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The Tale of 'Arth', 'Shashtri' & the 'Updated Return'

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Yes, it was the Budget Day. Two close friends, 'Arth' and 'Shastri' went out for a stroll in late evening.

'Arth'- "Yaar Shashtri, I was hearing our FM's budget speech, today. I heard about some provision about some updated return. What is it?"

'Shashtri' – "Yes Arth, you heard it right. In this year's budget, a new provision has been proposed in the Income Tax Act, w.e.f. 1.4.2022, which will enable the taxpayers to file their updated returns of income, within two years from the end of the relevant assessment year. You know the meaning of assessment year na?"

'Arth'- "Yes Shastri, it's the year immediately following the financial year for which we file our return. Say, for financial year 2022-23, the assessment year would be 2023-24. You have told me this earlier. Well, this 'updated return' seems to be a good initiative Shastri. But what exactly the word 'updated' means?'

'Shashtri'- "Good question 'Arth'. You know that presently you and me can see and check a whole lot of information in relation to our financial transactions on the income tax department's website like our share and mutual funds transactions, our salary, dividend and interest incomes, our credit card expenses, our foreign trips, our acquisition of immovable property etc. And there may be a possibility that while filing our return, we may have inadvertently skipped showing some income resulting from any such transactions. So, this new provision now enables us to correct the omission of any such income in our filed return, in the updated return."

'Arth'- "Understood Shastri. But I think that up till now also we were entitled to file our revised return to rectify any such errors in our filed return. So, what is the difference between the 'revised return' and this new provision of 'updated return'?"

'Shastri'- "Again a very good question, Arth. You know that we can file our revised return within a period of 3 months prior to the end of the relevant assessment year only, but now we can file our updated return within a period of two years from the end of the relevant assessment year. So, this new provision effectively provides us an extra time period of 2 years and 3 months, for correcting our omissions.

Let me explain this with an example Arth. You know that for financial year 2022-23 and assessment year 2023-24, you can file your original return usually by 31.7.2023, if there is no extension. Now after filing of your return, if you realise that you have missed showing some income in your return, then you can file your revised return including any such missed income by 31.12.2023 i.e., at least three months prior to the end of relevant assessment year 2023-24. But it may also so happen that you realise your omission only after 31.12.2023 or say you have further skipped some income even in your revised income, then in such cases, now, you have the option of filing your updated return including all your missed incomes or omissions by 31.03.2026, that is, within two years from the end of relevant assessment year 2023-24.

'Arth'- "Well explained Shastri. One thing more. Can I file my 'updated return' even if I have not filed my original return?"

'Shashtri'- "Yes, Arth, you can do that. You also have the option of filing your belated return within the same time period of 31.12.2023, as I explained just now in case of revised return. But in case, you have somehow missed filing your belated return by 31.12.2023, now you have the option of filing your updated return by 31.03.2026."

'Arth'- "Understood Shastri. But what if, instead of finding some missed income, I found out some excess income shown wrongly or some missed claims or deductions in my original return. Can I file my 'updated return' in such cases also?"

'Shashtri'- "No, Arth, you can't file your 'updated return' in cases where there is a decrease in your tax liability or increase in your refund. In such cases, you only have the option of filing your revised return by 31.12.2023. This 'updated return' can be filed only and only if there is an increase in your tax liability or decrease in your refund."

'Arth'- "Oh, that's an important 'rider' then. Any other similar 'catch' Shashtri?"

'Shastri'- "Yes, Arth, there is one more catch. This benefit of extended period for correcting your omissions in your updated return, is bundled up with payment of an 'additional tax' of 25% or 50%."

'Arth'- "Ohh. Please explain in detail Shastri."

'Shastri'- "Arth, this new provision requires you to pay an additional tax over and above your applicable tax and penal interest due on your missed income in your original return, and you need to pay this additional tax before filing of your updated return. If you file your updated return after the expiry of available time period for filing your belated or revised return but within 12 months of the end of the relevant assessment year, then you need to pay an additional tax of 25%. But if you file your updated return after 12 months but within 24 months from the end of relevant assessment year, then you will have to pay an additional tax of 50%.

So, in our example, if you file your updated return, after 31.12.2023 but on or before 31.3.2025, then you will be required to pay an additional tax of 25%. But, if you file your updated return, after 31.3.2025 but on or before 31.3.2026, then you will need to pay an additional tax of 50%."

'Arth'- "Again well explained Shashtri. So, this means that my voluntary compliance of filing my updated return including my missed income or omissions has an attached cost to it and that too a substantial cost. Isn't it?"

'Shashtri'- "Well Arth, you need to appreciate this from the point of view of another law-abiding person, who has shown all his/her income correctly, in his/her original return only. So, naturally, the principle of equity justifies the levy of an additional cost by way of this addition tax, on the persons, who have somehow skipped to show their entire income in their original return. Further, this additional tax of 25% or for that matter 50% is in any case, lesser than the penalty of up to 200% leviable for under-reporting or mis-reporting of your income. But yes, in order to make this new provision, more attractive, the Govt. should think about reducing this additional tax."

'Arth'- "Point taken Shashtri. Any other thing, worth-telling about this new provision?'"

'Shashtri'- "Yes Arth, one last thing. Your assessing officer can issue you a regular assessment notice, within a period of three months from the end of the financial year in which you have filed your return. So, this extended period given to you for filing your updated return will automatically extend the period for your assessing officer also, for issuing you a scrutiny notice.

So, in our example, your assessing officer can issue you a regular assessment notice on or before 30.6.2024 in respect of your original return filed by you on 31.7.2023. But, if you file your updated return say on 31.3.2026, then the assessing officer can issue you the scrutiny notice up to 30.6.2026. So, you need to consider this embedded implication also."

'Arth'- "Wah Shastri, Wah, you have explained me the full 'arth' (meaning) of this new 'shastra' (provision), of the 'updated return', in such an easy manner.

Chal isi baat per samosa aur jalebi ho jaye...."

And their stroll continued with a huge laughter....

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