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EY Tax Alert

Foreign Assets disclosure scheme operationalized - CBDT prescribes valuation rules, forms and compliance framework

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Executive summary

This Tax Alert summarizes the recent Notification[1] notifying "The Foreign Assets of Small Taxpayers - Disclosure Scheme Rules 2026" (Rules) issued by the Central Government and 50 Frequently Asked Questions (FAQs) issued by Central Board of Direct Taxes[2] (CBDT), pertaining to "The Foreign Assets of Small Taxpayers – Disclosure Scheme 2026" (Scheme) which was introduced vide Finance Act (FA) 2026[3].

The Scheme is effective from 16 August 2026 and the last date for filing a declaration is 31 December 2026.

The Scheme provides a one-time voluntary disclosure window for eligible taxpayers to declare specified foreign assets and foreign income. The Scheme broadly covers two categories: (i) undisclosed foreign assets or undisclosed foreign income, where the aggregate fair market value (FMV) does not exceed INR10M, on payment of tax at 30% plus an amount equal to 100% of such tax; and (ii) foreign assets which were acquired from income earned while the taxpayer was non-resident (NR) or from income already offered to tax in India, but which were not reported in tax return, where the aggregate FMV does not exceed INR50M, on payment of a fixed fee of INR0.1M.

The valuation date for determination of FMV of foreign asset under reference is 31 March 2026.

[1] Notification No. 114/2026 dated 14 August 2026
[2] Apex board of direct tax administration in India
[3] Refer Chapter IV (s. 130 to 144) of FA 2026

The Scheme operates electronically and the Central Government has prescribed various forms for different steps involved i.e. Form 1 for filing declaration, Form 2 for determination of amount payable, Form 3 for proof of payment and Form 4 certifying the declaration.

A valid declaration and payment under the Scheme grant immunity from levy of any further tax or penalty and from prosecution under The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA) in respect of the income or asset declared. The income or amount of investment in such asset will also not be included in total income under the Income Tax Law[4] (ITL)/BMA.

Background

- The BMA was enacted to tax undisclosed foreign income and assets held by resident taxpayers. At the time of its introduction, a one-time compliance window was provided between July to September 2015 (2015 Scheme) to enable voluntary declaration of undisclosed foreign assets acquired up to 31 March 2015, subject to payment of tax (30%) and penalty (an amount equal to 100% of such tax).

- BMA also provides for levy of penalty of INR1M for any default by resident taxpayer in disclosure of foreign asset in their annual tax return.

- The legislature observed certain reporting defaults in cases involving legacy or inadvertent non-disclosures by small taxpayers, including holdings arising from foreign employment benefits such as Employee Stock Option Plans or Restricted Stock Units, dormant or low-value foreign bank accounts of former students, savings or insurance policies of returning non-residents, and assets held by individuals on overseas deputation. Further, information received under the Automatic Exchange of Information framework indicated non-disclosure of foreign financial assets by a significant number of permanent account number (PAN) holders.

- To facilitate voluntary compliance and enable resolution of such legacy cases of small taxpayers, FA 2026 introduced a time-bound[5] scheme (present Scheme) for declaration of undisclosed foreign assets and foreign-sourced income not exceeding INR10M in aggregate, with payment of tax and penalty or for default in reporting of foreign assets not exceeding INR50M by payment of fee. However, the relevant rules /forms for making such scheme operational were not prescribed.

  The Central Government has now, vide Notification prescribed rules providing the valuation mechanism for different categories of foreign assets, the form and manner of filing declaration and other procedural aspects relevant for operationalization of the scheme.

- Together with Notification, the CBDT has issued 50 FAQs covering various issues in relation to the scope of the Scheme.

Key features of the Scheme together with Rules and FAQs:

- **Scope of the Scheme [FAQ 1]:** It provides a one-time opportunity for eligible taxpayers to disclose (i) undisclosed foreign assets[6] or undisclosed foreign income[7] or (ii) non-reporting of foreign assets acquired out of disclosed sources[8] in past tax return/s.

- **Eligible taxpayer [FAQ 6]:** (i) A taxpayer who is resident in India under section (s.) 6 of ITL in the relevant previous year or (ii) a taxpayer who is a non-resident (NR) or resident but not ordinarily resident (RNOR) in India in the relevant previous year, but who was resident in India either in the year to which the undisclosed foreign income relates to or in the year in which the undisclosed foreign asset was acquired **[FAQ 7 and 8]**.

- **Who can file declaration [FAQ 9]:** An eligible taxpayer can file declaration if the taxpayer has (i) failed to furnish tax return or (ii) failed to disclose foreign asset / income in a tax return furnished before commencement of this Scheme or (iii) such foreign asset / income has escaped assessment under ITL.

