# MONTHLY UPDATE CAPSULE

## JULY 2025


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Contents

# Income Tax

## Action against tax evaders: 40,000 taxpayers withdraw Rs 1,045-crore bogus ITR claims after income tax crackdown

The Income Tax Department has initiated a major action against individuals who obtained tax refunds through false tax deductions and exemptions across the country. The department conducted search operations at over 150 locations as part of a verification exercise, aimed at dismantling the networks behind fraudulent tax evasion activities and ensuring accountability under the law.

Over the last 4 months, about 40,000 taxpayers themselves withdrew wrong claims of Rs 1,045 crore.

**How was the fake return exposed?**

The Income Tax Department received inputs through third-party data, AI based systems and ground intelligence that a large number of taxpayers have taken fake refunds by claiming wrong deductions and exemptions. After this, the department conducted search operations at more than 150 places in many states including Maharashtra, Tamil Nadu, Delhi, Gujarat, Punjab and Madhya Pradesh.

**Which exemptions were fake?**

In these ITRs, taxpayers claimed many deductions and exemptions that did not actually exist. These include:

- Fake HRA (House Rent Allowance) claims
- Wrong information about educational loan interest
- Fake deduction on health insurance premium
- False claim on home loan interest
- And in some cases, claims of deductions by showing donations to political parties

Read More at: [Action against tax evaders: 40,000 taxpayers withdraw Rs 1,045-crore bogus ITR claims after income tax crackdown]

## Parliamentary Panel endorses Controversial Provisions in Income Tax Bill 2025, retains Officer Access to WhatsApp, Digital Data If enacted, the new legislation is set to take effect from April 1, 2026

The highly anticipated Income Tax Bill 2025 cleared another legislative milestone as the Parliament's Select Committee, led by senior BJP MP Baijayant Panda, unanimously adopted its report on the draft law. Critically, the committee has retained a contentious provision granting Income Tax officers the authority to access a taxpayer's computer systems, smartphones, and online accounts including WhatsApp and other digital platforms during search and seizure proceedings. Jay Panda Chaired today's meeting of the Select Committee of Lok Sabha to examine the Income-Tax Bill 2025. Despite raising concerns about privacy rights and data misuse, the committee chose to preserve the clause enabling officers to access not only physical devices but any virtual digital space, a term encompassing email, WhatsApp, social media, cloud storage, and investment accounts. Under the bill, authorities can review messages, chats, emails, and business records if there is a substantiated suspicion of tax evasion. Real-time monitoring or mass surveillance is not permitted; the law only enables officers to extract data stored on devices or cloud accounts relevant to specific investigations. Lawmakers and privacy advocates voiced apprehension that such broad access could infringe on citizens' right to privacy and result in misuse of sensitive personal information. The Ministry of Finance, however, maintained that electronic evidence, often found in WhatsApp conversations, emails, or app caches, is indispensable for fair and thorough tax investigations. It argued that no additional or expanded powers have been granted; rather, the law simply modernizes search provisions in line with technological realities. Implementation Timeline and Next Steps the panel's report will be tabled in the Lok Sabha on the opening day of the Monsoon Session, with the government anticipated to push for its passing before the session adjourns on August 21.

The Income Tax Bill 2025 aims to replace the six-decade-old Income Tax Act of 1961, which has seen over 4,000 amendments, with a modern law intended to simplify taxpayer procedures and enhance enforcement tools.

Read more at: [Parliamentary Panel endorses Controversial Provisions in Income Tax Bill 2025, retains Officer Access to WhatsApp, Digital Data If enacted, the new legislation is set to take effect from April 1, 2026]

## Income Tax Dept analysing taxpayers' ITR-filing patterns, online behaviour

The Income Tax Department has stepped up its monitoring and compliance efforts by harnessing the power of artificial intelligence (AI) to track online taxpayer behaviour and identify inconsistencies in returns, reports Indian Express. The department is analysing online activity, financial transactions, and return-filing patterns to nudge taxpayers towards better compliance.

**AIS portal**

One of the key behavioural insights comes from how often users access the Annual Information Statement (AIS) online. On average, taxpayers visited the portal 3.5 times, amounting to 24 crore visits in total. However, only 9 crore tax returns were filed last year, despite 40 crore AIS documents being generated from over 650 crore financial transactions.

