Union Budget 2025: More time to revise returns, but there's a price to pay

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Worried that the taxman will come after you for not reporting your rent income or not including interest from savings bank account in tax returns? You can breathe a little easier, the tenure for filing an updated return has been extended, but it comes with a sting - in terms of steep additional taxes of up to 70% of the incremental tax liability.Budget 2022 had introduced the facility to enable taxpayers to file an updated return. Referring to this in her speech, the FM said, "Our trust in taxpayers was proved right. Nearly 90 lakh taxpayers voluntarily updated their incomes by paying additional tax. Taking this trust further, I now propose to extend the time-limit to file updated returns for any assessment year, from the current limit of two years to four years."

For a salaried employee who has to file a return by July 31, a revised one can be filed by Dec end. Thus, the facility of an updated return comes in handy, as it enables the taxpayer to avoid scrutiny, penalties and severe legal consequences for what would otherwise be held as undisclosed income.

Gautam Nayak, tax partner, CNK & Associates, states, "Updated tax returns can be filed to correct mistakes where lower income was disclosed in the return or where the taxpayer failed to file an I-T return. The time-limit is now being extended to four years from the end of the assessment year, with effect from April 1, 2025.

"Therefore, during FY26, a taxpayer can file an updated return for any of the three previous financial years, viz: 2020-21, 2021-22, 2022-23 and 2023-24. This will facilitate correction of mistakes by taxpayers, where such mistakes are discovered after the due date for revised returns."
Currently, an additional tax of 25% or 50% of the differential tax and interest is payable, depending on the delay in filing the updated return (that is, up to one year or more than one year from the end of the assessment year).

"The extended time for filing an updated return comes with a steeper cost. The additional tax payable on the incremental tax liability will be 60% if the return is filed more than two years after, but less than three years before, the end of the relevant assessment year. If filed after three years, but before four years, from the end of the relevant assessment year, the additional tax will be 70% of the incremental tax liability," explains Nayak.

However, tax experts rue many other measures not being introduced. For instance, an updated return can be filed only when an additional income has to be offered to tax: it can't be filed for making a tax benefit claim (such as a deduction for donations under old regime) that was earlier missed out. If the original return was a loss return, an updated return can't be filed even to reduce the claim for loss.

Ketan Vajani, CA, states: "While this is a welcome amendment, the legislature has missed addressing the request of allowing updated return in a loss-to-loss situation. For instance, if the original return had loss of Rs 10 lakh and the taxpayer wants to file an updated return with loss of Rs 8 lakh, he cannot do so."