UNIVERSITY OF DELHI

BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 4 · PART A

PENALTIES AND PROSECUTIONS

What a Default Costs in Money, and What it Costs in Liberty

Under-reporting • Misreporting • Waiver • Immunity • Reasonable Cause • Offences • Special Courts

Sections 439 to 500

as substantially recast by the Finance Act, 2026

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

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The Prescribed Syllabus for this Part

UNIT 4: PENALTIES AND PROSECUTIONS (9 HOURS)

"**Penalties and Prosecutions;** Provisions relating to undisclosed income/ investment; Search, seizure and survey."

THE AUTHORITY FOR THIS SYLLABUS

Resolution No. 4-1-15 — "Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted." — **Appendix-103**

Placed before the **Executive Council of the University of Delhi, EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the **Academic Year 2026-27**.

The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in this material is in the numbering of the new Act. The corresponding provisions of the Income-tax Act, 1961 have no application to Tax Year 2026-27.

Unit 4 carries nine lecture hours and contains two bodies of law which are examined separately. This series therefore divides it into two booklets:

Booklet	Content	Sections
Unit 4 · Part A *this booklet*	**Penalties and prosecutions** — under-reporting and misreporting, the schedule of penalties, waiver and immunity, reasonable cause, and the offences and their punishments	**439 to 500**
Unit 4 · Part B	Provisions relating to undisclosed income and investment; and search, seizure and survey	102 to 107 and 195; 247 to 253

THE FINANCE ACT, 2026 HAS REWRITTEN THIS PART MORE THAN ANY OTHER

Six things changed, and every one of them is examinable —

- **Rigorous imprisonment has gone.** Every offence in Chapter XXII now carries **simple imprisonment**.
- **Punishment is now graded by amount.** Most offences carry a **three-tier** punishment — up to two years where the tax exceeds **₹50 lakh**; up to six months where it exceeds **₹10 lakh** but not ₹50 lakh; and **fine only** in any other case.
- **Minimum sentences have gone** in every section except section 485 (second and subsequent offences).
- **Section 443 has been omitted** — the 10% penalty on income taxed at the special rate under section 195.
- **Section 440 has been recast** — waiver of penalty and immunity from prosecution now rest on payment of additional income-tax of **100% or 120%** of the tax on under-reported income.
- **Penalty will merge into the assessment order** from **1 April 2027** — new section 471(4).

Penalty, Fee and Prosecution — the three levels

Point	Fee	Penalty	Prosecution
Nature	Regulatory charge	Civil punishment	**Criminal** punishment
Who imposes	Automatic — computed on processing	The **Competent Authority** by an order in writing	A **Special Court** of a Judicial Magistrate of the first class
Mental element	None	Generally none, but **reasonable cause** is a defence under section 470	**Wilfulness** is usually an ingredient
Hearing	None	**Compulsory** — section 471(1)	A full criminal trial

Point	Fee	Penalty	Prosecution
Sanction to initiate	None	Prior approval of the Joint Commissioner in the cases in section 471(2)	Previous sanction of the Principal Commissioner or Commissioner — section 491(1)
Where	Sections 427 to 430 — *Unit 1 Part C*	Chapter XXI — sections 439 to 472	Chapter XXII — sections 473 to 500

How to Use this Booklet

Chapters 1 to 5 take the penalties; Chapters 6 and 7 the offences. Chapter 8 contains practical problems and Chapter 9 the reckoner and question bank. Every figure is that in force for **Tax Year 2026-27** under the Act **as amended by the Finance Act, 2026**.

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Page numbers refer to this booklet. Chapter headings are shown in bold.

The sources from which this material has been written

Source	What it settles in this Part
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections **439 to 500** — under-reporting and misreporting, the other penalties, immunity, reasonable cause, the offences and the Special Courts
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	The substantial recast of the penalty and prosecution provisions, including the change from rigorous to simple imprisonment
Memorandum explaining the provisions of the Finance Bill, 2026	The reason for, and effect of, that recast

ABOUT THIS BOOKLET

This booklet has been prepared by **Artificial Intelligence — Claude Opus 5.0 (Anthropic)** — under the guidance and supervision of **Advocate Dr. S. B. Rathore** from the bare text of the **Income-tax Act, 2025** and the **Income-tax Rules, 2026** as downloaded from **incometaxindia.gov.in**.

Date: **11-08-26** (Original)   Updated on:

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Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER ONE

The Scheme of Penalties

Chapter XXI of the Income-tax Act, 2025 — sections 439 to 472 Thirty penalties, one general defence, one procedure and one period of limitation.

1.1 Who may impose a penalty

The Act does not confer the penal power on a single officer. It names, for each penalty, the authority who may impose it — and the naming matters, because a penalty imposed by the wrong authority is void.

Authority	Which penalties
The **Competent Authority** — defined in section 439(15)(a) as the **Assessing Officer, Joint Commissioner (Appeals), Commissioner (Appeals), Commissioner or Principal Commissioner**	The penalty for **under-reporting and misreporting** under section 439 — the principal penalty of the Act
The **Assessing Officer** alone	Sections 449, 450 to 453, 461, 462, 466, 467 and 468
The **Assessing Officer, Joint Commissioner (Appeals) or Commissioner (Appeals)**	Sections 441, 444 and 464
The **prescribed income-tax authority**	Sections 442(2), 446, 454, 455, 458 and 459
The **Joint Director or Joint Commissioner**, or the authority before whom the proceeding is pending	Section 465 — failure to answer questions, sign statements and the like [section 465(4)]

1.2 The structure of Chapter XXI

FOUR GROUPS

1. **The principal penalty** — section 439 for under-reporting and misreporting, with the relief in sections 440 and 469.
2. **Penalties measured by an amount** — a percentage of a transaction, or a sum equal to the tax not collected, the loan taken, or the false entry made: sections 442, 444, 449, 450, 451 and 453.
3. **Penalties of a fixed sum** — ₹10,000, ₹25,000, ₹50,000, ₹1,00,000 or ₹5,00,000: sections 441, 456, 457, 458, 460, 461, 462, 463, 464, 465(1), 466, 467 and 468.
4. **Penalties running by the day** — ₹200, ₹500, ₹1,000 or ₹5,000 for every day of default: sections 446, 452, 454, 455, 459 and 465(2).

Three sections then apply across the whole Chapter — **section 470** (reasonable cause), **section 471** (procedure) and **section 472** (limitation). They are dealt with in Chapter 5.

CHAPTER TWO

Penalty for Under-reporting and Misreporting — Section 439

Section 439, as amended by the Finance Act, 2026

The successor to section 271(1)(c) — fifty per cent for under-reporting, two hundred per cent for misreporting, and a definition that leaves little room for argument.

2.1 The charge [section 439(1)]

The Competent Authority may, during the course of any proceedings under this Act, impose a penalty on any person who has under-reported his income; and the penalty is payable in addition to tax, if any.

Two words control. "**During the course of any proceedings**" — the penalty must be initiated while some proceeding is on foot, not afterwards. "**Under-reported**" — the section abandons the old vocabulary of concealment and inaccurate particulars, and substitutes an arithmetical test.

