

Faceless Tax Assessment in India: Reconciling Digital Efficiency with Natural Justice and Taxpayer Rights

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Abstract

The introduction of faceless assessment has greatly transformed the method of conducting income-tax assessment in India. The scheme was established with the aim of decreasing physical interaction between the taxpayers and the tax administration, increase efficiency and transparency, and prevent arbitrary or unjustified assessments. Nevertheless, the shift from physical procedure to the predominantly electronic one poses a significant legal issue regarding the guarantee of natural justice and rights of taxpayers. This research aims to examine whether the current scheme of faceless assessment offers reasonable opportunity of hearing to taxpayers and if the procedural guarantees are sufficient enough to ensure the principles of natural justice. Also, the approach to the procedural issues that Indian High Courts took in cases of violation of Section 144B of the Income-tax Act, 1961 is considered. The transition to the new act – the Income-tax Act, 2025 (entered into force from 1 April 2026) is also discussed, mainly Sections 273 and 176 of the Income-tax Rules, 2026. The research relies upon a doctrinal and analytical approach grounded in legislation, rules, judgments, governmental and relevant legal sources. The study claims that faceless assessment and natural justice need not be mutually exclusive concepts. The problem lies in the fact that the technological character of the process produces a mere formal right of the taxpayer to respond, failing to provide him with an effective chance to present his case. Hence, the procedure guarantees include a reasonable period of response, disclosure of material adversely affecting the case, personal hearing, digital access, speaking orders, and human supervision.

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1. INTRODUCTION

1.1. Background of the Study

The concept of faceless assessment has brought about a major change in the way income tax assessment is carried out in India. Previously, in assessing proceedings, there were direct interactions between the taxpayer and the assessing officer. But with advancements in digital technologies, the income tax department has moved towards e-assessment procedures. This concept was adopted in order to minimize personal interactions, increase administrative efficiency and to minimize any arbitrariness. In the earlier scheme of things, section 144B of Income Tax Act, 1961 established a structured process of assessment based on electronic communications and specialized units. In the current structure, the Income Tax Act, 2025 is mainly governed by section 273 of the new act and rule 176 of income tax rules, 2026. Despite the fact that this approach brings some administrative benefits, there are still some issues related to the protection of natural justice. The fact that one receives the notice electronically and gets the opportunity to upload documents does not mean at all that this taxpayer has enough time, documents and opportunity to defend himself. It is especially true when it comes to a considerable tax debt or material for which this taxpayer did not have enough opportunity to defend himself before. The Audi alteram partem principle says that no one should be convicted without hearing him or her first. It is a very important principle in the sphere of administrative law and tax

procedures. The introduction of the digital procedure will not cancel this principle. The question is whether the existing system can guarantee the effective participation of taxpayers in the process of assessment. Thus, the current research explores the connection between faceless assessment and natural justice, in particular, the right to a meaningful opportunity of hearing, and the stance that Indian courts take regarding procedural errors and the necessary safeguards that need to be taken to achieve a balance between efficiency and taxpayers' rights.

1.2. Research Questions

The research questions are as follows:

- To what degree is the current scheme of faceless assessment consistent with the principles of natural justice, in particular, the right to a meaningful opportunity of hearing?
- How do Indian courts deal with procedural mistakes and breaches of natural justice in the context of faceless assessment?
- What safeguards are required to make a compromise between administrative efficiency and natural justice?

1.3. Objectives of the Study

Objectives of this study include:

- To assess the evolution of faceless assessment in the administration of Income Tax in India.
- To analyse the legal and procedural regime surrounding the present regime of faceless assessment.
- To analyse the role of natural justice, especially the audi alteram partem rule, in faceless assessment proceedings.
- To analyse judicial pronouncements on the denial of personal hearing, lack of adequate time, procedural irregularities and other shortcomings of natural justice.
- To determine the inadequacies of the existing regime and suggest measures to ensure administrative efficiency and taxpayer's rights.