**AI flags high-value transactions and errors**

The department is using AI-powered data analytics to raise red flags for high-value transactions where returns have not been filed or where taxpayers make repeated errors in their returns. The system also identifies incorrect claims of exemptions and deductions, a problem that led to the nationwide verification drive launched on 14 July 2025 across 150 locations.

This operation targeted fraudulent deductions and has already identified over 1.5 lakh PANs linked to such practices. The department maintains that these cases are primarily the result of misguidance by intermediaries, not taxpayers themselves.

Additionally, excess claims under Section 80GGC to the tune of Rs 9,000 crore were identified. Through digital nudges via SMS and email, the department reduced claims by Rs 963 crore and facilitated additional tax payments amounting to Rs 409.5 crore.

Read more at: Income Tax Dept analysing taxpayers' ITR-filing patterns, online behaviour

## FM Sitharaman directs CBDT to withdraw all low-value tax cases within 3 months

Union finance minister Nirmala Sitharaman has directed the Central Board of Direct Taxes (CBDT) to identify and withdraw all the departmental tax appeals that fall below the revised monetary thresholds announced in the Union Budget 2024–25, setting a firm deadline of three months. The move is part of a broader effort to reduce litigation, ease taxpayer burden, and strengthen service delivery through timely resolution.

Under Budget 2024–25, the monetary thresholds for filing departmental appeals were revised upwards. For cases before the Income Tax Appellate Tribunal (ITAT), the threshold was increased from Rs 50 lakh to Rs 60 lakh; for High Courts, from Rs 1 crore to Rs 2 crore; and for the Supreme Court, from Rs 2 crore to Rs 5 crore.

These revised limits resulted in the withdrawal of cases from ITAT, High Courts and the Supreme Court, allowing courts to focus on higher-value disputes.

Read more at: FM Sitharaman directs CBDT to withdraw all low-value tax cases within 3 months

## Income Tax Department sets cost inflation index for FY 2025-26, key for LTCG tax

The Income Tax Department has announced the Cost Inflation Index (CII) for the financial year 2025-26, setting it at ‘376’. This index plays a pivotal role in determining long-term capital gains on the sale of assets by adjusting purchase costs for inflation.

For this financial year, homeowners selling properties acquired before the specified date will require the current CII to compute their LTCG with the indexation benefit. This provides an opportunity to potentially lower their tax obligations by considering inflation in asset valuation, thus aligning with the CII's purpose to adjust for inflationary effects.

The process of using the CII involves a formula: Inflation-adjusted price = (CII of the year of sale / CII of the year of purchase) * Actual purchase price of the asset.

The base year concept in the Cost Inflation Index is pivotal, as it establishes a benchmark for evaluating inflation across different financial years. The base year holds an index value of 100, facilitating comparisons with other years to determine inflationary increases. This mechanism allows taxpayers to apply indexation benefits effectively, using the higher value between the 'actual cost or Fair Market Value (FMV) as on the 1st day of the base year. Indexation benefit is applied to the purchase price so calculated. FMV is based on the valuation report of a registered valuer.'

The CII's updated figure of '376' will become effective on April 1, 2026. It will be instrumental in computing the indexed cost of acquisition for assets sold within the financial year, ensuring that the effects of inflation are accurately represented in financial and tax calculations.

Read more at: [Income Tax Department sets cost inflation index for FY 2025-26, key for LTCG tax]()

## Income Tax Filing: IT Dept launches 'TAXASSIST' to help with queries and notices | Here is how it works

Months ahead of the 15 September 2025 deadline for filing income tax returns for FY 2024–25, the Income Tax Department has launched a support service called 'TAXASSIST' to help taxpayers with queries and notices during the current filing season.

As part of this campaign, the Income Tax Department sends messages or emails to taxpayers, reminding them of important notices or other tax-related actions.

This initiative is part of a broader effort by the Income Tax Department to enhance taxpayer convenience.

Read More at: [Income Tax Filing: IT Dept launches 'TAXASSIST' to help with queries and notices | Here is how it works]()

## Income Tax Dept makes Aadhaar OTP verification mandatory for updating THESE details on e-filing portal

The Income Tax Department has made Aadhaar-based OTP verification mandatory for updating email ID or mobile number on the income tax e-filing portal by taxpayers.

