Options for correction of mistakes in past income tax returns

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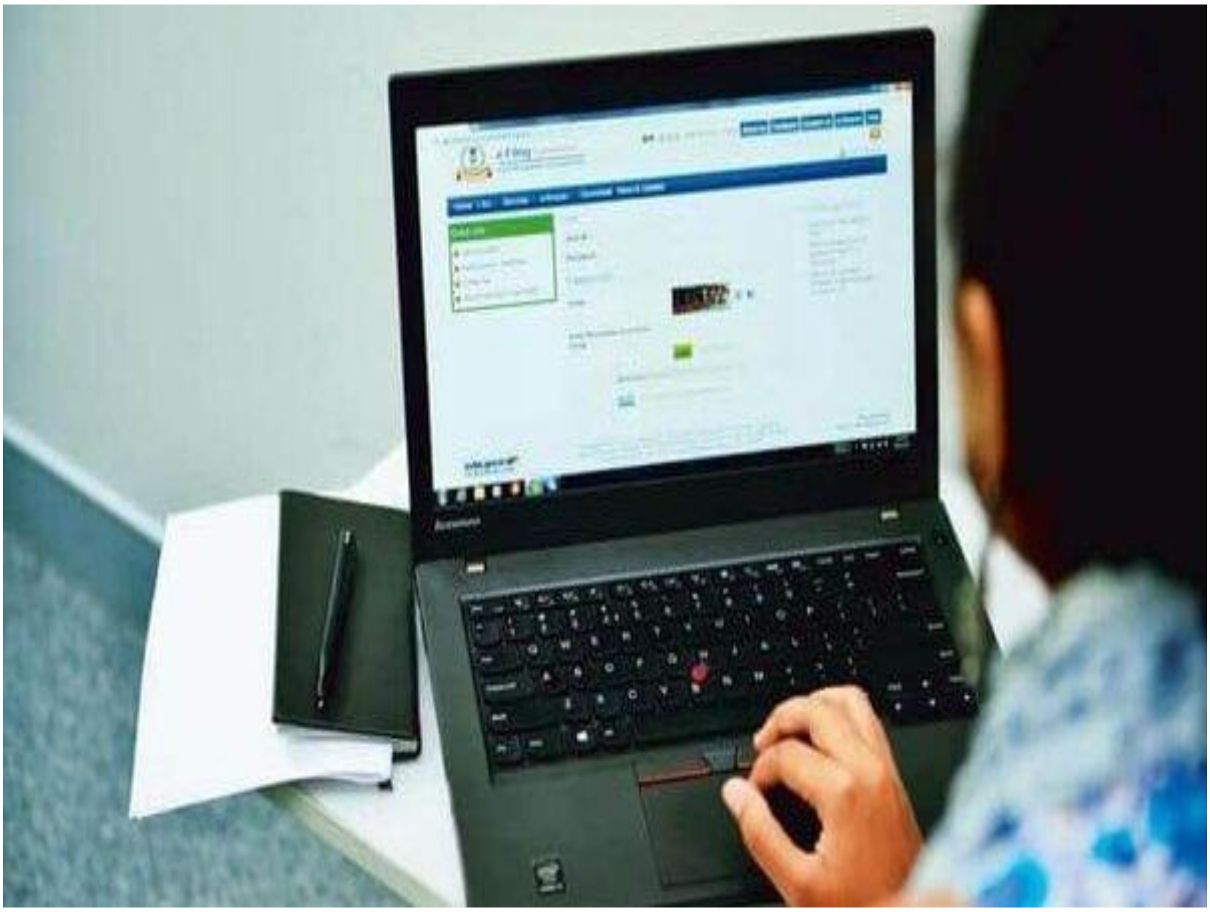

First and safest option is to file a revised income tax return. In a revised return, you can correct any and all mistakes. (Photo: Mint)

SUMMARY

- *The problem really is that most taxpayers discover the mistakes in their tax returns only when they are filing their tax returns for the subsequent year. By then, it is too late to file a revised tax return.*

For any taxpayer in the higher tax bracket, computing the correct income and filling up the income tax return without any mistakes is a challenging task. While doing so, it is common for a taxpayer to make some mistake or the other. If you realize later on, after having filed your income tax return, that you have made a mistake, what are the remedies or options open to you to correct such mistakes?

Your first and safest option is to file a revised income tax return. In a revised return, you can correct any and all mistakes. However, the time limits laid down by law for this revision leave you with only a narrow period of time within which you can do this. Till a few years ago, you could have filed a revised income tax return up to a period of one year from the end of the assessment year, i.e. up to 2 years from the end of the financial year for which the return was filed. To illustrate, for the financial year 2015-16, your income tax return would have been filed by 31 July 2016, and you could have revised that return to correct any mistakes till 31 March 2018 (ignoring extensions due to covid lockdown).

The time limits have, however, been shortened over the past few years, and currently for a tax return due for the financial year 2022-23, which would have been filed by 31 July 2023, you could have filed a revised return only till 31 December 2023. Any mistakes that you discover after 31 December 2023 cannot be rectified by filing a revised tax return as a matter of course.

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If the mistake is such that you have undercomputed your tax liability, you do have an option of filing an "updated tax return", which is different from a revised tax return. An updated tax return however attracts an additional tax of 25% of the differential tax if the updated tax return is filed within 2 years from the end of the financial year, or 50% of the differential tax if it is filed within 3 years from the end of the financial year to which it relates. You cannot file an updated tax return after more than 3 years.

Besides, there are various limitations in filing an updated tax return. There has to be an additional tax payable—you cannot file an updated tax return to claim a lower income or claim TDS (tax deducted at source, not claimed in the original return, which would result in a tax refund. You cannot file an updated tax return just to correct a mistake in any of the disclosures that you may have made—maybe in the foreign assets, or assets and liabilities statement, or details of unlisted shares held or directorships.

What are the choices available to you when you want to correct such mistakes? One option is to file a revision petition before the Commissioner, seeking correction of the mistake in the intimation or order. The time limit for this is also quite small—one year from the date that you received the order or intimation. Since only mistakes in the intimation or order are covered, all mistakes made in the tax return cannot be corrected through this mechanism, as the intimation or order would generally not contain details of the various disclosures made by you that you may want to correct. This can be used in cases where you have mistakenly paid higher tax by offering a higher income to tax or not claiming a legitimate deduction, and now wish to claim a refund due to correction of the mistake.

The other option, when you have a refund which would be due on correction of the mistake, is to file an application to the Commissioner for condonation of delay in making a refund claim by filing a revised return. The CBDT (Central Board of Direct Taxes) has empowered income tax commissioners and chief commissioners to condone such delays up to certain monetary limits for a period up to 7 years from the end of the financial year. Here too, the problem is that you cannot correct mistakes in such cases, unless you would be entitled to a refund due.

The reason given for reduction of the time limit for filing a revised return was stated to be to facilitate faster processing of tax returns. However, the current time limit of just 5 months (and just 1 or 2 months for companies or entities subject to audit) is too short. Taxpayers are human beings, and to err is human. Mistakes are likely, particularly given the complex tax laws and the even more complex and detailed tax returns. Can the time limit for filing revised tax returns not be extended to at least one year from the end of the date on which the return was originally due? Surely, the system of processing revised tax returns should not be so difficult. That would at least give taxpayers reasonable time to correct their mistakes without too much hassle.

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