petitions before the various respective High Courts shall be deemed to have been issued under Section 148-A of the IT Act as substituted by the Finance Act, 2021 and construed or treated to be show-cause notices in terms of Section 148-A(b). The assessing officer shall, within thirty days from today provide to the respective assessees information and material relied upon by the Revenue, so that the assessees can reply to the show-cause notices within two weeks thereafter."*

32. The Hon'ble Supreme Court further in the case **Rajeev Bansal** (supra) of has held as under:

> *"**101.** Under section 148A(b), the Assessing Officer has to comply with two requirements : (i) issuance of a show-cause notice; and (ii) supply of all the relevant information which*

forms the basis of the show-cause notice. The supply of the relevant material and information allows the assessee to respond to the show-cause notice. The deemed notices were effectively incomplete because the other requirement of supplying the relevant material or information to the assessees was not fulfilled. The second requirement could only have been fulfilled by the Revenue by an actual supply of the relevant material or information that formed the basis of the deemed notice.

102. *While creating the legal fiction in Union of India v. Ashish Agarwal [(2022) 444 ITR 1 (SC); (2023) 1 SCC 617.] , this court was cognizant of the fact that the Assessing Officers were effectively inhibited from performing their responsibility under section 148A until the requirement of supply of relevant material and information to the assessees was fulfilled. This court lifted the inhibition by directing the Assessing Officers to supply the assessees with the relevant material and information relied upon by the Revenue within thirty days from the date of the judgment. Thus, during the period between the issuance of the deemed notices and the date of judgment in Union of India v. Ashish Agarwal [(2022) 444 ITR 1 (SC); (2023) 1 SCC 617.] , the Assessing Officers were deemed to have been prohibited from proceeding with the reassessment proceedings."*

33. The Hon'ble Supreme Court in the case of **Chhugamal Rajpal** (supra) has held as under:

*"**5.** In his report the Income Tax Officer does not set out any reason for coming to the conclusion that this is a fit case to issue notice under Section 148. The material that he had before him for issuing notice under Section 148 is not mentioned in the*

report. In his report he vaguely refers to certain communications received by him from the CIT, Bihar and Orissa. He does not mention the facts contained in those communications. All that he says is that from those communications "it appears that these persons (alleged creditors) are name lenders and the transactions are bogus". He has not even come to a prima facie conclusion that the transactions towhich he referred are not genuine transactions. He appears to have had only a vague feeling that they may be bogus transactions. Such a conclusion does not fulfil the requirements of Section 151(2). What that provision requires is that he must give reasons for issuing a notice under Section 148. In other words he must have some prima facie grounds before him for taking action under Section 148. Further his report mentions: "Hence proper investigation regarding these loans is necessary". In other words his conclusion is that there is a case for investigating as to the truth of the alleged transactions. That is not the same thing as saying that there are reasons to issue notice under Section 148. Before issuing a notice under Section 148, the Income Tax Officer must have either reasons to believe that by reason of the omission or failure on the part of the assessee to make a return under Section 139 for any assessment year to the Income Tax Officer or to disclose fully and truly all material facts necessary for his assessment for that year, income chargeable to tax has escaped assessment for that year or alternatively notwithstanding that there has been no omission or failure as mentioned above on the part of the assessee, the Income Tax Officer has in consequence of information in his possession reason to believe that income chargeable to tax has escaped assessment for any assessment year. Unless the requirements of clause (a) or (b) of Section 147 are satisfied, the