- **Benefit of valid declaration [FAQ 48]:** (i) Immunity from any further tax, penalty and prosecution under BMA in respect of income or asset declared and (ii) income or amount of investment in the asset declared shall not be included in the total income of the taxpayer under ITL / BMA. Final order passed under the Scheme is conclusive as to the matters (including immunity conferred) stated therein.

[4] Income Tax Act, 1961

[5] The finance minister, in her budget speech, proposed to announce one-time 6 months disclosure scheme.

[6] An asset (including a financial interest in any entity) located outside India, held by the taxpayer in its own name or in respect of which the taxpayer is the beneficial owner, where the taxpayer has no explanation about the source of investment, or the explanation given is, in the opinion of the Tax Authority, unsatisfactory. **[FAQ 13]**

[7] The total amount of income of taxpayer from a source located outside India, which was chargeable to tax in India, but which has not been offered to tax. **[FAQ 14]**

[8] Where an NR taxpayer acquired an asset out of foreign income not taxable in India or any taxpayer acquired foreign asset out of income offered to tax in India.

- **Scope coverage of undisclosed foreign income / asset or reporting default, amount payable and eligibility threshold:**

Category	Taxpayer covered [FAQ 12]	Amount payable	Threshold
Category 1	**Taxpayer having undisclosed foreign asset or foreign income**	**Tax at the rate of 30% of:** i) FMV of undisclosed foreign asset as on 31 March 2026; ii) Undisclosed foreign income **(+)** An additional amount equal to 100% of such tax. **[FAQ 17, 18]**	Aggregate FMV of undisclosed foreign asset (+) undisclosed foreign income does not exceed INR 10M. **[FAQ 15]**
Category 2	• **NR / RNOR Taxpayer** – Foreign asset acquired from foreign income when the taxpayer was NR; but such assets were not declared in tax return when the taxpayer became resident. • **Resident Taxpayer** – Foreign asset acquired from income offered to tax under ITL, but such assets were not declared in tax return.	INR 0.1M **[FAQ 19]**	Aggregate FMV[9] of assets located outside India does not exceed INR 50M. **[FAQ 16]**

- **Timelines and other details:**

Particulars	Description
Commencement date	16 August 2026 **[FAQ 2 and 10]**
Last date for filing declaration	31 December 2026 **[FAQ 3 and 10]**
Valuation date for determining FMV	31 March 2026 **[FAQ 4]**
Prescribed authority	Principal Director / Director General of Income-tax (Systems) **[FAQ 5]**
Process	Electronic filing & processing
Non-refundability	Amount paid under the scheme is not refundable.
Can declaration be filed for any previous year?	Yes **[FAQ 11]**

[9] As on 31 March 2026

- **Disqualifications:**
  - Undisclosed asset or income represents proceeds of crime in respect of proceedings under the Prevention of Money Laundering Act, 2002, or; **[FAQ 50]**
  - If the undisclosed asset or income relates to an assessment year for which proceedings have been completed under the BMA, or; **[FAQ 50]**
  - If the taxpayer provides any false material in the declaration or violates any of the other conditions of the scheme, or;
  - If the taxpayer furnishes valid declaration of undisclosed asset or income beyond the timeline prescribed for availing of the scheme, or;
  - If after filing the declaration, taxpayer fails to make payment within the prescribed time period allowed for making the payment
  - Where value exceeds threshold limits provided in the Scheme.
- The procedure for making a one-time disclosure under the Scheme is tabulated at Annexure 1.
- **Key aspects relating to valuation of FMV:**
  - The Rules have been prescribed for laying down the valuation methods for different category of assets. These methods provide guidance on determination of FMV of each of the assets as on valuation date (31 March 2026). Asset-wise valuation mechanism, as prescribed, is tabulated at Annexure 2.
  - **Certain key important features of determination of FMV are as under:**
    - **General Rule:** FMV is higher of (a) acquisition cost or (b) open market value[10]. In absence of valuation, "indexed cost of acquisition" under ITL is deemed to be FMV as on valuation date. **[FAQ 21]**
    - **Valuation variance [FAQ 36]:** The declaration will not be held invalid or void on the ground of misrepresentation, suppression of facts, or furnishing of false particulars if variation in FMV declared in the declaration does not exceed 20% of the FMV of the asset (other than bank account) determined by the tax authority.
    - Where one undisclosed foreign asset is converted into another undisclosed foreign asset which the taxpayer held as on 31 March 2026, the Scheme requires disclosure of both these assets at FMV with suitable adjustment to the FMV of succeeding asset in order to avoid duplicated taxation. **[FAQ 34]**
    - For conversion of foreign currency into INR for declaration **[FAQ 35]**:
      - **In respect of designated currency:** Conversion as per Reserve Bank of India (RBI)'s reference rate as on the valuation date[11].
      - **In any other case:** First relevant currency needs conversion into US Dollars at the rate specified by the central bank (or another regulated bank) of the country where the asset is located, and the US Dollar value is then converted into INR at the RBI reference rate as on the valuation date.
- **Other key FAQs:**
  - Eligible taxpayer is to file declaration in Form 1 capturing multiple undisclosed foreign assets/income and/or non-reported foreign disclosed asset/income of different tax years appears to be filed in a single declaration. **[FAQ 38]**
  - Declarant is to make payments under the scheme within two months from the end of the month in which Form 2 is issued by prescribed authority determining amount payable (without interest) or within further period of two months (with interest). Taxpayer shall be ineligible if the taxpayer fails to make payment within such extended time. **[FAQ 42, 44]**
  - In respect of the income or asset declared, or any amount paid under the Scheme, the declarant cannot claim rectification or revision of any assessment already made under the ITL or BMA nor the declarant can claim any set-off or relief in any appeal, reference or other proceeding relating to such assessment. **[FAQ 47]**
  - Tax Authority is required to take valid declaration filed into account while finalizing the assessment in respect of pending assessment proceedings under ITL / BMA. **[FAQ 49]**

