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Newsflash - CBDT issues FAQs on Revised Guidelines for Compounding of Offences

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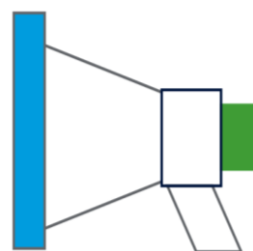
CBDT issues FAQs on Revised Guidelines for Compounding of Offences

For Circulation

8 April 2025

1.0 Background

- 1.1 In consonance with the Hon'ble Finance Minister's budget announcement in July 2024 on simplification and rationalization of compounding procedure, the Central Board of Direct Taxes ('CBDT') has issued revised guidelines¹ for compounding of offences under section 279(2)² of the Income-Tax Act, 1961 (the 'Act') effective from 17 October 2024 ('revised guidelines').
- 1.2 The revised guidelines supersede all existing guidelines³ on the subject with an aim to reduce complexities arising out of existing guidelines and make it more accessible and efficient to taxpayers/ tax deductors seeking relief from prosecution. Furthermore, these guidelines apply to pending applications as on 17th October 2024 as well as new applications, and facilitate stakeholders by streamlining the compounding process, lowering the compounding charges, changes in the conditions for compounding and authority responsible for compounding offences in certain special cases, etc.
- 1.3 The new framework eliminated the categorization of offences and restriction on number of occasions a compounding application can be filed; allowed fresh application upon curing of defects; permitted compounding of offences in case of search and seizure and failure to deposit withholding tax to the credit of Central Government; removed existing time limit for filing compounding application viz. 36 months from the date of filing of complaint, etc.
- 1.4 In order to enhance awareness and understanding among the stakeholders and to provide clarity on its revised guidelines, CBDT recently issued Frequently Asked Questions (FAQs) in the form of a circular⁴. These FAQs are divided into eight different sections, viz.



¹ Circular F. No. 285/08/2014-IT (INV.V)/163 and Press Release dated 17 October 2024

<https://itgoawbunit.org/pdf/24369-compounding-guidlines-2024.pdf>, [Press Release: Press Information Bureau](#)

² Section 279(2) provides for compounding of any offence prior to or after institution of proceedings

³ Guidelines issued vide letter dated 16 May 2008, 23 December 2014, 14 June 2019 and 16 September 2022

⁴ Circular No. 04/ 2025 dated 17 March 2025

- (i) Compounding of offence
- (ii) Competent authority/ Jurisdiction
- (iii) Compounding application and fee
- (iv) Terms for compounding
- (v) Approval of Higher Authority
- (vi) Compounding charges
- (vii) Extension of time (Compounding charges) and
- (viii) Co-accused and abettors – offence by Companies and HUFs

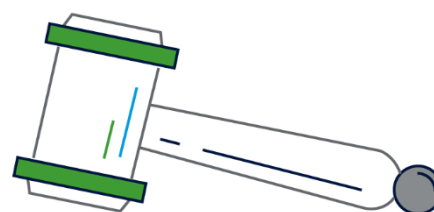
2.0 Key Highlights of the revised guidelines

2.1 Consistent with earlier guidelines, the revised guidelines also provide the fact that 'Compounding is not a matter of right'.

2.2 Elimination of categorization of offences, which was covered in earlier guidelines by way of classification into Category 'A' and Category 'B' offence.

2.3 No limit on the number of times for filing compounding application.

2.4 While no specific application fee was mentioned in the earlier guidelines, however, under the revised guidelines, the application fee will be as follows:



Particulars	Amount (Rs.)
Single compounding application	25,000 per application
Consolidated compounding application	50,000 per application

2.5 Applications can be filed separately or jointly by the main accused and co-accused in case of offences by Companies and Hindu Undivided Families (HUFs).

2.6 Previously, the compounding application for offences under sections 276B/276BB had to be filed with the Pr. CCIT/CCIT of the PAN jurisdiction, and the Competent Authority was determined based on this jurisdiction. However, as per the revised guidelines, for offences under sections 276B/276BB involving multiple TANs across different jurisdictions, the Competent Authority will now be the one where the quantum of TDS default is higher. In case of disputes, the Pr. CCIT

with PAN jurisdiction will decide the Competent Authority within 30 days.

- 2.7 Applications rejected under previous guidelines due to curable defects (such as non-payment of outstanding tax, interest, penalty, or filing of application in incorrect proforma, mention of incorrect assessment year or section etc.) may be filed under the revised guidelines without additional fees. The same can be refiled within one month of intimation of defect.
- 2.8 Certain sections like sections 275A [Contravention of Search & Seizure prohibitory order u/s 132(3)] and 275B [Contravention of requirement to afford necessary facility to authorized income-tax officers during a search and seizure operation u/s 132(1)(iib)] of the Act were not compoundable in earlier guidelines, the revised guidelines allow all offences under the Act to be compoundable.
- 2.9 **Simplified fee structure:** Under the earlier guidelines, there were multiple rates of compounding charges for TDS defaults, i.e. 2%, 3% and 5%. However, under the revised guidelines, compounding charges for TDS defaults have been reduced to a single rate of 1.5% per month or part of a month of the amount of tax in default for the default period.