Income Tax Officer has no jurisdiction to issue a notice under Section 148. From the report submitted by the Income Tax Officer to the Commissioner, it is clear that he could not have had reasons to believe that by reason of the assessee's omission to disclose fully and truly all material facts necessary for his assessment for the accounting year in question, income chargeable to tax has escaped assessment for that year; nor could it be said that he as a consequence of information in his possession, had reasons to believe that the income chargeable to tax has escaped assessment for that year. We are not satisfied that the Income Tax Officer had any material before him which could satisfy the requirements of either clause (a) or (b) of Section 147. Therefore he could not have issued a notice under Section 148. Further the report submitted by him under Section 151(2) does not mention any reason for coming to the conclusion that it is a fit case for the issue of a notice under Section 148. We are also of the opinion that the Commissioner has mechanically accorded permission. He did not himself record that he was satisfied that this was a fit case for the issue of a notice under Section 148. To Question 8 in the report which reads "whether the Commissioner is satisfied that it is a fit case for the issue of notice under Section 148", he just noted the word "yes" and affixed his signatures thereunder. We are of the opinion that if only he had read the report carefully, he could never have come to the conclusion on the material before him that this is a fit case to issue notice under Section 148. The important safeguards provided in Sections 147 and 151 were lightly treated by the Income Tax Officer as well as by the Commissioner. Both of them appear to have taken the duty imposed on them under those provisions as of little importance. They have substituted the form for the substance."

34. Lastly, in the case of **Lakhmani Mewal Das** (supra) the Hon'ble Supreme Court has held as under:

> *"**11.** As stated earlier, the reasons for the formation of the belief must have a rational connection with or relevant bearing on the formation of the belief. Rational connection postulates that there must be a direct nexus or live link between the material coming to the notice of the Income Tax Officer and the formation of his belief that there has been escapement of the income of the assessee from assessment in the particular year because of his failure to disclose fully and truly all material facts. It is no doubt true that the court cannot go into the sufficiency or adequacy of the material and substitute its own opinion for that of the Income Tax Officer on the point as to whether action should be initiated for reopening assessment. At the same time we have to bear in mind that it is not any and every material, howsoever vague and indefinite or distant, remote and farfetched, which would warrant the formation of the belief relating to escapement of the income of the assessee from assessment. The fact that the words "definite information" which were there in Section 34 of the Act of 1922 at one time before its amendment in 1948 are not there in Section 147 of the Act of 1961 would not lead to the conclusion that action can now be taken for reopening assessment even if the information is wholly vague, indefinite, farfetched and remote. The reason for the formation of the belief must be held in good faith and should not be a mere pretence.*
>
> ***12.*** *The powers of the Income Tax Officer to reopen assessment though wide are not plenary. The words of the statute are "reason to believe" and not "reason to suspect" The reopening of the assessment after the lapse of many years is a serious*

matter. The Act, no doubt, contemplates the reopening of the assessment if grounds exist for believing that income of the assessee has escaped assessment. The underlying reason for that is that instances of concealed income or other income escaping assessment in a large number of cases come to the notice of the Income Tax Authorities after the assessment has been completed. The provisions of the Act in this respect depart from the normal rule that there should be, subject to right of appeal and revision, finality about orders made in judicial and quasi-judicial proceedings. It is, therefore, essential that before such action is taken the requirements of the law should be satisfied. The live link or close nexus which should be there between the material before the Income Tax Officer in the present case and the belief which he was to form regarding the escapement of the income of the assessee from assessment because of the latter's failure or omission to disclose fully and truly all material facts was missing in the case. In any event, the link was too tenuous to provide a legally sound basis for reopening the assessment. The majority of the learned Judges in the High Court, in our opinion, were not in error in holding that the said material could not have led to the formation of the belief that the income of the assessee respondent had escaped assessment because of his failure or omission to disclose fully and truly all material facts. We would, therefore, uphold the view of the majority and dismiss the appeal with costs."

35. The requirement of "information suggesting escapement of income" cannot be equated with a mere suspicion or a desire to verify. In the case of **Chhugamal Rajpal** (supra) the Hon'ble Supreme Court held that an Officer who merely records that a matter requires investigation has not formed the belief contemplated by law. A conclusion that transactions need further scrutiny is a conclusion in favour of inquiry and not a conclusion that income has in fact escaped assessment. Similarly, in the case of **Lakhmani Mewal Das** (supra) it was held that there must be a live link or rational nexus between the material available and the belief formed and the power though wide is not plenary. These principles apply with equal force to proceedings under the substituted Section 148A regime, since the statutory language continues to require "information which suggests" escapement, a standard higher than mere suspicion.