[10] Ideally supported by a report from a valuer recognized by the government (or its agency) of
the country where the asset is located.

[11] Designated by the Reserve Bank of India under the Foreign Exchange Management (Deposit) Regulations, 2016.

Comments

- This is a welcome initiative to resolve disputes relating to undisclosed foreign asset/income and/or default in reporting of disclosed foreign assets/income for small taxpayers and giving a limited period compliance opportunity. The taxpayers availing benefit of one-time compliance window may be relieved of stringent actions including any further tax, penalty and prosecution under BMA.

- The Scheme is in substance a replication of 2015 Scheme, but scope is significantly narrowed down to cover only small taxpayers (monetary threshold of INR 10M/50M).

- The Scheme contemplates obtaining valuation report for foreign assets from recognized valuer of foreign jurisdiction. Any valuation report obtained is required to be uploaded as part of the declaration. As an alternative, Scheme provides indexed cost of acquisition as deemed FMV where valuation is not carried out for foreign assets other than quoted shares and securities.

- The Scheme provides a unique feature of safe harbor of 20% for bonafide valuation variance to protect the validity of declaration filed.

- Like in 2015 Scheme, the present Scheme contemplates declaration of all undisclosed foreign assets/income including assets disposed off in the past and provides suitable adjustments for determination of FMV of latest assets held with a view to avoid duplicated taxation under different scenarios such as (a) cases where one undisclosed foreign asset is converted into another; or (b) deposits from earlier withdrawals in the foreign bank account.

- To make the Scheme more lucrative, amongst others, following concerns/issues may require CBDT's attention:

  - For Category 2 taxpayers, the Scheme requires determination of eligibility threshold with reference to FMV of asset as on 31 March 2026, irrespective of its cost of acquisition. Given that Category 2 relates to the default in reporting in tax return of the assets which is otherwise disclosed, deciding eligibility with respect to FMV as on 31 March 2026 appears to be unfair and may further curtail the scope coverage of the Scheme. Given that the object of Category 2 seems to reduce litigation in relation to penalty consequences of bonafide non-disclosure, the eligibility conditions ought to have been more liberal.

  - Similarly, for Category 2 taxpayers, in respect of non-disclosure of foreign bank account by an NR when the NR turned resident, valuation rules require to value foreign bank account as on 31 March 2026 by aggregating all deposits right from opening of bank account till valuation date with only exception permitted for re-deposit out of earlier withdrawals. This may substantially curtail eligibility of taxpayer for the Scheme.

  - Unlike 2015 Scheme which extended immunity under certain other laws**, the immunity granted under present Scheme is restricted to only under BMA.

- The valuation rules may require careful documentation. Foreign bank accounts, in particular, may create practical challenges because the value is based on aggregate deposits from account opening to the valuation date, subject to specific exclusions. Taxpayers with old accounts, multiple investments, reinvestments, transfers or missing records may have to speed up as this may be a fact finding and time-consuming exercise.

** ITL, Wealth Tax Act 1957, Foreign Exchange Management Act 1999, Companies Act 2013, Prevention of Money Laundering Act 2002 and Customs Act 1962.

