



## Articles

### Updates in Tax, Company Law & Accounting Standards

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#### **1. Goodbye 'Assessment Year' — Hello 'Tax Year'**

##### **How India's New Income Tax Act, 2025 ends 65 years of AY vs FY confusion**

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#### **The Old Problem: A Tale of Two Years**

If you have ever filed an Income Tax Return in India, you have almost certainly paused at this question: 'Am I filing for Financial Year 2024-25 or Assessment Year 2025-26 — and what is the difference?' You are not alone. This confusion has tripped up millions of taxpayers, chartered accountants explaining it to clients, and even seasoned finance professionals for over six decades.

The root cause? Under the Income Tax Act, 1961, the Indian tax system operated on a dual-year framework — two separate labels for what is essentially one continuous stream of income.

### **What Was 'Previous Year'?**

The 'Previous Year' (PY) was the Financial Year in which you actually earned your income — the 12-month period from 1 April to 31 March during which salaries were credited, businesses ran, and investments earned returns. For example, income earned from 1 April 2024 to 31 March 2025 belonged to Previous Year 2024-25.

### **What Was 'Assessment Year'?**

The 'Assessment Year' (AY) was the 12-month period immediately following the Previous Year — the year in which the government formally assessed and taxed that income. So income earned in PY 2024-25 was assessed in AY 2025-26. This meant that when you sat down to file your ITR in July 2025, you were technically filing for a year that had already ended — using a future-year label.

Tax experts famously described this as the 'time travel' experience of Indian taxation: income earned in the past was assessed in a differently-named future year.

### **Why Did This Confusion Persist So Long?**

The dual-year concept was originally designed for administrative purposes in the pre-digital era — it gave tax authorities a clear window to process returns, issue notices, and complete assessments after the income year ended. In theory, it was logical. In practice, as India's taxpayer base grew to hundreds of millions and digital filing became the norm, the old framework created more friction than it solved.

Common problems included:

- Taxpayers filing returns in the wrong Assessment Year, leading to defective return notices
- Confusion in TDS certificates where employers would mention one year and the ITR portal showed another
- Mismatches in notices, demands, and refund orders referencing AY vs PY
- New taxpayers — especially young salaried professionals — finding the dual terminology deeply confusing
- Legal disputes arising from errors in citing the 'wrong year' in assessment orders

### **The New Framework: One Year, One Label**

The Income Tax Act, 2025 — which received Presidential assent on 21 August 2025 and comes into effect from 1 April 2026 — makes a sweeping change. Section 3 of the new Act eliminates both 'Previous Year' and 'Assessment Year' and replaces them with a single, unified concept: the Tax Year.

### **What Is the Tax Year?**

A Tax Year is a straightforward 12-month period from 1 April to 31 March of the following year. Income earned during Tax Year 2026-27 (April 1, 2026 to March 31, 2027) is reported and assessed in the same Tax Year. The return for that income is filed in 2027-28. There is no separate 'assessment year' with a different name — the year of earning and the year of reference are the same.

Concept	Description
Old: Previous Year 2024-25	Income earned April 2024 – March 2025
Old: Assessment Year 2025-26	Tax assessed on above income
New: Tax Year 2026-27	Income earned AND assessed — single reference

### What Actually Changes for You?

It is important to understand that this is primarily a terminology simplification, not a change in how tax is calculated. Tax rates, slabs, deductions, and exemptions remain exactly the same. What changes is the language:

- Notices from the Income Tax Department will say 'Tax Year 2026-27' instead of 'AY 2026-27'
- ITR forms will reference the Tax Year the income belongs to — no more flipping between two years
- TDS certificates and Form 26AS will align under a single Tax Year reference
- Legal documents, appeals, and orders will use the unified Tax Year terminology
- Taxpayers filing returns will see just one year reference — simpler, cleaner, more intuitive

### Special Rule for New Businesses

For newly established businesses or fresh sources of income that begin mid-year, the Tax Year starts from the date of establishment or commencement and ends on 31 March of that same financial year. This preserves flexibility for startups and new ventures without disrupting the unified year concept.

