

TAXPAYER ALERT: Your Data vs. ITR – How to Respond to the Income Tax Department's 'Nudge' on High-Value Mismatches.

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The Income-tax Department (ITD) has strengthened its data-driven compliance mechanism and is issuing non-intrusive electronic communications, commonly referred to as 'Nudges'. These are generated through system-based comparison of the Income-tax Return (ITR) filed by the taxpayer with information available in the Annual Information Statement (AIS) and other third-party reports.

*If a taxpayer receives an SMS or email regarding an ITR–AIS mismatch or a high-value transaction, **it should be taken seriously but not viewed as a cause for alarm.***

What is a 'Nudge'?

A 'Nudge' is a voluntary compliance initiative of the Central Board of Direct Taxes (CBDT). It is a preliminary, non-adversarial communication intended to alert taxpayers about potential discrepancies and provide an opportunity to correct or clarify them at an early stage. It is important to note that a 'Nudge' is not a statutory notice and is distinct from notices issued under sections such as 143(2) or 148 of the Income-tax Act.

Why are 'Nudges' Issued?

Such communications are generally triggered due to mismatches between the ITR and AIS, where income or transactions reported by banks, employers, brokers or other reporting entities are either omitted or reported differently in the return. They may also arise due to high-value or specified financial transactions, such as substantial cash deposits, investments, property transactions or large credit card spends, which appear inconsistent with the income declared.

How Should a Taxpayer Respond?

On receipt of a 'Nudge', the taxpayer should review the AIS and Taxpayer Information Summary (TIS) available on the income-tax portal and reconcile the data with Form 26AS, bank statements and other records. Where the AIS contains incorrect or unrelated information, suitable feedback should be submitted online. If any income has been inadvertently missed or under-reported, filing a revised or updated return should be considered after evaluating tax implications.

Why Timely Action Matters

Although a 'Nudge' is not a notice, ignoring it may increase the likelihood of scrutiny or reassessment in future. Proactive review and correction help minimise exposure to tax, interest and penalty proceedings.

Conclusion

The 'Nudge' mechanism reflects the Department's move towards technology-led, trust-based tax administration. Taxpayers should use this opportunity to ensure accurate reporting and alignment with available data. Where required, professional advice from a Chartered Accountant may be sought to ensure appropriate and timely compliance.

Disclaimer

This article is intended for general informational purposes only and does not constitute professional tax advice. Tax laws are complex and fact specific. Readers are advised to consult their Chartered Accountant (CA) or a qualified tax professional for personalised guidance in relation to any 'Nudge' communication received from the Income-tax Department.