Compounding charges for other offence such as failure to comply with the provisions of section 269SS (Accepting loans, deposits in specified modes), 269ST (Undertaking specified transactions in cash), failure to furnish return of income, an offence committed under section 277 (False statement in Verification), willful attempt to evade tax, etc. have been specified in Annexure-4 of the revised guidelines which is provided as follows:

Annexure 4

Section	Description/Heading of section	Compounding Charges
276A	(Prior to 01.04.2023) Failure to comply with the provision of sections 178(1) and 178(3)	The Competent Authority may determine compounding charge having regard to the nature and magnitude of the offence, loss of revenue directly or indirectly attributable to such offence, subject to levy of a minimum compounding charge of Rs.10,000/- (Rupees one thousand) for each such offence.
276AA	(Prior to 01.10.1986)- Failure to comply with the provisions of section 269AB or section 269I	
276AB	(Prior to 01.04.2022) Failure to comply with the provisions of sections 269UC, 269UE and 269UL	
276DD	(Prior to 1.04.1989) - Failure to comply with the provisions of section 269SS	10% of the amount of any loan or deposit accepted in contravention of the provisions of Section 269SS.
276E	(Prior to 1.04.1989) - Failure to comply with the provisions of section 269T	10% of the amount of deposit repaid in contravention of the provisions of Section 269T.
275A	Contravention of order made under sub-section (3) of section 132) i.e., contravention to Prohibitory Order passed by the authorized officer during the search and seizure action.	10 % of the highest of total income declared or assessed, in the last 7 financial years including year of search, subject to a minimum of Rs.5,00,00,000/- (Rupees five crore).
275B	Failure to comply with the provisions of clause	10 % of the highest of total income declared or assessed, in the last 7 financial years including year of

	(iib) of sub-section (1) of section 132) i.e., failure to afford the authorized officer the necessary facility to inspect such books of account or other documents during the during the search and seizure action.	search, subject to a minimum of Rs.5,00,00,000/- (Rupees five crore).
276	(w.e.f. 01.04.1989) - Removal, concealment, transfer or delivery of property to thwart tax recovery.	75% of the outstanding tax or the recovery amount sought to be thwarted through the removal/ concealment/ transfer/ delivery of property, whichever is lower.
276B	Failure to pay tax deducted at source under Chapter XIID or XVII-B	1.5 % per month or part of a month of the amount of tax in default for the default period. The period of default shall be calculated from the date of deduction to the date of deposit of tax deducted at source, as is done in respect of calculating interest under section 201(1A) (ii) of the Act. The compounding charge shall not exceed the TDS amount in default.
276BB	Failure to pay the tax collected at source	Same as charge for offence u/s 276B as above
276C(1)	Willful attempt to evade tax, etc.	125% of tax amount sought to be evaded or tax on under-reported income, as the case may be.
276C(2)	Willful attempt to evade payment of taxes, etc.	1.5% per month or part of the month of the amount of tax, interest and penalty, the payment of which was sought to be evaded, for the period of default. The period of default shall be calculated as the period from the date immediately following the due date of payment to the date of actual payment. For computing the period of default, any period of stay of demand granted by any Income Tax Authority, the Appellate Tribunal or Court shall be excluded.

		<p>The compounding charge shall not exceed tax, interest and penalty, the payment of which was sought to be evaded.</p> <p>It is clarified that in case compounding proceedings relate to sections 276C(1) and 276C(2) for the offence involving same issue and year, the compounding charges as per 276C(1) only shall be applicable.</p>
276CC	Failure to furnish return of income	<p>30% of the amount of tax sought to be evaded or the amount of tax on under-reported income, as the case may be, in case of default in filing of return pursuant to search or survey action, subject to a minimum of Rs. 10,00,000/- (Rupees ten lakh).</p> <p>15% of the amount of tax sought to be evaded or the amount of tax on under-reported income, as the case may be, subject to a minimum of Rs. 5,00,000/- (Rupees five lakh), in other cases.</p> <p>It is clarified that in case compounding proceedings relate to Sections 276C(1) and 276CC for the offence involving same issue and year, the compounding charges as per 276C(1) only shall be applicable.</p>
276CCC	Failure to furnish return of income in search case as per 158BC	Same as above for offence u/s 276CC, relating to non-filing of return pursuant to search action.
276D	Failure to produce accounts and documents	10% of returned income or assessed income of the assessment year pertaining to the offence, whichever is higher, subject to a minimum of Rs. 5,00,000/- (Rupees five lakh).
277	False statement in verification etc.	For an offence committed u/s 277 of the Act, 50% of the amount of tax, which would have been evaded due to the offence committed u/s 277.
278	Abetment of false return, etc.	<p>For abetment of an offence committed u/s 278 of the Act, 50% of the amount of tax, which would have been evaded or which is willfully attempted to be evaded, due to the offence committed u/s 278.</p> <p>Where same set of facts and circumstances attract prosecution u/s 277 as well as section 278, the compounding charge shall only be calculated by treating them as single offence.</p>

		Where same set of facts and circumstances attract prosecution u/s 277 or 278, in addition to another offence, no separate compounding charge shall be charged for offence u/s 277 or 278.
277A	Falsification of books of account/documents, etc.	100% of the amount of tax or interest or penalty evaded on account of such false entry or statement.