2.2 When income is deemed to be under-reported [section 439(2)]

Clause	A person is deemed to have under-reported his income if —
(a)	the **income assessed is greater than the income determined** in the return processed under section 270(1)(a)
(b)	the income assessed is **greater than the maximum amount not chargeable to tax**, where **no return** has been furnished, or the return was furnished for the first time under section 280
(c)	the **income reassessed is greater** than the income assessed or reassessed immediately before the reassessment
(d), (e), (f)	the same three tests applied to the **deemed total income under section 206** — the alternate minimum tax provisions
(g)	the income assessed or reassessed has the effect of **reducing a loss or converting a loss into income**

2.3 The amount of under-reported income [section 439(3) to (7)]

Case	The under-reported income is
Income assessed **for the first time**, a return having been furnished	The **difference** between the income assessed and the income determined under section 270(1)(a)
Income assessed for the first time, **no return** furnished — a **company, firm or local authority**	The **whole of the income assessed**
Income assessed for the first time, no return furnished — **any other person**	The difference between the income assessed and the **maximum amount not chargeable to tax**
Any other case	The difference between the income **reassessed or recomputed** and the income assessed, reassessed or recomputed in a **preceding order**
Where the assessment **reduces a loss or converts it into income**	The difference between the **loss claimed** and the income or loss assessed or reassessed [section 439(5)(b)]

Sections 439(6) and (7) deal with the classic "telescoping" argument. Where the source of a receipt, deposit or investment in a tax year is claimed to be an amount **added to income in an earlier year** for which **no penalty was levied**, the under-reported income **shall include so much as is sufficient to cover that receipt** — and it is deemed to be under-reported income of that **preceding year**, taking the immediately preceding year first and working backwards.

2.4 The four exclusions [section 439(8)]

UNDER-REPORTED INCOME DOES NOT INCLUDE —

- **(a)** income in respect of which the assessee offers an **explanation** which the Competent Authority is satisfied

is bona fide, and the assessee has disclosed all the material facts to substantiate it;

- **(b)** an amount determined **on an estimate**, where the **accounts are correct and complete** to the Authority's satisfaction but the **method employed** is such that income cannot properly be deduced from them;
- **(c)** an amount determined on an estimate, where the assessee **himself estimated a lower addition or disallowance on the same issue**, included it in his computation, and disclosed all the material facts; and
- **(d)** an addition made in conformity with the **arm's length price** determined by the Transfer Pricing Officer, where the assessee maintained the prescribed documentation, declared the international transaction and disclosed all the material facts.

Clause (a) is the general escape and it has two limbs which must **both** be satisfied — a *bona fide* explanation **and** full disclosure of material facts.

2.5 The two rates — 50% and 200% [section 439(9) and (10)]

Under-reporting → 50% of the tax payable on the under-reported income

Misreporting → 200% of the tax payable on the under-reported income

The 200% rate applies "irrespective of anything contained in sub-section (8) or (9)". Two consequences follow, and both are examinable. First, where the under-reporting is **in consequence of misreporting**, the rate is 200% and not

50%. Second, and more important, the four exclusions in sub-section (8) do not protect the assessee in a

misreporting case — the opening words override them.

2.6 The seven cases of misreporting [section 439(11), as amended]

Clause	Case of misreporting
(a)	**Misrepresentation or suppression of facts**
(b)	**Failure to record investments** in the books of account
(c)	Claim of **expenditure not substantiated by any evidence**
(d)	Recording of any **false entry** in the books of account
(e)	**Failure to record any receipt** in the books having a bearing on total income
(f)	Failure to report any **international transaction or specified domestic transaction** to which Chapter X applies
(g) *inserted in 2026*	**Income referred to in section 195(1)(b)** — that is, unexplained cash credits, investments, money, expenditure or borrowings **determined by the Assessing Officer** and not reflected in the return. *See Unit 4 Part B, Chapter 2.*

The insertion of clause (g) is significant. It moves undisclosed income found by the Assessing Officer out of the 50% band and into the **200%** band, at the same time as section 443 — which imposed a separate 10% penalty on such income — has been **omitted**.

2.7 The tax payable on under-reported income [section 439(12)]

Case	Tax payable on the under-reported income
No return furnished, or return furnished for the first time under section 280, and income assessed for the first time	The tax on the **under-reported income as increased by the maximum amount not chargeable to tax**, as if it were the total income

The total income determined or assessed in a preceding

THE TAX ON THE UNDER-REPORTED INCOME AS IF IT WERE THE TOTAL INCOME

order is a **loss**

Case

Tax payable on the under-reported income

Any other case	**X – Y**, where **X** is the tax on the under-reported income *plus* the income determined or assessed in the preceding order, as if that sum were the total income; and **Y** is the tax on the income so determined or assessed

2.8 No double penalty, and the updated-return relief [section 439(13) and (13A)]

- **439(13)** — no addition or disallowance shall form the basis of a penalty **if it has already formed the basis of a penalty in the case of that person for the same or any other tax year**.
- **439(13A)**, inserted by the Finance Act, 2026 — where **additional income-tax is paid under section 267(5)(ii)** — the extra 10% on an updated return filed in pursuance of a notice under section 280 — **the income on which it is paid shall not form the basis of a penalty under this section**.
- **439(14)** — the penalty is imposed **by an order in writing**.

Sub-section (13A) is the reward for coming forward. An assessee who receives a section 280 notice and responds with an updated return, paying the tax, interest and the additional income-tax of 35% or more, buys immunity from the 50% or 200% penalty on that income.

2.9 Illustrations

ILLUSTRATION 2.1 — UNDER-REPORTING, COMPUTED

Shri Alok returned a total income of ₹12,00,000 for Tax Year 2026-27, which was processed under section 270(1)

(a) at that figure. On scrutiny his income was assessed at **₹18,00,000**. The addition is not a case of misreporting. Tax on ₹18,00,000 under section 202(1) with cess is ₹1,66,400; tax on ₹12,00,000 with cess is ₹74,880 before rebate, and the rebate under section 156(2) reduces it to nil. *Compute the penalty.*

Under-reported income — ₹18,00,000 – ₹12,00,000 [section 439(3)(a)(i)]	6,00,000
X — tax on ₹18,00,000, being under-reported income plus income determined	1,66,400
Y — tax on ₹12,00,000, the income determined under section 270(1)(a), after the section 156 rebate	Nil
Tax payable on the under-reported income = X – Y	**1,66,400**
Penalty at 50% [section 439(9)]	**₹83,200**

*Change one fact — had the addition arisen because Shri Alok had **failed to record a receipt** in his books, it would have been **misreporting** under section 439(11)(e), the rate would have been **200%**, and the penalty ₹3,32,800. And the exclusions in section 439(8) would not have saved him.*

ILLUSTRATION 2.2 — NO RETURN AT ALL

Bharat Traders, a firm, furnished no return for Tax Year 2026-27. Its income was assessed for the first time at **₹9,00,000**, on which the tax with cess is ₹2,80,800. *Compute the under-reported income and the penalty.*

Under **section 439(3)(a)(ii)(A)**, where no return has been furnished and the assessee is a **company, firm or local authority**, the under-reported income is the **whole of the income assessed** — ₹9,00,000. The maximum amount not chargeable to tax is **not** deducted, that concession being confined to other persons by item (B).