### The Transition: What About Old Filings?

The Income Tax Act, 1961 continues to govern all income earned up to 31 March 2026. Your ITR for FY 2025-26 (the last year under the old Act) is still filed using Assessment Year 2026-27 terminology. The new Tax Year framework applies only from 1 April 2026 onwards — there is no retrospective application.

All pending assessments, appeals, and proceedings under the old Act will continue until completion under the old framework. The new Act includes comprehensive transitional provisions to ensure a smooth handover without disrupting ongoing matters.

Practical tip: Start relabelling your internal folders, client files, and compliance trackers from 'AY/FY' to 'Tax Year' now, so you are ready when the new Act takes effect on 1 April 2026.

## The Bigger Picture

The introduction of the Tax Year is just one part of a sweeping modernisation of India's direct tax law. The Income Tax Act, 2025 reduces the statute from over 800 sections to a leaner 536 sections across 23 chapters — cutting complexity, reducing litigation triggers, and making the law more accessible to ordinary citizens and professionals alike.

For CA students and professionals, this change underscores a broader shift: India's tax framework is moving decisively towards clarity, digital-first compliance, and citizen-friendly language. Mastering the new terminology and framework now will be a significant competitive advantage in practice.

***Disclaimer: This article is for educational and informational purposes only. Readers are advised to refer to the official text of the Income Tax Act, 2025.***

## 2. Director KYC Goes Triennial: A Landmark MCA Reform

**Annual DIR-3 KYC filing replaced with once-in-3-years compliance — effective 31 March 2026**

### What Has Changed?

In a significant move to reduce compliance burden on Indian businesses, the Ministry of Corporate Affairs (MCA) has amended Rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014. The amendment, notified vide Gazette Notification G.S.R. 943(E) dated 31 December 2025, replaces the long-standing annual Director KYC filing requirement with a simplified triennial (once every three years) compliance cycle, effective from 31 March 2026.

In plain terms: Directors holding a Director Identification Number (DIN) no longer need to file their KYC every single year. They now need to do it once every three years.

### Understanding Director KYC: The Basics

Director KYC (Know Your Customer) is a mandatory compliance under the Companies Act, 2013. It requires every individual who holds a DIN — whether or not they are currently active on any company's board — to periodically confirm and verify their personal and contact details with the MCA. This includes:

- Mobile number
- Email address
- Residential address
- PAN and identity documents

- Digital Signature Certificate (for certain filings)

The objective is to keep the MCA's registry of directors accurate and updated, curb the use of shell companies with proxy or ghost directors, and maintain the integrity of corporate governance in India.

### Why Was It Annual Until Now?

When Rule 12A was introduced, the annual KYC requirement seemed logical — regular confirmation would keep director records up to date and help identify dormant or fraudulent DINs. The system worked reasonably well when India had a smaller corporate base.

However, over time the annual filing became a high-volume, low-value procedural exercise. With over 3 million registered company directors in India, the annual KYC cycle generated millions of filings each year — the vast majority of which showed zero changes in director details. This resulted in:

- Massive portal congestion and downtime near filing deadlines
- DIN deactivations due to missed deadlines despite genuine intent to comply
- Significant cost and time burden on directors, especially those on multiple boards
- Administrative inefficiency with filings confirming the same information year after year

The annual KYC requirement had gradually become a compliance tick-box exercise rather than a meaningful governance tool.

### The New Framework: Triennial Filing from 31 March 2026

Under the revised Rule 12A, every individual holding a DIN as of 31 March of a financial year must submit a KYC intimation once every three consecutive financial years. The filing must be completed using Form DIR-3 KYC-Web on or before 30 June of the relevant year.