3.0 Some Key Clarifications issued under the FAQs

- 3.1 **Compounding is not an admission of offence:** The FAQs clarify that compounding is intended to resolve the offences and does not amount to admission of such offence by the applicant.
- 3.2 **All offences now eligible for compounding:** Unlike the earlier regime, which made certain offences ineligible for compounding, the revised guidelines allow all offences under the Act to be compoundable.
- 3.3 **Flexible application process:** Compounding application can be filed at any time after committing the offence, irrespective of whether it comes to the notice of department or not and even after prosecution proceedings have been launched. Pending applications filed under earlier guidelines can also be considered under the revised guidelines without necessitating a fresh submission.
- 3.4 **Adjustment of application fee with compounding charges:** Application fee is adjustable against compounding charges but only for the particular offences cited in the application. Cross application adjustment is not allowed and if application is rejected, then application fees will not be refunded or adjustable against any subsequent application.
- 3.5 **No limitation on number of times:** There is no limitation on the number of times a person can file a compounding application. However, habitual offenders may face rejection from the Competent Authority.
- 3.6 **Compounding is allowed even if previously rejected:** Applicant may apply for compounding of offence(s) through a single consolidated application, if one or more applications have been



rejected under existing guidelines, provided the defects are curable. However, no application is allowed to be filed for any of the rejection(s), made by the Competent Authority, on merits with those particulars i.e. offence and relevant financial year

- 3.7 **Compounding for convicted persons:** Applicants convicted with imprisonment for two years or more for any offence under the Act or for an offence under any other law, which is related to offence under the Act, are eligible to apply for compounding, subject to the approval of Chairman, CBDT.
- 3.8 **Determination of compounding charges in subsequent application:** Rate for compounding charge will be determined based on sequence of application filed and if a subsequent application includes an offence which has been covered in the earlier application(s), then it shall be liable for higher rate, i.e. 1.2 times, 1.4 times, 1.6 times and so on.
- 3.9 **Extension for payment of compounding charges not subject to interest or additional charges:** Interest or additional charges not applicable on delayed payment of compounding charges pursuant to extension by prescribed authority.
- 3.10 **No separate compounding fee for co-accused and abettors – offence by Companies and HUFs:** No separate compounding fee for co-accused shall be payable, irrespective of the fact that application has been filed by main accused or co-accused or by both of them co-jointly.

Further, other than the case where application was rejected in past on merit, any of the co-accused applicant would be eligible to file compounding application again separately or conjointly.

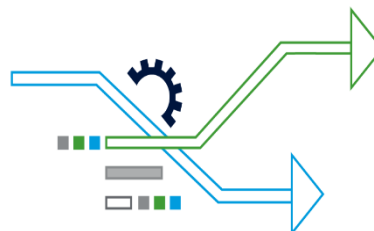
- 3.11 **Flexibility for withdrawal of application and Limitation Period:** The applicant can file a new single application or consolidated application after withdrawal of earlier application(s). However, such new application shall be treated as a subsequent application and higher rate shall be applicable.

Further, the limitation of 12/24/36 months has been eliminated in revised guidelines and all such applicants whose application were rejected earlier on limitation ground, may file fresh applications for compounding of offences, which shall be treated as subsequent application for the purpose of determination of compounding charges.

- 3.12 **Relief for taxpayers under IBC:** Companies undergoing insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) will be subject to compounding conditions, depending on the stage of resolution process, viz. during the moratorium period, after rejection of the resolution plan (liquidation proceedings) or after approval of the resolution plan.

4.0 Concluding remarks

- 4.1 This welcome circular clarifies various aspects, including multi-party offences, re-application after rejection, removal of time limits/ limitation period, appeal withdrawal requirement, expanded eligibility, compounding under insolvency cases, payment of compounding charges directly through e-filing portal and simplified processes. As a result, taxpayers facing prosecution for TDS defaults, tax evasion or non-compliance can now go for compounding application.
- 4.2 The circular ensures a transparent, simplified, and consistent approach to compounding by addressing pragmatic concerns and providing clear references to the revised guidelines.
- 4.3 The revised guidelines (along with FAQs) are signaling a taxpayer-friendly approach and may encourage more taxpayers to resolve outstanding offences by opting for compounding, thus reducing litigation and court proceedings, and improved ease of doing business.
- 4.4 By removing procedural roadblocks/ uncertainties and making the process more inclusive, CBDT aims to enhance voluntary compliance while ensuring adequate opportunities for taxpayers to rectify their mistakes without facing severe legal consequences. Taxpayers are recommended to monitor their compliances as the authorities may routinely inspect the same and seek initiation of prosecution proceedings, given the liberalisation in revised guidelines.
- 4.5 The compounding charges paid under the Act, or under any other law shall not be allowed as deduction while calculating taxable income.



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