Annexure 1: Chart capturing procedure for one time declaration

Step	Form/Event	Particulars	Timeline
1	Form 1 [FAQ 37]	Eligible taxpayer files electronic declaration with basic personal information, details of foreign assets or incomes (not exceeding the monetary threshold), relevant year, residential status, supporting documents and amount payable. **[FAQ 39]**	On or after 16 August 2026 and on or before 31 December 2026.
2	Form 2 [FAQ 40]	Tax Authority to issue electronic order determining amount payable along with penalty or fee.	Within one month from the end of the month in which the declaration is made.
3	Payment	(i) Taxpayer to pay amount determined in Form 2.	Within two months from the end of the month in which Form 2 is received. **[FAQ 41]**
		(ii) If the taxpayer fails to pay within the period in (i), may pay such amount within additional period with interest.	Further period not exceeding two months, with simple interest at 1% for every month or part of a month. **[FAQ 42, 43]**
5	Form 3 [FAQ 45]	Taxpayer to intimate payment with proof, including interest, if any.	Within outer limit of Four months from the end of the month in which Form 2 is issued. **[FAQ 42, 44]**
6	Form 4 [FAQ 46]	Tax Authority issues order (a) confirming the payment as full and final settlement (b) certifying validity of declaration and (c) granting immunity.	Within one month from the end of the month of receipt of payment intimation.

Annexure 2: Prescribed valuation method for determining FMV of different assets:

Sl. No.	Nature of asset	Prescribed valuation methodology
1.	Bullion, jewellery or precious stone [FAQ 22]	**Higher of:** • Acquisition cost; and • Price that asset would fetch if sold in open market on the date of valuation (supported by recognized valuer's report[12]) - Or, Indexed cost of acquisition shall be deemed to be FMV where valuation is not carried out.
2.	Archaeological collections, drawings, paintings, sculptures, or any work of art [FAQ 23]	
3.	Immovable property [FAQ 28]	
4(a).	Quoted shares and securities on established securities market[13] [FAQ 24]	**Higher of:** • Acquisition cost; and • Average of lowest and highest price of such share or security on any established securities market on the valuation date[14] *[Option of deemed FMV being indexed cost of acquisition is not provided.]*
4(b).	Unquoted equity shares [FAQ 26]	**Higher of:** • Acquisition cost; and • Value determined by formula:(A + B – L) × (PV) / (PE)- Or, Indexed cost of acquisition shall be deemed to be FMV where valuation is not carried out. Where: A = Book value of assets other than specified assets[15] B = FMV of specified assets as provided in the Rules [assets in column 2 from Sr. No. 1 to 4(c)] L = Book value of liabilities excluding specified liabilities[16] PE = Total paid-up equity share capital as per Balance Sheet PV = Paid-up value of equity shares under valuation
4(c).	Any security other than (i) equity shares and (ii) quoted securities [FAQ 27]	**Higher of:** • Acquisition cost; and • Price that asset would fetch if sold in open market on the date of valuation (supported by report of recognised valuer) - Or,

[12] Valuer to be recognized by either Government of a country or specified territory outside India or by any of its agencies for the purpose of valuation under any regulation or law
[13] Defined in Rules.
[14] If there is no trading on valuation date, then average of lowest and highest price on a date immediately preceding valuation date when such shares and securities were traded. **[FAQ 25]**
[15] Assets in column 2 (from 1 to 4c) of this table as also amount of income tax paid along with amount shown as asset which does not represent the value of any asset
[16] Items of liabilities are specified in the Rules.

Sl. No.	Nature of asset	Prescribed valuation methodology
		indexed cost of acquisition shall be deemed to be FMV where the valuation is not carried out.
5.	**Bank account [FAQ 29]**	Sum of all deposits since date of opening of account till valuation date subject to certain exclusions[17]
6.	**Interest of a person in a partnership firm, Association of Persons (AOP) or Limited Liability Partnership (LLP) of which the person is a member [FAQ 32]**	**Aggregate of:** • Portion of net asset of the partnership firm/AOP/LLP represented by amount of capital, apportioned amongst partners/members in capital ratio; and • Residue net assets apportioned in accordance with the agreement for distribution in the event of dissolution and, in absence of such agreement, in the profit-sharing ratio. **Net asset of the firm = A + B – L**, in the manner provided in item 4(b) above for unquoted equity shares.
7.	**Any other asset [FAQ 33]**	**Higher of:** • Acquisition cost or amount invested; and • Price that asset would fetch if sold in open market on the date of valuation in an arm's length transaction - Or, Indexed cost of acquisition shall be deemed to be FMV where valuation is not carried out.
8.	**Assets at 1-7 above excluding 5 (Bank account), sold before valuation date**	Higher of: • Cost of acquisition • Sales consideration[18]

[17] (i) Where a declaration of such account has been made under Chapter VI of BMA and the value of the account has been charged to tax and penalty under that Chapter, the sum of all the deposits made in the account with the bank since the date of such declaration **[FAQ 31]** and (ii) deposit made from the proceeds of any withdrawal from the account. **[FAQ 30]**

[18] In case of transfer without any or inadequate consideration, sales consideration is to be considered as FMV as on date of transfer.

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