The tax payable on it is computed under section 439(12)(a) — the tax on the under-reported income as increased by the maximum amount not chargeable to tax — and the penalty at 50% follows. Had the firm's failure amounted to misreporting, the rate would have been 200%.

Waiver of Penalty and Immunity from Prosecution

Sections 440 (as substituted) and 469 · Rule 231 · Form No. 161

Pay a hundred per cent instead of two hundred, give up the appeal, and walk away without a prosecution.

3.1 The four conditions [section 440(1), as substituted]

An assessee may apply to the Assessing Officer for waiver of the penalty levied under section 439 and immunity from the initiation of proceedings under section 478 or 479, on fulfilment of all the following —

Clause	Condition
(a)	The **tax and interest** payable per the order of assessment under section 270(10) or reassessment under section 279 **has been paid within the period specified in the notice of demand**
(b)	Where the penalty was levied in the circumstances in **section 439(11)(a) to (f)**, **additional income-tax of 100% of the tax payable on the under-reported income** has been paid within that period, **in lieu of the penalty**
(c)	Where the penalty was levied in the circumstances in **section 439(11)(g)** — undisclosed income determined by the Assessing Officer — **additional income-tax of 120%** has been so paid
(d)	**No appeal** has been filed against the order of assessment or reassessment and the levy of penalty

The arithmetic is the point of the section. A misreporting penalty is **200%**. By giving up the appeal and paying **100%** — or **120%** for undisclosed income — the assessee halves the charge and buys immunity from prosecution for wilful evasion under section 478 and for failure to furnish a return under section 479.

3.2 The application and the order [section 440(2) to (4)]

- **440(2)** — the application shall be made **within one month from the end of the month in which the order is received** by the assessee, in the prescribed form and verified in the prescribed manner — **Form No. 161** [Rule 231].
- **440(3)** — the Assessing Officer shall, on fulfilment of the conditions **and after the expiry of the period for filing an appeal** under section 358(3)(a), grant the waiver and the immunity.
- **440(4)** — **no waiver or immunity shall be granted if any proceeding has been initiated under Chapter XXII** — that is, if a prosecution has already begun.

3.3 The Commissioner's general power [section 469]

Section 469 is a separate and wider power. **Irrespective of anything in the Act**, the Principal Commissioner or **Commissioner may, on his own motion or otherwise, at his discretion reduce or waive the penalty imposed or imposable under section 439**, if satisfied that the person —

- **(a) before the Assessing Officer detected** the concealment or inaccuracy, made a **full and true disclosure voluntarily and in good faith**; and
- **(b)** has **co-operated** in the enquiry and has **paid or made satisfactory arrangements to pay** the tax or interest.

Sub-section	Limit
469(2)	Full and true disclosure is **deemed** where the difference between the assessed and returned income does **not attract** a penalty under section 439
469(3)	Where the income in respect of which the penalty is imposed or imposable exceeds **₹5,00,000** — in the aggregate, if more than one year is involved — the Commissioner must obtain the **prior approval of the Principal Chief Commissioner, Chief Commissioner, Principal Director General or Director General**

Sub-section	Limit
469(4)	Relief may be granted **only once**. A person in whose favour an order has been made **shall not be entitled to any relief under the section for any other tax year** at any time thereafter
469(5)	On an application, and **after recording reasons**, the Commissioner may reduce or waive the penalty, or **stay or compound** any recovery proceeding

Section 491(3) completes the picture: a person **shall not be proceeded against** for an offence under section 478 or 482 for a year in respect of which the penalty under section 439 **has been reduced or waived under section 469**.

CHAPTER FOUR

The Schedule of Other Penalties

Sections 441 to 468, as amended by the Finance Act, 2026 Learn them in three groups — those measured by an amount, those of a fixed sum, and those running by the day.

4.1 Penalties measured by an amount

Section	Default	Penalty
442(1)	Failure to keep and maintain the information and document required by section 171(1) for an **international or specified domestic transaction**; failure to report such a transaction; or maintaining or furnishing incorrect information	**2% of the value of each transaction**
444	A **false entry** in the books of account, or the **omission of an entry** relevant to the computation of total income, to evade tax	A sum **equal to the aggregate amount of the false or omitted entry**; and the same again on **any other person who causes** the entry to be made or omitted [section 444(2)]
449	**Failure to collect** tax at source under Chapter XIX-B	A sum **equal to the tax not collected**
450	Taking or accepting a **loan, deposit or specified sum** in contravention of section 185	A sum **equal to the loan, deposit or specified sum**
451	Contravention of **section 186**	A sum **equal to the amount received** in contravention
453	**Repaying** a loan, deposit or specified advance otherwise than as required by section 188	A sum **equal to the amount repaid**

Note how severe this group is. Sections 450, 451 and 453 impose a penalty **equal to the whole transaction**, not to the tax on it — a cash loan of ₹5,00,000 taken in breach of section 185 costs ₹5,00,000.

4.2 Penalties of a fixed sum

Section	Default	Penalty
441	Failure to **keep, maintain or retain books of account** as required by section 62	**₹25,000**
442(2)	Failure to furnish the information and document required under section 171(4)	**₹5,00,000**
446 *substituted*	Providing **inaccurate information** in a **crypto-asset** statement under section 509 and failing to remove it, or failing to comply with the due diligence requirement	**₹50,000**
456	Failure by an **eligible investment fund** to furnish a statement, information or document	₹5,00,000
457	Failure to furnish information or document under **section 171**	2% of the value of the transaction
458	Failure by an **Indian concern** to furnish information or document under section 506	₹5,00,000
460	Failure to submit the statement under **section 505**	₹1,00,000

Section	Default	Penalty
461	Failure to deliver the **TDS or TCS statement** under section 397(3)(b) in time, or furnishing **incorrect information** in it	**₹10,000 to ₹1,00,000**; no penalty for delay if the tax, fee and interest were paid and the statement filed **within one month** [section 461(2)]
462	Failure to furnish, or furnishing inaccurate, information on a payment to a **non-resident** under section 397(3)(d)	₹1,00,000
463	**Incorrect information** in a report or certificate by an **accountant, merchant banker or registered valuer**	₹10,000 for each report or certificate

Section	**Default**	**Penalty**
464	Failure by a research association, University or institution to deliver prescribed documents or a certificate	₹10,000 to ₹1,00,000
465(1)	Refusal to **answer questions**, to **sign a statement**, to attend on summons or produce books, or to comply with a notice under section 268(1) or 270(8)	**₹10,000** for each default
466 *amended*	Failure to comply with **section 254** — the power to collect certain information	**₹25,000** *(raised from ₹1,000 by the Finance Act, 2026)*
467	Failure to comply with **section 262** or section 397(2)(h) — the **Permanent Account Number**	₹10,000 for each default
468	Failure to comply with **section 397** — chiefly the **TAN**; and quoting a false TAN	₹10,000 for each