Also, Aadhaar has been made mandatory for submitting PAN applications from July 1. It has become mandatory to provide Aadhaar number and get it authenticated to get a new PAN (Permanent Account Number).

Under the Central Board of Direct Taxes (CBDT) new rule, a PAN application will be considered valid only when the applicant's Aadhaar number is registered and it is confirmed online.

Until now, Aadhaar number was not mandatory for PAN applications. Any identity card along with birth certificate was enough for PAN card applications. But now the rule has been changed. So, now if you want PAN, you have to provide your Aadhaar number. Then Aadhaar has to be verified through OTP and without this, PAN will not be issued now. This process is completely available online on the e-filing portal of the Income Tax Department.

**What are the rules for those who already have PAN card?**

If your PAN is already made, and you have not yet linked it with Aadhaar, then you have time till 31 December 2025. If your Aadhaar-PAN is not linked by this date, your PAN will become "inoperative". If there is a delay in linking, a fine of Rs 1,000 can also be imposed.

Read more at: Income Tax Dept makes Aadhaar OTP verification mandatory for updating THESE details on e-filing portal

## AI flags font flaw, helps Income Tax dept bust capital gains fraud

Income Tax Department has detected a fraudulent claim involving fake improvement bills used to evade capital gains tax. The case centres on a Hyderabad-based taxpayer who sold an immovable property for Rs 1.4 crore, but dramatically slashed his tax liability using falsified documents, according to TOI report.

**Suspicion raised over 2002 expense bill**

According to officials, the taxpayer claimed Rs 68.7 lakh as the indexed "cost of improvement" between 2002–03 and 2007–08, along with an indexed acquisition cost of Rs 73 lakh. As a result, he reported a long-term capital gain (LTCG) of just Rs 24,774 in his income tax return.

However, a forensic analysis triggered by suspicions over one expense bill dated July 6, 2002 — allegedly for Rs 7.68 lakh — led to the unravelling of the fraud. Advanced AI tools detected that the bill was written in 'Calibri (body)' font, which raised immediate red flags. Investigators pointed out that although the font was designed between 2002 and 2004, it was only publicly released by Microsoft in 2006 and became the default font for Office in 2007.

Since the font did not exist at the time the bill was supposedly issued, the document was deemed fake.

**Taxpayer admits documents came from late father's folder**

The taxpayer, when confronted, claimed the bills were found in an old folder belonging to his late father and admitted he could not verify their authenticity. He eventually withdrew the Rs 68.7 lakh improvement claim, filed a revised return, and paid the correct tax amount based on actual capital gains.

Read more at: [AI flags font flaw, helps Income Tax dept bust capital gains fraud]

## CBDT relaxes time limit for processing income tax returns filed electronically

The Central Board of Direct Taxes (CBDT) has relaxed the time limit for processing income tax returns filed electronically that were incorrectly invalidated by the CPC-Bengaluru due to technical reasons.

The CBDT, directed that returns of income filed electronically up to March 31, 2024, which were erroneously invalidated, shall now be processed and intimations of these returns shall be sent to the assessees by March 31, 2026

The decision will enable assessees to receive refunds along with applicable interest. However, refunds will not be made if PAN-Aadhaar linkage is not found, as per existing guidelines.

Read more at: CBDT relaxes time limit for processing income tax returns filed electronically

## Advisory on reporting values in Table 3.2 of GSTR-3B

Kindly refer to the advisory on table 3.2 of GSTR-3B, issued on 11th April 2025, wherein it was informed that, from April 2025 tax period, inter-State supplies auto-populated in Table 3.2 of GSTR-3B on the GST portal would be made non-editable and GSTR-3B must be filed with system-generated values only.

However due to several representations received from taxpayers citing difficulties in filing GSTR-3B, the implementation of this functionality was deferred earlier and table 3.2 was made editable in the interest of taxpayer's convenience and smooth filing of GSTR-3B. It may be noted that the changes mentioned in para 1, making the auto populated liabilities in table 3.2 non-editable shall be re-introduced on the GST portal from July 2025 tax period. In case any modification/amendment is required in auto-populated values of Table 3.2 of GSTR-3B, the same can be carried out by amending the corresponding values in respective tables of GSTR-1A or through Form GSTR-1/IFF filed for subsequent tax periods.