1.4. Research Gap

This research will investigate the statutory provisions related to faceless assessment and their implementation in practice. It will look into how procedural protection in respect of hearing, disclosure of adverse material, reasonable time for responses and reasoned orders are provided in the process of the assessment. It will also study how Indian courts have responded to procedural deficiencies in the former system of faceless assessment and whether such judicial decisions can be of any use in the present statutory scheme.

1.5. Research Methodology

The current research employs a doctrinal approach to legal research. It will investigate statutory provisions, judicial decisions and other relevant materials in connection with the faceless income-tax assessment in India.

2. EVALUATION AND LEGAL STRUCTURE OF FACELESS ASSESSMENT

2.1 From Traditional Model to Digital Model of Assessment

The traditional or conventional model system of assessment largely involved face to face interaction between the taxpayer and the Assessing Officer. While this could be helpful in comprehending the complex facts, at the same time it could raise certain doubts with respect to discretion, consistency and physical interaction. With the introduction of digitisation, this process was transformed. Filing of returns and notices online

decreased the need for physical documents. The next step was to redesign the entire process of assessment so as to conduct different tasks through different units.

2.2 Development of Faceless Assessment

Another key development which marks the evolution of faceless assessment is the introduction of faceless assessment system in terms of Section 144B of the Income-tax Act, 1961. The said framework aimed at separating certain functions such as assessment, verification and technical assistance, and communicating using electronic means. This was to achieve a reduction in physical interface and effective utilisation of specialised resources.

2.3 Current System under the Income-tax Act, 2025

The Income-tax Act, 2025 came into force from 1 April 2026. The current statutory provision is found mainly in Section 273. Section 273 contains provisions relating to faceless assessment, reassessment and recomputation in respect of cases referred by the Board. The provision authorises the establishment of National Faceless Assessment Centre including assessment, verification, technical and review units. The assessment unit carries out the assessment process, while the verification unit conducts any necessary enquiries and verifications and the technical unit offers specialised assistance. Indeed, Section 273(4)(b)(i) stipulates that the assessment unit should conduct the assessment based on relevant material as well as hearing the assessee. Consequently, the statute itself recognizes hearing as an integral component of the process of assessment.

2.4 Rule 176 of the Income-tax Rules, 2026

Rule 176 defines the procedures to be followed in the faceless assessment, reassessment, and re-computation. Such procedures cover the automated case allocation, electronic communication, obtaining information and documents, verification, technical assistance, show-cause proceedings, making of proposals, review as well as the final order for assessment. Rule 176 draws the distinction between personal appearance before the authority and personal hearing. While personal appearance before the assessment unit is rarely required, the assessee, or his or her authorized representative can ask for a personal hearing whenever the proposed change is communicated in a show-cause opportunity. The prescribed authority will provide such personal hearing through videoconferencing subject to technological feasibility. Moreover, the Board is supposed to provide facilities which will ensure that lack of video-conferencing facility does not deny any person the benefits of faceless assessment. This demonstrates that the current system tries to achieve both objectives simultaneously: minimal physical contact and conservation of the oral hearing wherever needed.

2.5 Application of Former and Current Frameworks Transitional

The coming into force of the Income-tax Act, 2025 does not render obsolete the applicability of previous enactments. Section 536, which discusses repeal and savings, allows the functioning of the Income-tax Act, 1961 under certain conditions, among which is a proceeding concerning tax years starting prior to 1 April 2026. Thus, the court rulings on Section 144B of the former act are still applicable to the cases under the jurisdiction of that section. The court rulings can also serve as an authority for the principles of natural justice under the current framework. Still, the applicability of either the former

or current legislation has to be assessed based on the statutory provisions.

3. NATURAL JUSTICE WITH THE ABSENCE OF A FACIAL IDENTITY FOR TAXATION

3.1 *Audi Alteram Partem*

Audi Alteram Partem is the rule which states that no one should be condemned without giving the opportunity to make out his case. Therefore, the taxpayer should have knowledge about the case made against him and he must also get an opportunity to make out his case.

3.2 *A Real Opportunity to Be Heard*

Hearing does not imply simply the opportunity to file a document. For a real opportunity to hear, the following are essential:

- knowledge of the proposed adverse decision;
- sufficient time to reply to it;
- acquiring necessary information;
- responding to the material;
- consideration of taxpayer's statement; and
- if necessary, opportunity for oral presentation.