4.3 Penalties running by the day

Section	Default	Penalty per day
446(1) *substituted*	Failure to furnish a statement in respect of a **crypto-asset transaction** under section 509(1)	**₹200** a day
452	Failure to provide a facility for accepting payments through the **prescribed electronic modes** under section 187	**₹5,000** a day
454 *substituted*	Failure to furnish a **statement of financial transaction or reportable account** under section 508(1) **after a notice** under section 508(7)	**₹1,000** a day from the day after the notice period expires, **capped at ₹1,00,000**
455	Furnishing an **inaccurate** statement of financial transaction or reportable account	As directed by the prescribed authority
459	Failure by a **reporting entity** to furnish the report under section 511(2)	₹5,000 or ₹15,000 a day, according to the period of default
465(2)	Failure to furnish returns, statements or particulars under section 252, 397(3) or 507; to deliver a declaration under section 393(7) or 394(3); to furnish a certificate under section 395(4); or to deliver the statement under section 397(3)(b)	**₹500** a day; capped at the **tax deductible or collectible** for the items in section 465(3)

4.4 Every penalty on one page

THE FIGURES THAT MUST BE REMEMBERED

Amount	Sections
50% / 200%	Under-reporting / misreporting of income — **439(9) and (10)**
100% / 120%	The additional income-tax that buys waiver and immunity — **440(1)(b) and (c)**
2%	Of the value of each international or specified domestic transaction — **442(1)**, **457**
Equal to the amount	False or omitted entry **444**; tax not collected **449**; loan or deposit taken **450**; sum received **451**; loan repaid **453**
₹10,000	Sections 463, 465(1), 467, 468 — and the floor of the range in 461 and 464
₹25,000	Books of account **441**; and section **466** *(raised from ₹1,000 in 2026)*
₹50,000	Inaccurate crypto-asset information — **446(2)**
₹1,00,000	Sections 460 and 462; the ceiling in 461 and 464; the cap in 454
₹5,00,000	Sections 442(2), 456 and 458; and the threshold for approval under 469(3)
₹200 / ₹500 / ₹1,000 / ₹5,000 a day	Sections 446(1) / 465(2) / 454 / 452

CHAPTER FIVE

Reasonable Cause, Procedure and Limitation

Sections 470 to 472, as amended by the Finance Act, 2026

One defence, one procedure, one period — and a change that takes effect on 1 April 2027.

5.1 Reasonable cause [section 470]

THE GENERAL DEFENCE

"Irrespective of anything contained in sections 441, 442, 446, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 465(1)(c) and (d), 465(2), 466, 467 or 468, no penalty shall be imposed on a person for any failure referred to in those provisions, **if he proves that there was reasonable cause for the said failure.**"

The Finance Act, 2026 **omitted the reference to section 447**, that section having itself been omitted.

Note what section 470 does **not** cover — the penalty under **section 439** for under-reporting and misreporting, and the penalties under sections 444, 464 and 465(1)(a) and (b). For section 439 the corresponding relief is the **bona fide explanation** in section 439(8)(a), the waiver in section 440, and the Commissioner's power in section 469. The burden is on the assessee — the words are "**if he proves**". What amounts to reasonable cause is a question of fact; illness, the death of an accountant, the seizure of records, a genuine and reasonable belief founded on professional advice, and circumstances beyond the assessee's control have all been accepted.

5.2 Procedure [section 471, as amended]

Sub-section	Requirement
471(1)	No order imposing a penalty shall be made **unless the assessee has been heard, or has been given a reasonable opportunity of being heard, by way of a show cause notice to that effect** — the words in italics inserted by the Finance Act, 2026
471(2)	No order shall be made **without the prior approval of the Joint Commissioner** — where the penalty exceeds **₹10,000** and is imposed by an **Income-tax Officer**, and where it exceeds **₹20,000** and is imposed by an **Assistant or Deputy Commissioner**
471(3)	An authority other than the Assessing Officer who imposes a penalty shall **send a copy of the order to the Assessing Officer**

5.3 The merger of penalty into the assessment from 1 April 2027 [section 471(4) and (5)]

A STRUCTURAL CHANGE, BUT NOT YET FOR TAX YEAR 2026-27

The Finance Act, 2026 inserted two new sub-sections. Where a **draft order under section 275, or an assessment under section 270, or a reassessment under section 279, is made on or after 1 April 2027 —**

- **(4)(a)** the penalty under section 439, if any, **shall constitute part of that draft or shall be imposed as part of that order of assessment or reassessment; and**
- **(4)(b)** a reference in the Act to the assessment order **or** to the penalty order under section 439 shall be read as a reference to **that single order**.
- **(5)** where the **approval of the Joint Commissioner** is taken for the assessment or reassessment order, that **approval is also deemed to be the approval for the penalty.**

The effect is that the separate penalty proceeding disappears: assessment and penalty become one order, appealable once. But the change bites only on orders made **on or after 1 April 2027**, so for an assessment of Tax Year 2026-27 completed before that date the old two-order scheme still applies.

5.4 Bar of limitation [section 472]

No order imposing a penalty shall be passed after the expiry of six months from the end of the quarter in which —

Clause	The quarter in which —
(a)	the **proceedings in the course of which the penalty was initiated are completed**, where the assessment or other order is **not** the subject of an appeal
(b)	the **order of revision** is passed, where the assessment is the subject of revision under section 377 or 378
(c)	the **order of appeal is received** by the jurisdictional Principal Commissioner or Commissioner, where the assessment is the subject of an appeal under section 356, 357 or 362
(d)	the **notice for imposition of penalty is issued**, in any other case

472(2) — an order imposing, enhancing, reducing or cancelling a penalty, or dropping the proceedings, **may be revised on the basis of the assessment as revised** by giving effect to an appellate or revisional order.

CHAPTER SIX

Offences and Prosecutions

Chapter XXII — sections 473 to 486, as recast by the Finance Act, 2026

The single most rewritten Chapter in the Act this year. Learn the new scheme, not the old.

6.1 What the Finance Act, 2026 did

THREE CHANGES THAT RUN THROUGH THE WHOLE CHAPTER

- **Rigorous imprisonment has been replaced by simple imprisonment** in every operative section — 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484 and 494. The only survivor of a *minimum* sentence is section 485.
- **Punishment is now graded by the amount of tax involved**, in three tiers. The old scheme had a single threshold of ₹25 lakh; the new one has two thresholds and a fine-only bottom tier.
- **Maximum terms have been shortened** — the seven-year maximum has gone from every section except section 485, where it has become **three years**.

6.2 The three-tier punishment

The pattern that now appears in sections 476, 477, 478, 479, 480, 482 and 484

Where the amount of tax	Punishment
Exceeds ₹50,00,000	**Simple imprisonment up to two years, or fine, or both**
Exceeds ₹10,00,000 but does not exceed ₹50,00,000	**Simple imprisonment up to six months, or fine, or both**
Any other case	**Fine only**

The “amount of tax” is defined in each section by reference to what is in issue — the tax not paid over, the tax sought to be evaded, the tax that would have been evaded had the failure not been discovered, or the tax that would have been evaded had the false statement been accepted as true.