36. It would be also trite at this juncture to refer to Section 131(1A) of the Act, which again for ready reference is reproduced hereunder:

> *"(1A) If the Principal Director General or Director General or Principal Director or Director or Joint Director or Assistant Director or Deputy Director, or the authorised officer referred to in sub-section (1) of section 132 before he takes action under clauses (i) to (v) of that sub-section, has reason to suspect that any income has been concealed, or is likely to be concealed, by any person or class of persons, within his jurisdiction, then, for the purposes of making any enquiry or investigation relating thereto, it shall be competent for him to exercise the powers conferred under sub-section (1) on the income-tax authorities*

> *referred to in that sub-section, notwithstanding that no proceedings with respect to such person or class of persons are pending before him or any other income-tax authority."*

37. Tested against these principles, the record does not support the initiation of reassessment. The summons issued by respondent No.3 under Section 131(1A) of the Act were confined to the utilisation of funds received from KC MET for the financial year 2020-21. The Impugned Report, however, extended its adverse conclusions to the entirety of the petitioner's expenditure across three financial years including the financial year 2018-19, relevant to the assessment year in question, without any corresponding inquiry into the sources or heads of that expenditure. This expansion, unsupported by any independent verification, cannot furnish the tangible material that the law requires.

38. Respondent No.1, while issuing Notice 1 and Notice 2, proceeded on this uncorroborated foundation, and the petitioner in response placed on record audited financial statements, bank ledgers, bank statements, a consolidated summary of credits and debits across its accounts, and sample vouchers demonstrating the utilisation of funds strictly for its charitable objects. The petitioner also explained, with reference to the accepted treatment for the assessment year 2017-18, the rationale for its practice of routing funds through separate receipt and utilisation accounts.

39. The impugned order does not deal with any of this material. It records no finding that the explanation offered is false or that any specific sum remains unaccounted. It proceeds solely on the premise that the transactions are voluminous and require further in-depth scrutiny. Such reasoning reflects a decision to verify rather than a determination that income has escaped assessment and stands squarely within the mischief identified in **Chhugamal Rajpal** (supra) and **Lakhmani Mewal Das** (supra).

40. It also falls short of the mandate under Section 148A(3), which requires the Assessing Officer to pass an order having regard to the material on record and the reply furnished by the assessee, a requirement that presupposes actual consideration of that reply and not its bare acknowledgment. The CBDT guidelines, dated 28.06.2024, which require a speaking order under Section 148A(3) reinforce rather than dilute this statutory obligation, and the impugned order does not meet that standard.

41. Reassessment proceedings, being an exception to the finality of an assessment already accepted under Section 143(1), cannot be initiated to enable a roving or fishing inquiry into an assessee’s affairs on the strength of an inference that was itself unsupported by the material gathered. The stand taken by the Revenue that the enquiry under Section 131(1A) of the Act is deliberately wide and that the petitioner failed to fully satisfy the officer during that verification, does not answer the more fundamental deficiency that the order under Section 148A(3) of the Act itself discloses no application of mind to the explanation and material specifically furnished by the petitioner for the assessment year 2019-20.

42. Therefore, the impugned order dated 27.06.2025 passed under Section 148A(3) of the Act and the consequential notice issued under Section 148 of the Act for the assessment year 2019-20 are held to be unsustainable and are accordingly set aside. The Writ Petition accordingly stands allowed and the question of law stands answered in favour of the petitioner.

43. Consequently, Writ Petition Nos.30573 and 30574 of 2025 also stand allowed on similar lines.

44. As a sequel, miscellaneous petitions pending if any, shall stand closed. However, there shall be no order as to costs.

P. SAM KOSHY, J

NARSING RAO NANDIKONDA, J

Date: 07.09.2026
GSD