To ensure that GSTR-3B is filed accurately with the correct values of inter-state supplies, it is advised to report the correct values in GSTR-1, GSTR-1A, or IFF. This will ensure the auto-populated values in Table 3.2 of GSTR-3B are accurate and compliant with GST regulations.

Please go through the FAQs mentioned below for better understanding.

**1. What are the changes related to reporting supplies in Table 3.2?**

Starting from the July 2025 tax period, the auto-populated values in Table 3.2 of GSTR-3B for inter-state supplies made to unregistered persons, composition taxpayers, and UIN holders will be non-editable, and taxpayers will need to file GSTR-3B with the auto-populated values generated by the system only.

**2. How can I rectify values in Table 3.2 of GSTR-3B if incorrect values have been auto-populated after July 2025 period onwards due to incorrect reporting of the same through GSTR-1?**

If incorrect values are auto-populated in Table 3.2 after July 2025, taxpayers need to correct the values by making amendments through Form GSTR-1A or through Form GSTR-1/IFF filed for subsequent tax periods.

**3. What should I do to ensure accurate reporting in Table 3.2 of GSTR-3B?**

Taxpayers should ensure that the inter-state supplies are reported correctly in their GSTR-1, GSTR-1A, or IFF. This will ensure that the accurate values are auto-populated in Table 3.2 of GSTR-3B.

**4. Till what time/date I can amend values furnished in GSTR-1 through Form GSTR-1A?**

As there is no cut-off date for filing Form GSTR-1A before GSTR-3B which means Form GSTR-1A can be filed after filing Form GSTR-1and till the time of filing Form GSTR-3B. Hence, any amendment required in auto-populated values of table 3.2, same can be carried out through Form GSTR-1A till the moment of filing GSTR-3B.

Read More at: [Advisory on reporting values in Table 3.2 of GSTR-3B]

# RBI

## UPI will work slightly differently from August 1: Here's what's changing

Starting August 1, your daily UPI habits on apps like Google Pay and PhonePe may feel a little different. NPCI (National Payments Corporation of India) is rolling out a set of backend rule changes to streamline how UPI handles balance checks, autopay requests, payment failures, and linked account verifications. These aren't earth-shattering updates, but if you're someone who uses UPI multiple times a day (which, let's face it, is most of us), you'll want to know what's new.

**New time slots for UPI autopay requests**

If you've set up automatic payments like OTT subscriptions, rent agreements, or SIPs, those UPI Autopay requests will now be timed more precisely. From August 1, UPI apps will be required to send these requests between 12 AM and 7 AM. The idea is to minimize server congestion and delays during peak hours. You'll still receive notifications, but expect them early in the morning.

**Balance checks now have a limit**

One of the silent data-heavy tasks on UPI is balance checking, especially with biometric authentication like Face ID or fingerprint. To prevent overload, there will now be a limit on how many times you can check your balance in a day. NPCI hasn't disclosed the exact cap yet, but it's designed to stop abuse of the system, especially from bots or high-frequency checkers.

**Faster status updates on failed transactions**

We've all dealt with UPI payments stuck in limbo—money debited, but the other side hasn't received it. NPCI is addressing this by tightening timelines. Starting next month, UPI apps will have to show the actual payment status (success/fail) within seconds, instead of letting it remain "Processing" or "Pending" for several minutes. That means less uncertainty and fewer screenshots sent to confused vendors.

**Linked account verification will be more secure**

UPI apps will now follow a stricter verification process when you try to link a new bank account. This may involve additional checks from the bank's end to confirm the account belongs to you. It adds a layer of friction, yes, but it also reduces the risk of accidental or fraudulent linking.

These updates are subtle but helpful. They're mostly aimed at making UPI smoother, safer, and less annoying during rush hours or payment hiccups. You don't need to change how you use UPI, but from August 1, you'll notice the system working a little smarter.

Read more at: [UPI will work slightly differently from August 1: Here's what's changing]

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