6.3 Offences connected with a search [sections 473 to 475]

Section	Offence	Punishment for Tax Year 2026-27
473	**Contravention of an order made during a search action** — an order under section 247(4) restraining the removal of, or dealing with, an asset or books	**Simple imprisonment up to two years and with fine** *(was rigorous imprisonment)*
474	**Failure to afford facility for inspection of books of account during a search** — failure to comply with section 247(1)(ii)	**Simple imprisonment up to six months, or fine, or both** *(was rigorous imprisonment up to two years and fine)*
475	**Fraudulent removal, concealment, transfer or delivery of property** with intent to prevent it from being taken in execution of a certificate under section 413	**Simple imprisonment up to two years and with fine**

Note the marginal headings of sections 473 and 474 were also substituted, to read “**Contravention of order made during search action**” and “**Failure to afford facility for inspection of books of account during search**”. Both offences belong to the search

machinery dealt with in Unit 4 Part B.

6.4 Failure to pay over tax deducted or collected [sections 476 and 477]

Section	Offence, as substituted
476	Failure to **(a)** pay the **tax deducted at source** to the credit of the Central Government; or **(b)** pay or ensure payment of the tax on **winnings from an online game** [section 393(3), Sl. No. 2] or on **consideration for the transfer of a virtual digital asset** [section 393(1), Sl. No. 8(vi)] — **excluding in each case winnings or consideration wholly in kind**
477	Failure to pay the **tax collected at source** to the credit of the Central Government as required by section 397(3)(a)

Both carry the **three-tier punishment**. And both retain their defence: **no offence** where the payment was made on or before the time prescribed for filing the statement under section 397(3)(b) [sections 476(2) and 477(2)]. Section **486** adds a further defence — no person shall be punishable under section 476 or 477 **if he proves that there was reasonable cause** for the failure.

6.5 Wilful attempt to evade tax [section 478]

- **478(1)** — a **wilful attempt in any manner to evade any tax, penalty or interest chargeable or imposable, or to under-report income** — with the three-tier punishment by reference to the **amount sought to be evaded or the tax on the under-reported income**.
- **478(2)** — a **wilful attempt to evade the payment** of any tax, penalty or interest — with the same three tiers by reference to the amount sought to be evaded.

The distinction between the two sub-sections is between evading the **liability** and evading the **payment** of a liability already determined. Section 491(3) bars a prosecution under section 478 for a year in respect of which the penalty under section 439 has been **reduced or waived under section 469**; and section 440 gives immunity from section 478 on payment of the additional income-tax.

6.6 Failure to furnish returns [sections 479 and 480]

Section	Offence	Punishment
479	**Wilful failure to furnish in due time the return of income** required under section 263(1), or by a notice under section 268(1) or 280	The **three tiers**, by reference to the **tax which would have been evaded had the failure not been discovered**
480 *substituted*	**Wilful failure to furnish in due time the return setting forth undisclosed income for the block period**, required by a notice under section 294(1)(a)	The **three tiers**, by reference to the amount of tax

Section 479(2) preserves the familiar escape: a person shall **not** be proceeded against for failure to furnish the return under section 263(1) if he furnishes it before the end of the relevant tax year, or if the tax payable, reduced by advance tax and tax deducted at source, does not exceed the prescribed sum.

6.7 Special audit, false statements and falsification [sections 481 to 484]

Section	Offence	Punishment
481 *substituted*	**Wilful failure to comply with a direction for a special audit or inventory valuation** under section 268(5)	**Simple imprisonment up to six months, or fine, or both** — a single tier, with no reference to amount
482	**False statement in verification**, or delivery of an account or statement which the person knows or believes to be false	The **three tiers**, by reference to the tax which would have been evaded had the statement been accepted as true

Section	Offence	Punishment
483	**Falsification of books of account or documents** — making a false entry or statement, wilfully and with intent to enable another to evade tax	**Simple imprisonment up to two years and with fine** *(the minimum of three months has gone)*
484	**Abetment** of a false return, account, statement or declaration, or of a wilful attempt to evade	The **three tiers**, by reference to the tax, penalty or interest which would have been evaded

Section 483(2) is worth noting: to establish the charge it is **not necessary to prove that the second person actually evaded** any tax, penalty or interest. The offence is complete on the making of the false entry with the requisite intent.

6.8 Second and subsequent offences, and the defence [sections 485 and 486]

> **THE ONLY SURVIVING MINIMUM SENTENCE**
>
> **Section 485** — a person convicted of an offence under section 476, 477, 478(1), 479, 480, 482 or 484 who is **again convicted** under any of those sections shall be punishable for the second and every subsequent offence
>
> **with simple imprisonment for not less than six months but which may extend to three years, and with fine.**
>
> Before the Finance Act, 2026 the punishment was rigorous imprisonment of not less than six months extending to **seven years**. The minimum survives; the maximum has been cut to three years and the imprisonment made simple.

Section 486 — no person shall be punishable for any failure under section 476 or 477 **if he proves that there was reasonable cause** for the failure. It is the criminal counterpart of section 470.

6.9 Every offence on one page

Section	Offence	Punishment for Tax Year 2026-27
473	Contravention of an order made during a search	Simple imprisonment up to **2 years** and fine
474	Failure to afford facility for inspection during a search	Simple imprisonment up to **6 months**, or fine, or both
475	Removal, concealment or transfer of property to defeat recovery	Simple imprisonment up to **2 years** and fine
476	Failure to pay over **tax deducted** at source	**The three tiers** — up to **2 years**, or fine, or both, if the tax exceeds **₹50 lakh**;
477	Failure to pay over **tax collected** at source	up to **6 months**, or fine, or both, if it exceeds **₹10 lakh** but
478	**Wilful attempt to evade** tax, penalty or interest, or to under-report income; and wilful attempt to evade payment	not ₹50 lakh; **fine only** in any other case
479	**Wilful failure to furnish the return** of income	
480	Wilful failure to furnish the **block-period return**	
482	**False statement** in verification	
481	Wilful failure to comply with a **special audit** direction	Simple imprisonment up to **6 months**, or fine, or both
483	**Falsification** of books of account or documents	Simple imprisonment up to **2 years** and fine
484	**Abetment** of a false return or of evasion	The three tiers, as above
485	**Second and subsequent** offences under sections 476, 477, 478(1), 479, 480, 482 or 484	Simple imprisonment **not less than 6 months**, extending to **3 years**, and fine

Section	Offence	Punishment for Tax Year 2026-27
494(1)	Disclosure of particulars by a **public servant** in contravention of section 258(3)	Simple imprisonment up to **one month**, or fine, or both

CHAPTER SEVEN

The Machinery of Prosecution

Sections 487 to 500

Who is liable, who may sanction, which court tries the case, and how it may be compounded.