3.3 *The Right to Be Informed and to Respond to Adverse Information*

Where the assessment is made on the basis of information obtained from other parties, it would be only fair for the assessee to have a reasonable opportunity to comprehend and respond to such information, excepting cases where there are recognized exceptions to this rule. This aspect becomes highly relevant in the faceless scenario since the taxpayer might not be aware of the information that forms the basis of his/her assessment, unless that is communicated through the electronic record or notice.

3.4 *Reasoned Order*

A reasonable order is one more essential element of procedural fairness.

3.5 *Constitutional Dimension*

Justice natural is linked to Article 14 of the Constitution. Arbitrary administration can amount to breach of the constitutional mandate of non-arbitrariness. The Indian Supreme Court has repeatedly underlined the significant role played by the principle of natural justice for matters of an administrative and taxation nature. Cases like *Swadeshi Cotton Mills Co. Ltd. v. Union of India*, *C.B. Gautam v. Union of India*, *Sahara India (Firm) v. CIT and Dharampal Satyapal Ltd. v. Deputy Commissioner of Central Excise* show the Indian Supreme Court's concern with the need for natural justice in cases of the government doing act with a civil implication. There is no reason to treat faceless assessment as an exception to the application of natural justice only on the ground that the assessment is computerized.

4. JUDICIAL APPROACH TO FACELESS ASSESSMENT

4.1 *Personal Hearing*

Indian High Courts have intervened several times in cases where the taxpayer was denied a personal hearing even though the statutory provision required it. In *Satish Kumar Bansal HUF v. National Faceless Assessment Centre*, the Allahabad High Court examined an ex-parte assessment order under Section 144B. The Court concluded that the statutory provision envisaged an opportunity of hearing and that the taxpayer's

specific request for personal hearing cannot be simply disregarded. Since the taxpayer had not been given a real and reasonable opportunity of hearing, the assessment order was quashed. The case law is important in this context since it highlights the fact that the objective of faceless assessment is not denial of the taxpayer's right to participate in the process but merely change of technology. Similarly, in *Vimal Trading v. National Faceless Assessment Centre*, the Bombay High Court examined a situation where a specific request for personal hearing via video conferencing was refused. In the case of *Someshwar Organisations v. National Faceless Assessment Centre*, the Gujarat High Court further held that the claim made for the personal hearing through video conferencing was denied. It was observed by the Court that denial of the hearing amounts to violation of the mandatory procedure as well as principles of natural justice and therefore it has sent the matter back for reconsideration of the case. These are some cases indicating the trend followed by the courts that in respect of the faceless assessment, there cannot be any deviation from the legal right of the assessee for personal hearing.

4.2 *Sufficient Time to Respond*

Natural justice mandates sufficient time also.

The Orissa High Court decided the case of *Ashok Kumar Meher v. Central Board of Direct Taxes*, wherein only a very short time was provided to the assessee to respond and upload their documents. The Court referred to the Standard Operating Procedure of the CBDT, where it is contemplated seven days' time to respond to a show cause notice. This provision can however be curtailed as per limitation. The same issue cropped up in the case of *Marvy Outsourcing Private Limited v. National Faceless Assessment Centre*, where the notice intimating the taxpayer about the personal hearing was given to him less than twenty-four hours prior to the hearing date. It was observed by the Delhi High Court that the period was too short to be considered a reasonable opportunity of hearing and the impugned order was quashed. These two cases show that simply scheduling the hearing in electronic mode is not sufficient. The taxpayer should get the real chance to prepare.

4.3 *Non-consideration of Submissions and Failure to Provide Reasons*

Natural justice not only includes the process of issuing notices and accepting the written submissions of the taxpayer but also requires the assessment authority to exercise its mind on the grounds provided and provide reasons for the same. Ignoring any material explanation or the evidence provided by the taxpayer would deprive the taxpayer of the opportunity to defend his case. In faceless assessment, it becomes important due to the reason that the communication occurs electronically and there may be little interaction between the taxpayer and the authority. It becomes important in an assessment order to show that the material considerations of the taxpayer have been taken into account and explain why they were accepted or rejected. It will also assist the taxpayer in understanding the ground of the assessment and taking the available remedy. It might not only amount to procedural unfairness and the ground for judicial review if the relevant considerations are not made or not enough reasons are given. But it will not make an adverse decision void just on the ground that the taxpayer does not like the reasons provided by the authority.

