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Happy belated returns from I-T dept, but only if you pay up the extra tax

Synopsis
Based on a trust-based governance mechanism, the Finance Bill has now allowed taxpayers to file an 'Updated Return' within two years from the end of the relevant assessment year.

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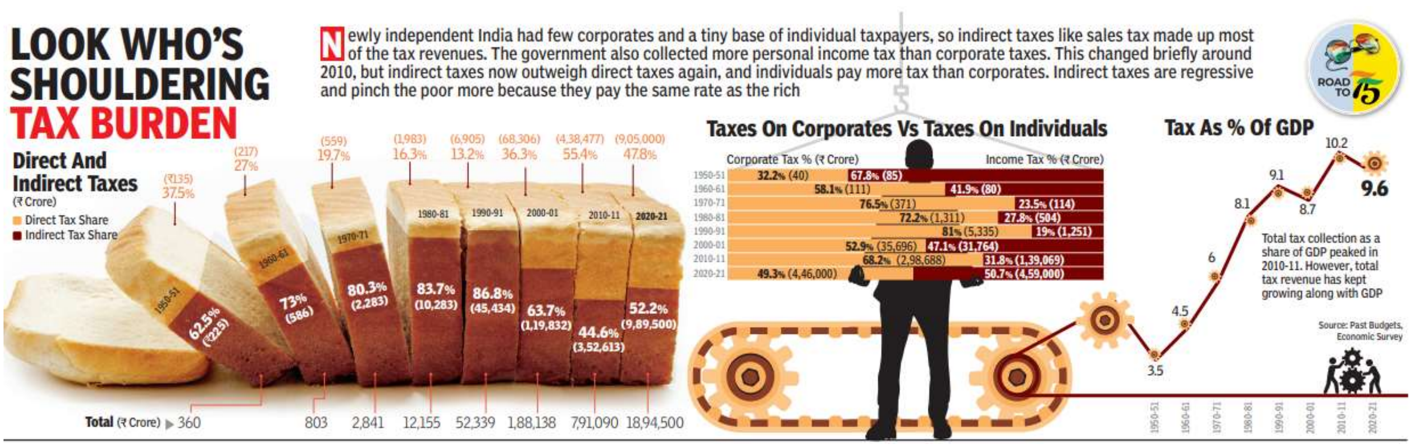
Worried that the taxman will come after you for not reporting your rent income or not including interest from your savings bank account in your tax returns? You can breathe a little easier. Based on a trust-based governance mechanism, the Finance Bill has now allowed taxpayers to file an 'Updated Return' within two years from the end of the relevant assessment year. The earlier window for revising returns was only till three months before the end of the assessment year. However, taxpayers do have to pay the price for omissions or mistakes in the form of additional tax.

A senior I-T official points out that one common omission among taxpayers is failing to include bank interest in their tax return, under the misconception that it is not taxable or that tax has been deducted at source. There are other instances, of rent income not being reported. Such cases earlier could lead to a lengthy process of adjudication and a penalty of 50% or more but now the assessee has a chance to rectify those errors, albeit at a cost.



"This option of filing a belated return was really required, given the short time period available for revising the return c income. Unfortunately, this comes with a steep additional tax, amounting to 25% or 50% of differential tax and interes depending upon the delay in filing the updated return (up to one year or more than one year from end of the assessment year)," says Gautam Nayak, tax partner at CNK & Associates.

Nayak illustrates: Let's take the case of a salaried person who has filed his return for assessment year 2020-21 (financial year ended March 31, 2020), and he has forgotten to include certain interest income of Rs 50,000. Assuming he is in the 31.2% rate slab, the tax on this undisclosed interest income would be Rs 15,600 and penal interest up to April 2022 may be about Rs 5,000. The aggregate liability works out to Rs 20,600. Under the proposed scheme, the additional tax will be Rs 10,300 (50% of Rs. 20,600, as more than one year has lapsed since the end of the assessment year). Thus, the total tax payable will be Rs 30,900.

There are now robust ways of reflecting taxpayer's financial data such as the recently launched Annual Information Statement which captures information on 40-plus financial transactions including bank interest, dividend, rental income, capital gains on trading of securities, to name a few.

An updated filing will allow taxpayers to rectify any mismatch between AIS and their returns. However, in many cases, the taxpayer may be disqualified from filing an updated return due to receipt of a notice initiating assessment proceedings. An updated return also cannot be filed if a search has been initiated, or a survey conducted. Further, if the taxpayer has received communication from the I-T officer that as regards his undisclosed income, the provisions of the Black Money Act, Money Laundering Act, or Benami Act apply, an updated return cannot be filed.

"However, as no downward adjustment of income or claim of refund is permitted through an updated return, these provisions may have limited utility for taxpayers," points out Nayak.