7.1 Offences by companies and by Hindu undivided families [sections 487 and 488]

Provision	What it lays down
487(1)	Where an offence has been committed **by a company**, **every person who at the time was in charge of, and responsible to, the company for the conduct of its business, as well as the company**, shall be deemed guilty
487(2)	**Defence** — that the offence was committed **without his knowledge**, or that he **exercised all due diligence** to prevent it
487(3)	Where the offence is proved to have been committed **with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer**, that person is also deemed guilty
488(1)	Where an offence has been committed by a **Hindu undivided family**, the **karta** is deemed guilty
488(2) and (3)	The same defence for the karta; and the same extension to **any member** with whose consent or connivance, or by whose neglect, the offence was committed

7.2 Sanction and compounding [section 491]

- **491(1)** — a person **shall not be proceeded against** for an offence under sections 473 to 484 **except with the previous sanction of the Principal Commissioner, Commissioner, Commissioner (Appeals) or Joint Commissioner (Appeals).**
- **491(2)** — the Principal Chief Commissioner, Chief Commissioner, Principal Director General or Director General may issue instructions for the institution of proceedings.
- **491(3)** — **no prosecution under section 478 or 482** for a tax year in respect of which the penalty under section 439 has been **reduced or waived under section 469**.
- **491(4)** — **any offence under the Chapter may be compounded**, either before or after the institution of proceedings, by the **Principal Chief Commissioner, Chief Commissioner, Principal Director General or Director General.**
- **491(5)** — a statement, account or document produced before an income-tax authority is **not inadmissible** in evidence in such proceedings merely because it was so produced.

7.3 Non-cognizable offences and proof of entries [sections 492 and 493]

- **492** — irrespective of the **Bharatiya Nagarik Suraksha Sanhita, 2023**, an offence under section **476, 478, 479, 480, 482 or 484 is deemed to be non-cognizable** — so no arrest without a warrant, and no investigation without the order of a Magistrate.
- **493** — **entries in the records or documents in the custody of an income-tax authority are admitted in evidence** in any prosecution, and may be proved by production of the record or by a certified copy with the prescribed certificate.

7.4 Special Courts and summons trial [sections 495 to 498]

Section	What it provides
495	The Central Government, **in consultation with the Chief Justice of the High Court**, may by notification designate one or more courts of **Judicial Magistrate of the first class** as a **Special Court** for an area or for a class of cases
496	Offences under the Chapter are **triable only by the Special Court**, which takes cognizance **upon a complaint** made by an authorised authority — not on a police report

Section

What it provides

497	The Special Court shall try an offence **punishable with imprisonment not exceeding two years, or with fine, or with both, as a summons case** — the shorter and simpler criminal procedure
498	The **Bharatiya Nagarik Suraksha Sanhita, 2023** applies to proceedings before a Special Court, which is deemed a Court of Session for that purpose so far as may be

Section 497 is a direct consequence of the Finance Act, 2026. Because almost every offence now carries a maximum of two years or less, almost every prosecution under the Act will now be tried as a **summons case**.

7.5 Void transfers and provisional attachment [sections 499 and 500]

- **499** — where, during the pendency of a proceeding or after its completion but **before service of the Tax** Recovery Officer's notice under section 413, an assessee creates a charge on, or parts with possession of, **any of his assets**, that charge or transfer is **void** as against any claim for tax or other sum payable. It is **not void** if made **for adequate consideration and without notice** of the pendency or of the liability, or with the previous permission of the Assessing Officer.
- **500** — during the pendency of an assessment or reassessment, or of a proceeding for a penalty under **section** 444 where the penalty likely to be imposed exceeds ₹2 crore, the Assessing Officer may — with the previous approval of the Competent Authority and by order in writing — provisionally attach any property of the assessee in the manner prescribed in section 413.

CHAPTER EIGHT

Practical Problems with Solutions

Seven problems in the form in which the University of Delhi has set them.

PROBLEM 1 — UNDER-REPORTING OR MISREPORTING?

State in each case whether the penalty under section 439 is at **50%** or **200%**, and why.

Sl.	Facts	Answer
(a)	A claim for depreciation at 40% where the correct rate is 15%, the asset and its cost being fully disclosed	**50%** — under-reporting. The facts were disclosed; it is a wrong claim, not a misrepresentation
(b)	Purchase of a machine for ₹22,00,000 not entered in the books at all	**200%** — **failure to record investments** in the books [section 439(11)(b)]
(c)	A claim for ₹6,00,000 of consultancy charges for which no bill, agreement or evidence of any kind is produced	**200%** — **expenditure not substantiated by any evidence** [section 439(11)(c)]
(d)	An estimated addition to gross profit, the books being correct and complete but the method such that income cannot properly be deduced	**No penalty at all** — excluded by section 439(8) (b)
(e)	Sales of ₹9,00,000 found recorded in a diary but not in the books	**200%** — **failure to record a receipt** having a bearing on total income [section 439(11)(e)]
(f)	An international transaction not reported, though the documentation was maintained	**200%** — [section 439(11)(f)]; and a separate penalty of **2% of the value** of the transaction under section 442(1)(b)
(g)	Unexplained cash credits of ₹11,00,000 determined by the Assessing Officer and not reflected in the return	**200%** — the new clause **(g)** inserted in section 439(11) by the Finance Act, 2026, income being referred to in section 195(1)(b)
Under-reported income — ₹58,00,000 – ₹40,00,000		18,00,000
Tax payable on it — X – Y, being tax on ₹58,00,000 less tax on ₹40,00,000, at 26%		4,68,000
Both components are cases of **misreporting** — section 439(11)(c) and (e)		—
Penalty at 200% [section 439(10)]		**₹9,36,000**

PROBLEM 2 — THE PENALTY COMPUTED

Chirag Ltd. returned an income of ₹40,00,000, processed at that figure. On scrutiny the income was assessed at ₹58,00,000, of which ₹6,00,000 was a disallowance of an unsubstantiated claim and ₹12,00,000 was a receipt not recorded in the books. The tax rate applicable to the company, with cess, is 26%. *Compute the penalty.*

Had only the ₹6,00,000 been misreported and the ₹12,00,000 an ordinary under-reporting, the penalty would have been 200% of the tax on ₹6,00,000 (₹1,56,000 × 2 = ₹3,12,000) plus 50% of the tax on ₹12,00,000 (₹3,12,000 ÷ 2 = ₹1,56,000), a total of ₹4,68,000. The two rates are applied to their own components.

PROBLEM 3 — WAIVER AND IMMUNITY

Take the facts of Problem 2. Chirag Ltd. paid the tax and interest per the assessment order within the period specified in the notice of demand and has not filed an appeal. *What relief is available, and at what cost?*

It may apply under section 440(1), in Form No. 161 [Rule 231], within one month from the end of the month in which the order was received, for waiver of the penalty and immunity from prosecution under sections 478 and 479. The conditions are —

- the tax and interest have been paid in time — **satisfied**;

- the penalty being under section 439(11)(c) and (e), **additional income-tax of 100%** of the tax on the under-reported income — **₹4,68,000** — must be paid within that period, **in lieu of the penalty**;
- no appeal has been filed — **satisfied**.

The company therefore pays **₹4,68,000** instead of the penalty of **₹9,36,000**, a saving of ₹4,68,000, and obtains immunity from prosecution. The Assessing Officer grants the waiver **after the expiry of the period for filing an appeal** [section 440(3)]; and no waiver is available if a prosecution has already been initiated [section 440(4)].