4.4 Alternative Remedy and Judicial Review

Usually, tax laws afford appeals against the assessment orders. But sometimes the presence of the alternative remedy alone cannot restrict a High Court's jurisdiction under Article 226. In cases where there was a substantial contravention of natural justice, courts have stepped in despite the presence of an alternative remedy. The idea is that the assessee should normally not be placed in a position where he would have to accept a decision that has been made without affording him the minimum opportunity for defence and then depend only on the subsequent appeal procedure to rectify the procedural defect. The judgments mentioned above have illustrated this concept, especially in those instances where the contravention pertains to a denial of the right to be heard or the complete absence of a reasonable opportunity. But still it cannot be assumed that all procedural errors warrant a writ petition.

5. CRITICAL ANALYSIS

5.1 Efficiency vs Procedural Fairness

The legislative provisions clearly recognize the principle of opportunity of hearing. The existing Section 273 provides for giving such an opportunity to the assessee by the assessment unit. Furthermore, under Rule 176, there is a provision to seek personal hearing through video conferencing. It is, therefore, not correct to say that the legislation entirely disregards natural justice. The issue is in the application of the provision. The examples cited above illustrate situations where such a safeguard was available, but not fully implemented. The major issue, therefore, is not with the principle of faceless assessment per se. It is with the issue of procedural formality where the notice or electronic opportunity is issued but no time is given or opportunity provided for hearing.

5.2 Transparency and Disclosure

Faceless assessment could enhance transparency in view of the recorded history in the computerized form. However, the question of transparency will be a function of the degree of information available to the taxpayer. In case the decision is being made based on verification information or information from other sources, the taxpayer would be normally entitled to the necessary information that would enable him or her to appreciate and dispute the grounds of the proposed action except for the legitimate limitations.

5.3 Human Oversight

Yet another question that needs consideration is that of human responsibility. The faceless assessment is characterized by automated allocation, electronic communications and special units. While all these could increase efficiency, the assessment process is a legal decision-making procedure and therefore technology should facilitate legal decision-making process.

5.4 Digital Divide and Accessibility

All taxpayers may not be equally technologically equipped. Large firms might have in-house tax departments with professionals like accountants and lawyers who can act promptly. Small firms, individuals and taxpayers from areas where there is little technological infrastructure may have more trouble. The current Rule 176, itself, takes into consideration this problem by ensuring that such facilities be provided so that a taxpayer is not deprived of the benefit of faceless assessment only because he or his authorised person does not have access to video-conferencing facilities. Thus, accessibility must be looked upon as procedural fairness and not simply a technical matter.

6. PROCEDURAL GUARANTEES AND RIGHTS OF TAXPAYERS UNDER FACELESS ASSESSMENT

6.1. Right to Receive an Effective Show-Cause Notice

The show-cause notice must be clear in explaining the variations and the basis for these variations. An unclear or incomplete show-cause notice can render it difficult for the taxpayer to understand the matter and prepare a proper response. Hence, notices must provide proper particulars of the action proposed to be taken.

6.2. Right to Access and Opportunity to Respond to Adverse Information

If the tax assessment is based on information furnished by third parties, such as verification report or other adverse information, the taxpayer should usually have adequate access to rebut such adverse information, subject to legal limitations, if any.

6.3. Right to Adequate Time for Response

An effective right of hearing will entail that the taxpayer is given adequate time for response after issuance of the show cause notice along with submission of adequate explanations and supporting documents. Adequacy of time provided for response would depend upon the complexity of proposed variations, amount of material and particular facts and circumstances of individual case. Shortness of time may deny the taxpayer the effective presentation of case despite issuance of notice, whereupon the assessment department must see to it that adequate time is provided for response.

