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DIRECT TAX ALERT

August 25, 2026

Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026 – Central Government prescribes valuation rules, forms and compliance framework

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Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026

Central Government prescribes valuation rules, forms and compliance framework

Background

Failure to disclose foreign assets or foreign income in the Income Tax Return ("ITR") carries severe consequences. Under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ("BMA"), the combined tax and penalty can reach 120% of the undisclosed asset value/undisclosed income. Non-disclosure in the relevant ITR schedule can attract a penalty of INR 10 lakh for each year of default, along with prosecution ranging from 6 months to 7 years.

A one-time window to regularise foreign assets: The Government of India has opened a time-bound voluntary disclosure window for Indian taxpayers to regularise undisclosed foreign assets and income. The Foreign Assets of Small Taxpayers Scheme 2026 ("FAST-DS 2026") introduced vide the Finance Act, 2026[1] and operationalised through Notification[2] dated 14 August 2026 (with effect from 16 August 2026), offers a structured pathway to compliance with prescribed tax and penalty or flat fee, depending on the source of the asset. Taxpayers can voluntarily disclose and pay a specified amount and get immunity from further tax, penalty or prosecution under the BMA. The critical deadline is 31 December 2026.

Key highlights of the Scheme:

Eligibility

The Scheme is available to assessees who were resident in India when the undisclosed asset was acquired or income was earned, regardless of their residential status at the time of disclosure.

Ineligibility

The Scheme is not available where:

- the income or asset represents proceeds of crime, and proceedings have been initiated or are pending under the Prevention of Money-laundering Act, 2002 ("PMLA"); or
- the assessment for the relevant assessment year under the BMA has already been completed.

Scheme coverage

Category	Threshold	Amount Payable
I. Undisclosed asset located outside India[3] or undisclosed foreign income[4]	Aggregate Fair Market Value ("FMV") of foreign asset and foreign income ≤ INR 1 crore	**30% tax** on: a) Value of undisclosed foreign asset as on 31 March 2026 (Valuation Date); and b) Undisclosed foreign income; and Penalty at **100% of the tax** as above (a+b) i.e. **60% in total**

[1] Refer Chapter IV (s. 130 to 144)
[2] Notification No. 114/2026, G.S.R. 732(E) dated: 14 August 2026
[3] Undisclosed asset located outside India = Foreign asset with an unexplained or unsatisfactory source
[4] Undisclosed foreign income = Foreign income chargeable to tax in India but not offered to tax

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Category	Threshold	Amount Payable
II. Source is explainable; Foreign assets are not reported in ITR	Aggregate FMV of such foreign assets ≤ INR 5 crore	Flat fee of **INR 1 lakh**

Valuation Rules:

- **Valuation Date: 31 March 2026**
- **General rule:** Higher of (a) cost of acquisition, or (b) FMV on valuation date, supported by a report from a recognised valuer in the country where the asset is located. If no valuation is done, the indexed cost of acquisition is deemed as FMV.
- **Bank account:** Sum of all deposits since account opening date (or since the date of any earlier declaration under BMA) up to valuation date. Re-deposits of the assessee's own withdrawals are excluded to avoid double-counting.
- **Unquoted equity shares:** Higher of (a) cost of acquisition, or (b) a net-asset-value based valuation (akin to Rule11UA[5]). If no valuation is done, the indexed cost of acquisition is deemed to be the FMV.
- **Reinvestment deduction:** where proceeds from the sale of one asset, or a withdrawal from a foreign bank account, are used to acquire another asset, the FMV of the original asset is reduced by the amount reinvested, to avoid double-counting.
- **Currency conversion:** Foreign asset values are to be reported in INR using the RBI reference rate as on the valuation date.

Note: A variance of up to 20% between the declared FMV and the FMV determined by the Assessing Officer will not, by itself, invalidate the declaration. This does not apply to bank accounts.

Key Timelines:

Form and purpose	Timeline	Action by
Form 1: One-time consolidated declaration covering all undisclosed assets and income	16 August 2026 to 31 December 2026	Taxpayer
Form 2: Order of Income Tax Authority determining amount payable	Within 1 month from the end of the month in which Form 1 is submitted	Income Tax Authority
Form 3: Intimation of Payment	Within 2 months from the end of the month in which the Form 2 order is received; a further 2 months is allowed with simple interest at 1% per month or part thereof, failing which the benefit of the Scheme ceases	Taxpayer
Form 4: Order certifying validity of declaration	Within 1 month from the end of month in which Form 3 is submitted	Income Tax Authority

Immunities available

- No further tax or penalty and prosecution under the BMA on the declared income or asset.
- Where an assessment is pending, the Assessing Officer must take the declaration into account while finalising the order.
- However, the declarant cannot seek rectification or revision of any assessment under the Income-tax Act, 1961 or the BMA or claim set-off or relief in any related appeal or proceeding, in respect of the declared items.

[5] Income-tax Rules, 1962

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FAST-DS 2026, read with the Rules and FAQs, provides greater clarity on the scope and practical working of the Scheme, including the valuation of foreign assets and payment timelines. The Scheme may be particularly relevant for taxpayers with historical non-disclosure of foreign assets or income, including employees holding overseas RSUs/ESOPs, returning NRIs/OCIs/students, heirs of foreign assets and other similarly placed taxpayers.

Category II is particularly attractive, as eligible declarants can regularise inadvertent non-disclosures of foreign assets spanning multiple years for a flat fee of INR 1 lakh. However, the onus remains on the declarant to make a true and complete declaration and satisfactorily explain the source of the asset and income. Any incorrect declaration may be rendered void, thereby potentially triggering the full consequences under the BMA.

Eligibility and the amount payable under the Scheme require careful assessment. For instance, 31 March 2026 is not merely a valuation date; it is also determinative of eligibility under the Scheme, as even a marginal excess over the prescribed monetary threshold would render the taxpayer ineligible. The Scheme is not applicable where PMLA proceedings have been initiated or where BMA assessment proceedings have already been completed. Further, while the Scheme provides an opportunity to regularise eligible past non-disclosures, immunity is limited to specified proceedings and does not extend to other laws, including PMLA, FEMA and the Companies Act.

Given the hard deadline of 31 December 2026, taxpayers should undertake an early review of their past tax position, residential status, source of funds, foreign-asset valuation, applicable disclosure requirements to assess eligibility and determine the appropriate amount payable under the Scheme.

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