*Had the penalty been under clause (g) — undisclosed income determined by the Assessing Officer — the additional income-tax would have been **120%**, that is ₹5,61,600.*

PROBLEM 4 — REASONABLE CAUSE

State whether the defence of reasonable cause under section 470 is available in each case.

1. Failure to keep books of account under section 62, the records having been destroyed in a flood. —

Available. Section 441 is listed in section 470, and destruction by flood is a classic reasonable cause.

2. Under-reporting of income under section 439. — Not available. Section 439 is not listed in section 470.

The corresponding relief is the *bona fide* explanation in section 439(8)(a), or waiver under section 440 or 469.

3. Failure to apply for a TAN under section 397. — Available. Section 468 is listed.

4. A false entry in the books of account under section 444. — Not available. Section 444 is not listed, and a

false entry is by its nature not capable of a reasonable cause.

5. Failure to deliver the quarterly TDS statement, the accountant having been hospitalised. — Available

for the penalty under section 461 and under section 465(2)(k), both being listed. But the **fee** under section 427 is **unaffected** — a fee admits of no reasonable cause.

PROBLEM 5 — THE PUNISHMENT, AFTER THE FINANCE ACT, 2026

State the punishment in each case for an offence committed in Tax Year 2026-27.

Offence	Punishment
(a) Failure to pay over tax deducted at source of **₹72,00,000**	**Simple imprisonment up to two years, or fine, or both** — section 476(1)(i), the tax exceeding ₹50 lakh
(b) The same failure, the tax being **₹18,00,000**	**Simple imprisonment up to six months, or fine, or both** — section 476(1)(ii)
(c) The same failure, the tax being **₹4,00,000**	**Fine only** — section 476(1)(iii)
(d) The same failure, but the tax was paid before the due date for the quarterly statement	**No offence** — section 476(2)
(e) Wilful failure to furnish the return, tax that would have been evaded **₹63,00,000**	**Simple imprisonment up to two years, or fine, or both** — section 479(1)(a)
(f) A second conviction under section 478(1), the first having been in an earlier year	**Simple imprisonment of not less than six months, extending to three years, and fine** — section 485
(g) Contravention of a restraint order made during a search	**Simple imprisonment up to two years and fine** — section 473

*In every case the imprisonment is now **simple**, and in every case except (f) and (g) there is **no minimum**. "Rigorous imprisonment of not less than three months" states the position under the pre-amendment Act.*

PROBLEM 6 — THE PROCEDURE FOR A PENALTY

An Income-tax Officer proposes to impose a penalty of ₹35,000 under section 465(1). He records his satisfaction on the file and issues the order the same day. *Is the order valid?*

No, on two grounds —

- **Section 471(1)** — no order imposing a penalty shall be made unless the assessee has been given a reasonable opportunity of being heard **by way of a show cause notice to that effect**. Those words were inserted by the Finance Act, 2026 and put the requirement of a written notice beyond argument.

- **Section 471(2)(a)** — where the penalty **exceeds ₹10,000** and is imposed by an **Income-tax Officer**, the **prior approval of the Joint Commissioner** is required. ₹35,000 exceeds that limit.

PROBLEM 7 — LIMITATION FOR A PENALTY

A scrutiny assessment of Shri Dinesh was completed on **14 February 2029**, penalty proceedings under section 439 having been initiated in the course of it. *By when must the penalty order be passed —*

Case	Last date
(a) No appeal is filed against the assessment	**30 September 2029** — six months from the end of the quarter ending 31 March 2029, in which the proceedings were completed [section 472(1)(a)]
(b) An appeal is filed, and the appellate order is received by the Principal Commissioner on 8 July 2030	**31 March 2031** — six months from the end of the quarter ending 30 September 2030 [section 472(1)(c)]
(c) The assessment is revised under section 377 by an order passed on 20 November 2029	**30 June 2030** — six months from the end of the quarter ending 31 December 2029 [section 472(1)(b)]

Note that the period runs from the end of the ***quarter****, not of the month or the financial year — a distinction peculiar to this section.*

CHAPTER NINE

Revision, Ready Reckoner and Question Bank

Everything in this Part reduced to tables that can be revised in an hour.

9.1 Old section to new section

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Penalty for under-reporting and misreporting	**270A**	**439**
Immunity from penalty and prosecution	270AA	440
Failure to keep books of account	271A	441
Failure to keep transfer pricing documentation	271AA	442
Penalty on income under sections 68 to 69D	271AAC	**Omitted** — section 443 omitted in 2026
False entry in books of account	271AAD	444
Failure to get accounts audited	271B	Now a **fee** — section 428(c)
Failure to deduct tax at source	271C	**No corresponding penalty** — section 398(1) and section 412
Failure to collect tax at source	271CA	449
Contravention of section 269SS / 269T	271D / 271E	450 / 453
Failure to provide electronic payment facility	271DB	452
Failure to furnish statements — TDS	271H	461
Failure to furnish statement of financial transaction	271FA	**454** *(substituted in 2026)*
Incorrect information in a report or certificate	271J	463
Failure to answer questions, sign statements etc.	272A	465
Failure relating to PAN / TAN	272B / 272BB	467 / 468
Power to reduce or waive penalty	273A	469
Reasonable cause	**273B**	**470**
Procedure for penalty	274	471
Bar of limitation for penalties	275	472
Contravention of an order under section 132(3)	275A	473
Failure to afford facility for inspection	275B	474
Removal or transfer of property to defeat recovery	276	475

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Failure to pay over tax deducted / collected	**276B / 276BB**	**476 / 477**
Wilful attempt to evade tax	**276C**	**478**
Failure to furnish the return of income	276CC	479
Failure to furnish the block-period return	276CCC	480
Failure to comply with a special audit direction	276D	481
False statement in verification	277	482
Falsification of books of account	277A	483
Abetment of a false return	278	484
Second and subsequent offences	278A	485
Sanction and compounding	279	491

Special Courts 280A 495

Subject

Income-tax Act, 1961

Income-tax Act, 2025

Certain transfers to be void	281	499
Provisional attachment	281B	500

9.2 Objective questions

A. State whether True or False, with reasons

1. The penalty for under-reporting is 100% of the tax.

False. It is **50%** under section 439(9), and **200%** where the under-reporting is in consequence of misreporting.

2. The exclusions in section 439(8) protect an assessee in a misreporting case.

False. Section 439(10) opens with "irrespective of anything contained in sub-section (8) or (9)".

3. Where no return is furnished by a firm, the under-reported income is the assessed income less the maximum amount

not chargeable to tax.

False. For a company, firm or local authority it is the whole of the income assessed — section 439(3)(a)(ii)(A).

4. Reasonable cause is a defence to every penalty in Chapter XXI.

False. Section 470 lists the penalties to which it applies, and **section 439 is not among them**.

5. A penalty order may be passed without hearing the assessee if the default is admitted.

False. Section 471(1) requires a reasonable opportunity of being heard **by way of a show cause notice**.

6. The limitation for a penalty order runs from the end of the financial year.

False. It is six months from the end of the quarter specified in section 472(1).

7. Every offence under Chapter XXII carries a minimum sentence.

False. Since the Finance Act, 2026 only **section 485** carries a minimum, of six months.

