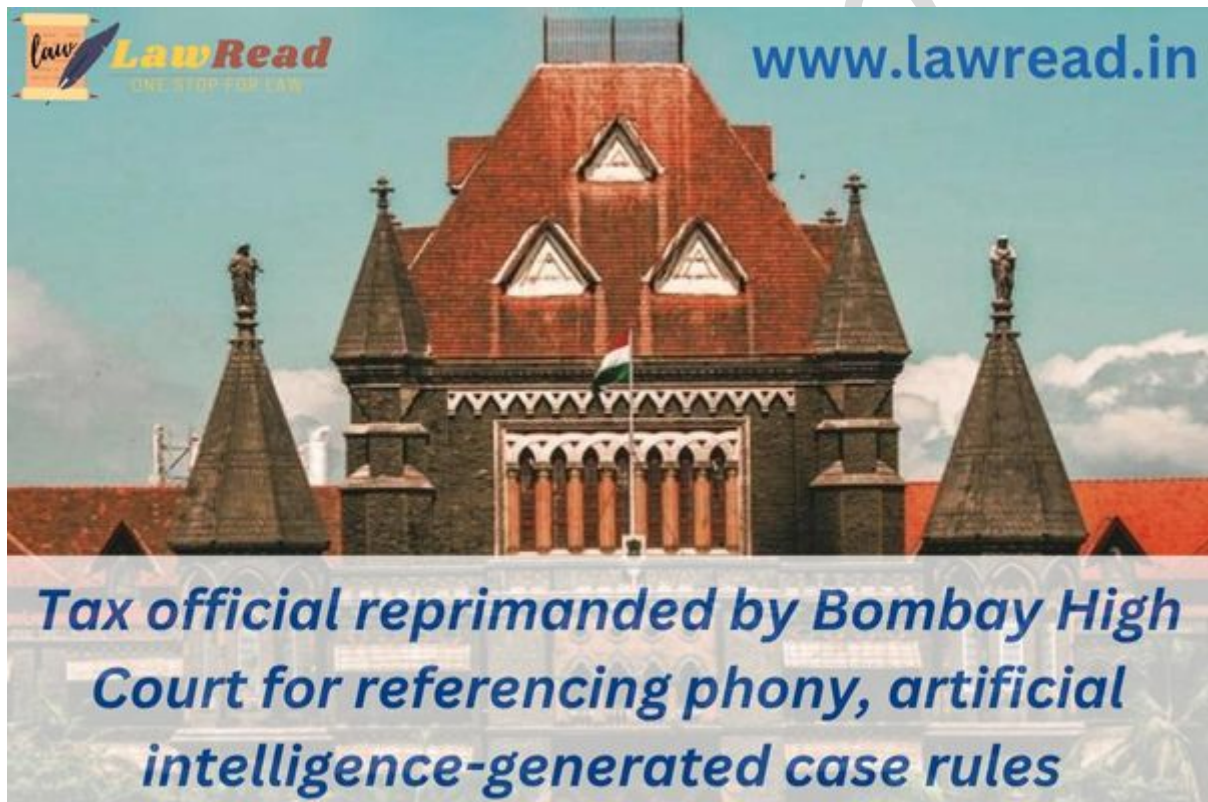


News

Tax official reprimanded by Bombay High Court for referencing phony, artificial intelligence-generated case rules



The Court emphasized that, particularly when deciding on taxpayer rights, quasi-judicial authorities cannot rely solely on AI-assisted searches or automated results.

The Assessing Officer of the National Faceless Assessment Centre (NFAC) was recently reprimanded by the Bombay High Court for using artificial intelligence (AI)-generated, nonexistent court rulings to support a ₹27.91-crore tax claim against a business [KMG Wires

Private Limited v. AO, NFAC].

The officer's reliance on three case rules that "do not exist at all," according to a Division Bench of Justices BP Colabawalla and Amit Jamsandekar, highlighted how the unreliable application of artificial intelligence in quasi-judicial proceedings can skew results.

In this age of artificial intelligence (or "AI"), people frequently rely heavily on the outcomes that the system produces. However, it goes without saying that while performing quasi-judicial duties, such results should be properly cross-checked before being used. The Court issued this warning.

The assessment ruling of March 27, 2025, for the Assessment Year 2023–2024, which assessed KMG Wires' total income at ₹27.91 crore instead of the initially disclosed ₹3.09 crore, was contested by the company. Additionally, the company challenged the show-cause notice for penalty under Sections 274 read with 271AAC of the Act and the subsequent demand notice under Section 156.

By providing 100 pages of invoices, e-way bills, GST reports, and transport receipts, the company responded and validated the transactions in question. The AO noted that no response was received in spite of this.

The company's counsel further noted that the officer used three nonexistent court rulings to support the inclusion of opening balances under Section 68 of the Act.

It was fully acknowledged by the NFAC's counsel that the supplier's response "appears to be not taken into consideration" and that the alleged legal precedents referenced in the assessment order were a "error" that was later attempted to be fixed. He contested the writ petition's maintainability, nevertheless.

The Bench determined that the case featured a basic violation of natural justice and dismissed the Revenue's maintainability issue. It pointed out that the department had

disregarded the supplier's thorough answer and had instead used "non-existent" rulings to support a ₹22.66 crore increase.

The Court emphasized that, particularly when deciding on taxpayer rights, quasi-judicial authorities cannot rely solely on AI-assisted searches or automated results.

"When such results are not duly cross-verified before use, mistakes like the present one creep in," the judges stated, instructing officers to use caution when using precedents.

In order to start over, provide the corporation a clear show-cause notice, and give them a personal hearing by December 31, 2025, the court returned the case to the Assessing Officer. The final order must be a spoken one that addresses all submissions, and any court rulings that are to be relied upon must be announced at least seven days beforehand.

The corporation was represented by advocates Aanchal Vyas and Dharan Gandhi.

The NFAC was represented by Akhileshwar Sharma, an advocate.