6.4. Right to a Substantive Personal Hearing

While a facility to file documents electronically may not necessarily solve all problems relating to factual or legal issues, section 273 of the Income-tax Act, 2025 and Rule 176 of the Income-tax Rules, 2026 give the current process of faceless assessment and hearing. The requests for personal hearing should be processed based on the relevant statutory requirements.

6.5. Right to a Speaking Assessment Order

The assessment order should give the reasons why certain issues have been considered as well as the taxpayer's arguments and the justification for accepting or rejecting those arguments.

7. RECOMMENDATIONS

- Firstly, effective personal hearings and reasonable time for response should be guaranteed. In cases where statutory requirements are met and a proper application has been made, there ought to be a personal hearing in line with the law. Sufficient time for responding to show cause notices should be provided in consideration of the complexities involved in the proposed variations and the number of documents. Justifications should be offered for any time reduction where necessary. Video conferencing should facilitate proper participation without reverting to unnecessary physical contact.
- Secondly, adverse material relevant to the case should be provided to the taxpayer. In cases where assessments are based on third party information and/or verification report or any other adverse material, there ought to be provision of sufficient details that will facilitate a proper response, as permitted by the law.
- Third, the assessment order should have sufficient reasoning and be made taking into account the

submission. The authority should take into consideration the taxpayer's arguments and evidence and give its conclusions on those issues. The electronic record should show the submission of the case and the consideration of that submission. Sufficiently reasoned orders will be helpful for accountability and also enable the taxpayer to understand whether an appeal may be justified.

- Fourth, a proper mechanism must be able to deal with technical problems. Problems relating to the uploading of documents, access to portal, electronic notifications, and video hearings must be sorted out. When there is a problem, which cannot be overcome technically, it should not be treated as deliberate non-compliance, and appropriate relief should be considered according to law.
- Fifth, the assessment procedure must cater to taxpayers with limited technological access. Facilities envisaged in Rule 176 must be made available to the taxpayer so that lack of access to video conference or any other facilities does not result in lack of fair hearing.
- Sixthly, human oversight on the part of an individual should always be central to any decision-making process for assessment. Digital devices may help in allocating tasks, verifying and communicating information, but the decision-making on the part of the competent authority should always be independent.
- Seventhly, it would also be essential for the Central Board of Direct Taxes to regularly conduct reviews regarding the application of procedural measures. Complaints regarding denied hearing, delayed processing of requests, technology malfunctions and failure to consider submissions should all be evaluated and appropriate modifications made to administrative instructions.

8. CONCLUSION

Faceless assessment can be said to be an important development in the field of tax administration in India. The aims of saving time in physical interactions, enhancing efficiency, increasing transparency and utilization of specialized manpower in the process are quite valid and laudable. Nevertheless, the assessment cannot be judged based on the speed at which it is carried out. An assessment is an act of public authority that may have financial implications for the assessee. Hence, efficiency should always operate within the scope of fairness. The court has intervened in cases where the

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taxpayer was not given a personal hearing, adequate time to submit his case and in such other instances where he did not get a reasonable opportunity to present his case. Thus, the judgment establishes an important principle that faceless assessment cannot be an exception to the rules of natural justice. The way out is not to abandon faceless assessment and go back to physical assessment. The ideal faceless assessment process should give adequate time, proper access to information and materials, proper personal hearing, if necessary, proper technological support, transparency, proper process and reasoned assessment order. It is equally important to have human intervention in the process. Consequently, the study shows that faceless assessment and natural justice do not necessarily have to contradict each other. They may coexist if technology is used as an instrument of tax administration, rather than an excuse for limiting taxpayer involvement in it. The success of the faceless assessment must be judged not only by its efficiency, but also by the extent to which the taxpayer received the opportunity to understand, respond and defend his position. It follows that the future of digital tax administration must be built on one simple rule: the assessment may be faceless, but the taxpayer's opportunity to be heard should always be visible.

Author Contribution

The author conceptualized the research, conducted the literature review and doctrinal analysis, drafted the manuscript, and finalised the article for submission.

Conflict of Interest

Conflict of interest declared none.

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AI Declaration

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