

Disclosure of Foreign Assets

in

Income Tax Return

Budget 2026 Update

FCS MUKESH ARORA

Mukesh Arora & Co.

ICSI Unique Code: S1999HR026200

(Peer Reviewed Firm)

Company Secretaries

Mobile: +91-9810015715

Email- mukesharora.co1@gmail.com

www.csmukesharora.com

1. Introduction

Under the provisions of the Income-tax Act, 1961 and the Black Money (Undisclosed Foreign Income and Assets) Act, 2015, taxpayers who qualify as **Resident and Ordinarily Resident (ROR)** in India are required to disclose their foreign income and foreign assets in their Income Tax Return (ITR). Such disclosure ensures transparency, proper tax compliance, and avoidance of penalties.

Foreign assets and foreign income are reported in the Income Tax Return through:

- **Schedule FA** – Disclosure of Foreign Assets
- **Schedule FSI** – Disclosure of Foreign Source Income
- **Schedule TR** – Claim of Tax Relief under DTAA, where applicable

2. Persons Required to Disclose Foreign Assets

Disclosure of foreign assets and income is mandatory for:

- Individuals and HUFs classified as **Resident and Ordinarily Resident (ROR)**.
- Beneficial owners of foreign assets.
- Beneficiaries of foreign assets where income is not taxed in the hands of the beneficial owner.
- Persons having signing authority over foreign accounts.

Non-residents and residents but not ordinarily residents (RNOR) are generally not required to report foreign assets.

3. Importance of Disclosure

Proper disclosure of foreign assets is important due to the following reasons:

- **Legal Compliance:** Mandatory reporting under the Income-tax Act and the Black Money Act.
- **Avoidance of Penalties:** Non-disclosure attracts significant penalties.
- **DTAA Benefits:** Proper reporting enables claiming foreign tax credit.
- **Transparency:** Ensures accurate reporting of global income and assets.

4. Budget 2026 Update – Proposed Foreign Asset Disclosure Scheme

The Finance Bill, 2026 has proposed a **one-time compliance window** for certain small taxpayers who failed to disclose foreign income or assets due to inadvertence or lack of awareness, including returning students, ESOP holders of foreign companies and returning residents.

The proposed scheme provides a six-month window for disclosure of foreign income and assets upon payment of additional taxes and fees, along with immunity from prosecution subject to conditions.

Categories & Tax Treatment (Proposed)

Category A – Undisclosed Foreign Income / Asset

- Applicable where foreign income or asset was neither disclosed nor taxed earlier.
- Applicable for undisclosed income/assets up to ₹1 crore.

- Tax payable:
 - **30% tax on the fair market value (FMV) or undisclosed income**, plus
 - **Additional 30% penalty**.
- Payment of tax and penalty provides immunity from prosecution.

Category B – Asset Disclosed but Not Reported in ITR

- Applicable where taxes were already paid but the foreign asset was not disclosed in Schedule FA.
- Applicable for foreign assets up to ₹5 crore.
- A **fee of ₹1 lakh** is payable for regularisation.
- Immunity from prosecution proposed upon payment of the prescribed fee.

Additionally:

- Non-disclosure of foreign immovable assets up to ₹20 lakh is proposed not to attract penalty.
- Immunity from prosecution is proposed to be effective from 1 October 2026.

5. Practical Implications for Students Returning from Abroad – Budget 2026 Perspective

Union Budget 2026 recognises that many students returning to India after completing education abroad unintentionally become non-compliant with foreign asset disclosure requirements. During their stay overseas, students often create financial footprints such as foreign bank accounts, stipend or internship income, scholarships, or stock-based compensation (ESOPs/RSUs), which may continue to exist after returning to India.

Once such individuals qualify as **Resident and Ordinarily Resident (ROR)** in India, they become taxable on global income and are required to disclose foreign assets and income in the Income Tax Return, even where:

- the amounts involved are small,
- income was already taxed abroad, or
- the foreign account remains inactive.

The Budget 2026 proposal introduces a **one-time, six-month disclosure window** intended as a compliance reset for such taxpayers. The objective is to allow voluntary disclosure of previously unreported foreign income or assets within specified monetary thresholds, upon payment of applicable taxes or prescribed fees, with immunity from prosecution subject to conditions.

The proposal particularly applies to individuals who:

- studied abroad and recently returned to India,
- maintained foreign bank accounts during their course,
- received stipends, fellowships or internship income,
- earned income through overseas employment or research roles,

- received stock options or shares from foreign employers, or
- are uncertain about the year in which their residential status changed.

The disclosure window is not intended as a general amnesty but as a **time-bound opportunity** to regularise past omissions before normal enforcement provisions resume. Returning students and early-career professionals are therefore advised to review foreign financial accounts and ensure proper reporting in Schedule FA and Schedule FSI upon becoming residents in India.

6. Deadline for Disclosure

Foreign assets must be disclosed while filing the Income Tax Return within the prescribed due date, generally:

- **31st July** of the Assessment Year (for non-audit cases).

In case of omission or incorrect disclosure, taxpayers may:

- File a revised or belated return within the prescribed timelines, or
- Opt for updated return provisions where applicable.

7. Penalty for Non-Disclosure

Failure to disclose foreign assets or furnishing inaccurate information may result in:

- Penalty up to **₹10 lakh per year** under the Black Money Act.
- Possible prosecution and imprisonment up to 7 years in serious cases.
- Denial of relief under Double Taxation Avoidance Agreements (DTAA).

Judicial precedents have also upheld penalties where income from foreign assets was reported but assets were not disclosed in Schedule FA.

8. Procedure for Reporting Foreign Assets

While filing the ITR:

1. Identify all foreign assets and investments.
2. Provide details in Schedule FA including country, institution details and account information.
3. Report opening balance, closing balance and peak value.
4. Disclose income earned from such assets in Schedule FSI.
5. Maintain supporting documentation for verification.

9. Conclusion

Disclosure of foreign assets and foreign income is a critical compliance requirement for resident taxpayers in India. The proposed Budget 2026 disclosure window aims to provide an opportunity for voluntary compliance by small taxpayers while ensuring transparency and reducing litigation. Taxpayers should carefully review overseas holdings and ensure accurate reporting to avoid penalties under the applicable laws.