



UNION BUDGET 2026-27 ANNOUNCES DIRECT TAX PROPOSALS FOR RATIONALIZING PENALTY AND PROSECUTION

ASSESSMENT AND PENALTY PROCEEDINGS TO BE INTEGRATED TO AVOID MULTIPLICITY OF PROCEEDINGS AND FACILITATING EASE OF DOING BUSINESS

IMMUNITY FROM PROSECUTION FOR NON-DISCLOSURE OF NON IMMOVABLE FOREIGN ASSETS WITH AGGREGATE VALUE LESS THAN Rs 20 LAKH WITH RETROSPECTIVE EFFECT FROM 01.10.2024

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The Union Minister for Finance and Corporate Affairs, Smt Nirmala Sitharaman presented the Union Budget 2026-27 in the Parliament today. The Budget proposes set of Direct Tax proposals aiming at rationalizing penalty and prosecution.

The Finance Minister proposed to integrate assessment and penalty proceedings by way of a common order for both to avoid multiplicity of proceedings. There will be no interest liability on the taxpayer on the penalty amount for the period of appeal before the first appellate authority irrespective of the outcome of appeal process. Further, quantum of pre-payment is being reduced from 20 percent to 10 percent and will continue to be calculated only on core tax demand.

As an additional measure for reducing litigation, the Finance Minister proposed to allow taxpayers to update their returns even after reassessment proceedings have been initiated, at an additional 10 percent tax rate over and above the rate applicable for the relevant year. The assessing officer will then use only this updated return in his proceedings.

There is already a framework for immunity from penalty and prosecution in the cases of underreporting. The Finance Minister proposed to apply this framework of immunity to misreporting too. However, in such a case the taxpayer will need to pay 100 percent of the tax amount as an additional income tax over and above the tax and interest due.

Penalties for certain technical defaults such as failure to get accounts audited, non-furnishing of transfer pricing audit report and default in furnishing statement for financial transactions, are proposed to be converted into fee.

The Finance Minister proposed to rationalise prosecution framework under the Income Tax Act while maintaining a careful balance for deterrence in some serious offences.

Non-production of books of account and documents, and requirement of TDS payment, where payment is made in kind, are being decriminalised. Further, minor offences will attract fine only. The remaining prosecutions will be graded commensurate with the quantum of offence. They will entail only simple imprisonment, with maximum imprisonment reduced to two years, and power to courts to convert even those into fine.

There is no penalty presently for non-disclosure of non immovable foreign assets with aggregate value less than 20 lakh rupees. The Finance Minister proposed to also provide them with immunity from prosecution with retrospective effect from 1.10.2024.

NB/VM/KM

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