8. An offence under section 476 is committed even if the tax is paid before the statement is due.

False. Section 476(2) excludes the offence where payment is made on or before the time prescribed for filing the statement under section 397(3)(b).

9. A prosecution may be launched by an Assessing Officer.

False. Section 491(1) requires the **previous sanction** of the Principal Commissioner, Commissioner, Commissioner (Appeals) or Joint Commissioner (Appeals).

10. An offence under the Act may not be compounded.

False. Section 491(4) permits compounding, before or after the institution of proceedings, by the Principal Chief Commissioner, Chief Commissioner, Principal Director General or Director General.

11. Offences under the Act are tried by a Court of Session.

False. They are triable only by a **Special Court** of a Judicial Magistrate of the first class designated under section 495.

12. The karta of a Hindu undivided family is absolutely liable for an offence by the family.

False. Section 488(2) gives him the defence that the offence was committed without his knowledge or that he exercised all due diligence.

B. Multiple choice

1. The penalty for misreporting of income is —

(a) 50% (b) 100% (c) 150% (d) **200%** *Answer: (d), section 439(10)*

2. The additional income-tax for waiver where the penalty is for undisclosed income under section 439(11)(g) is —

(a) 50% (b) 100% (c) **120%** (d) 200% *Answer: (c), section 440(1)(c)*

3. The penalty for failure to keep and maintain books of account is —

(a) ₹10,000 (b) **₹25,000** (c) ₹50,000 (d) ₹1,00,000 *Answer: (b), section 441*

4. The penalty for a false entry in the books of account is —

(a) ₹25,000 (b) 50% of the tax (c) **a sum equal to the false entry** (d) ₹1,00,000 *Answer: (c), section 444*

5. An application for waiver under section 440 must be made within —

(a) 15 days (b)

one month from the end of the month of receipt of the

order (c) 30 days from the order (d) six months *Answer: (b), section 440(2)*

6. A penalty exceeding ₹20,000 imposed by an Assistant Commissioner requires the approval of —

(a) the Commissioner (b) **the Joint Commissioner** (c) the Chief Commissioner (d) no one *Answer: (b), section 471(2)(b)*

7. A penalty order must be passed within —

(a) six months from the end of the month (b) **six months from the end of the quarter** (c) one year from the end of the financial year (d) four years *Answer: (b), section 472(1)*

8. Failure to pay over tax deducted at source of ₹18,00,000 is punishable with —

(a) fine only (b) **simple imprisonment up to six months, or fine, or both** (c) simple imprisonment up to two years (d) rigorous imprisonment up to seven years *Answer: (b), section 476(1)(ii)*

9. The punishment for a second conviction under section 478(1) is —

(a) fine only (b) up to six months (c) **not less than six months, extending to three years, and fine** (d) not less than six months, extending to seven years *Answer: (c), section 485*

10. Offences under the Act are triable by —

(a) a Court of Session (b) the High Court (c) **a Special Court of a Judicial Magistrate of the first class** (d) the Appellate Tribunal *Answer: (c), section 495*

11. An offence punishable with imprisonment not exceeding two years is tried as —

(a) a warrant case (b) **a summons case** (c) a sessions trial (d) a summary trial *Answer: (b), section 497*

12. Provisional attachment during a penalty proceeding under section 444 is available where the penalty likely to be imposed exceeds —

(a) ₹50 lakh (b) ₹1 crore (c) **₹2 crore** (d) ₹5 crore *Answer: (c), section 500(1)(b)*

9.3 Fill in the blanks

1. The penalty for under-reporting of income is __% of the tax payable on it. — *50* [section 439(9)] 2. Where under-reporting is in consequence of misreporting, the penalty is __%. — *200* [section 439(10)] 3. Waiver of penalty and immunity from prosecution require payment of additional income-tax of __% or __%. — *100; 120* [section 440(1)(b) and (c)] 4. The defence of reasonable cause is contained in section __. — *470* 5. No penalty order shall be made unless the assessee has been given a reasonable opportunity of being heard by way of a __ to that effect. — *show cause notice* [section 471(1)] 6. A penalty order must be passed within __ months from the end of the __ specified in section 472(1). — *six; quarter* 7. From __ the penalty under section 439 shall form part of the order of assessment. — *1 April 2027* [section 471(4)] 8. Every offence in Chapter XXII now carries __ imprisonment. — *simple* 9. The two thresholds of the three-tier punishment are ₹__ and ₹__. — *50 lakh; 10 lakh* 10. A person shall not be proceeded against for an offence under sections 473 to 484 except with the previous __ of the Principal Commissioner or Commissioner. — *sanction* [section 491(1)] 11. Offences under sections 476, 478, 479, 480, 482 and 484 are deemed to be __. — *non-cognizable* [section 492] 12. Section __ has been omitted by the Finance Act, 2026, so that unexplained income is now dealt with as misreporting. — *443*

9.4 Short answer questions

1. When is a person deemed to have under-reported his income? 2. How is the amount of under-reported income determined where no return has been furnished? 3. State the cases in which under-reported income does not attract a penalty. 4. What are the cases of misreporting of income, and what is the consequence? 5. Explain the conditions for waiver of penalty and immunity from prosecution under section 440. 6. Explain the Commissioner's power to reduce or waive a penalty under section 469.

7. State the penalties which are measured by an amount rather than by a fixed sum. 8. Explain the defence of reasonable cause, and state the penalties to which it does not apply. 9. State the procedure to be followed before a penalty is imposed, and the limitation for a penalty order. 10. Explain the three-tier punishment introduced by the Finance Act, 2026. 11. State the offences connected with a search and their punishments. 12. Write short notes on — (a) offences by companies; (b) compounding of offences; (c) Special Courts.

9.5 Long answer questions

1. Explain fully the penalty for under-reporting and misreporting of income under section 439, with the manner of computing the under-reported income and the tax payable on it. 2. Discuss the provisions relating to waiver of penalty and immunity from prosecution under section 440, and compare them with the Commissioner's power under section 469. 3. Set out the penalties leviable under Chapter XXI other than section 439, classifying them by the manner in which they are measured. 4. "Reasonable cause is a complete answer to most penalties but to none of the important ones." Examine this statement with reference to section 470. 5. Explain the procedure for imposing a penalty and the bar of limitation, and state the change that takes effect from 1 April 2027. 6. Describe the offences punishable under Chapter XXII of the Income-tax Act, 2025 and the punishment for each, stating the changes made by the Finance Act, 2026. 7. Explain the machinery of prosecution — sanction, compounding, non-cognizability, Special Courts and the mode of trial. 8. Discuss the liability of a company and of a Hindu undivided family, and of their officers and members, for an offence under the Act. 9. Distinguish between a fee, a penalty and a prosecution under the Income-tax Act, 2025, with examples of each. 10. An assessee has been assessed on an under-reported income of ₹20,00,000, of which ₹8,00,000 arises from a receipt not recorded in the books. Compute the penalty, and advise him on the relief available and its cost.

End of Unit 4 · Part A. Part B — provisions relating to undisclosed income and investment, and search, seizure and survey — follows.