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INCOME-TAX ACT, 2025

B: Special procedure for assessment of search cases

Section 298 - Levy of interest and penalty in certain cases.

(1) Where the return of undisclosed income as required under a notice under section 294(1)(a), is not furnished within the period specified in such notice, or is not furnished, then,—

(a) the assessee shall be liable to pay simple interest at the rate of 1.5% of the tax on undisclosed income determined under clause (c) of said sub-section;

(b) the interest in clause (a) shall be paid for every month or part of a month comprised in the period commencing on the day immediately following the expiry of the time specified in said notice, and ending on the date of completion of assessment under clause (c) of said sub-section.

(2) The Assessing Officer or the Commissioner (Appeals) in the course of any proceedings under this Part, may direct that the person shall pay by way of penalty a sum which shall be equal to 50% of tax so leviable in respect of the undisclosed income determined by the Assessing Officer under section 294(1)(c).

(3) The order imposing penalty under this section or section 444(1) or 450 or 451 or 453 shall not be made for the block period in respect of a person, if—

(a) such person has furnished a return under section 294(1)(a);

(b) the tax payable on the basis of such return has been paid or, if the assets seized consist of money, the assessee offers the money so seized to be adjusted against the tax payable;

(c) evidence of tax paid is furnished along with the return; and

(d) an appeal is not filed against the assessment of that part of income which is shown in the return.

(4) The provisions of the sub-section (3) shall not apply where the undisclosed income determined by the Assessing Officer is in excess of the income shown in the return and in such cases the penalty shall be imposed on that portion of undisclosed income determined, which is in excess of income shown in the return.

(5) The order imposing a penalty under sub-section (2) shall not be made—

(a) unless an assessee has been given a reasonable opportunity of being heard;

(b) by the Deputy Commissioner or Assistant Commissioner or the Deputy Director or Assistant Director, where penalty exceeds ₹ 200000 except with the previous approval of the Additional Commissioner or the Additional Director or the Joint Commissioner or the Joint Director;

(c) in a case where the assessment is the subject-matter of an appeal under section 357 or 362,—

(i) after the expiry of the financial year in which the proceedings, in the course of which action for the imposition of penalty has been initiated, are completed; or

(ii) six months from the end of the financial year in which the order of the Commissioner (Appeals) or the Appellate Tribunal is received by the jurisdictional Principal Commissioner or Commissioner,

whichever period expires later;

(d) in a case where the assessment is the subject-matter of revision under section 377, after the expiry of

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six months from the end of the financial year in which such order of revision is passed;

(e) in any case other than those mentioned in clause (c) and (d), after the expiry of the financial year in which the proceedings, in the course of which notice for the imposition of penalty has been issued, are completed, or six months from the end of the financial year in which notice for imposition of penalty is issued, whichever period expires later.

(6) In computing the period of limitation under this section, the following period shall be excluded––

(a) the time taken in giving an opportunity to the assessee to be re-heard under section 244(2); or

(b) the period commencing on the date on which stay on proceeding under sub-section (2) was granted by an order or injunction of any court and ending on the date on which certified copy of the order vacating the stay was received by jurisdictional Principal Commissioner or Commissioner.

(7) Where immediately after the exclusion of the period referred to in sub-section (6), the remaining period of limitation referred to in sub-section (5) available to the Assessing Officer for making an order under sub-section (2) of this section is less than sixty days, such remaining period shall be extended to sixty days and the aforesaid period of limitation shall be deemed to be extended accordingly.

(8) If after exclusion of the period referred to in sub-section (7), the remaining period of limitation for making of an order for imposition of penalty expires before the end of a month, such remaining period shall be extended to the end of such month.

(9) An income-tax authority on making an order under sub-section (2) imposing a penalty, unless he is himself an Assessing Officer, shall forthwith send a copy of such order to the Assessing Officer.

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