#### Key Parameters of the New Rule

Parameter	Details
Effective Date	31 March 2026
Filing Frequency	Once every 3 financial years
Form to Use	DIR-3 KYC-Web (only)
Filing Deadline	30 June of the relevant year
First Filing Under New Cycle	30 June 2028 (for those who filed in FY 2025-26)
Penalty for Non-Compliance	DIN deactivation; reactivation fee of Rs. 5,000
Event-Based Update	Within 30 days of any change in details

## What Happens If Details Change?

While the routine three-year filing cycle eases the compliance burden, the amendment also introduces an important discipline: directors are still required to update their details within 30 days of any change in mobile number, email address, or residential address. This event-based update mechanism ensures that MCA records remain accurate in real time, even if the mandatory filing cycle is less frequent.

This is a critical point that directors and their compliance teams must internalise — the triennial cycle covers routine reconfirmation, not the obligation to report changes promptly.

## Transition: What Do Directors Need to Do Now?

Today — 14 March 2026 — is only 17 days away from the effective date of this reform. Here is what every DIN holder needs to action immediately:

### If You Have Filed Your Annual KYC for FY 2025-26

You are automatically covered under the new framework. Your next KYC obligation falls on 30 June 2028. No immediate action required — but update your compliance calendar.

### If Your DIN Is Inactive / KYC Pending

This is urgent. Directors who have not completed their KYC can still reactivate their DINs and complete the KYC filing under the existing provisions until 31 March 2026. After this date, the new rules apply and the reactivation process changes. Inactive DINs must be regularised before the window closes to avoid being locked out of corporate compliance activities.

## Key Action Steps for Companies and Professionals

- Verify DIN status and KYC compliance for all directors on board immediately
- Complete pending KYC filings before 31 March 2026 deadline
- Update compliance calendars to reflect the new triennial cycle — next cycle: 30 June 2028
- Communicate the 30-day event-based update obligation to all director clients
- Note: Only DIR-3 KYC-Web form is acceptable; physical DIR-3 KYC form has been discontinued

## The Bigger Picture: Ease of Doing Business

This reform is part of MCA's broader push to align India's corporate compliance framework with global best practices and improve the country's ease of doing business rankings. It follows recommendations of the High-Level Committee on Non-Financial Regulatory Reforms and extensive stakeholder consultations.

For India Inc. — particularly directors serving on multiple boards, independent directors, and nominee directors of promoter groups — this change translates into meaningful time and cost savings over every compliance cycle. For CA and CS professionals advising corporates, it simplifies the annual compliance calendar significantly.

With over 3 million DIN holders in India, moving to triennial filing is expected to reduce total annual filings by approximately two-thirds, freeing up significant bandwidth for both regulators and professionals.

Disclaimer: This article is for educational and informational purposes only. Readers should refer to the official MCA gazette notification G.S.R. 943(E) and consult a qualified Company Secretary or Chartered Accountant for compliance advice.

### ***3. MCA Amends AS-22: OECD Pillar Two Tax Rules Enter Indian Accounting***

#### **Companies (Accounting Standards) Amendment Rules, 2026 — notified 10 March 2026**

##### **The Notification at a Glance**

The Ministry of Corporate Affairs (MCA), through Notification No. G.S.R. 169(E) dated 10 March 2026, has issued the Companies (Accounting Standards) Amendment Rules, 2026. The notification amends the Companies (Accounting Standards) Rules, 2021 in consultation with the National Financial Reporting Authority (NFRA) under powers granted by Sections 133 and 469 of the Companies Act, 2013.

The amendment is effective from the date of its publication in the Official Gazette — 10 March 2026.

##### **What Has Been Amended?**

The sole but significant change is the insertion of a new Paragraph 2A in Accounting Standard (AS) 22 — Accounting for Taxes on Income. AS-22 governs how companies recognise and account for current and deferred tax liabilities and assets in their financial statements. The new Paragraph 2A reads in effect:

AS-22 shall apply to taxes on income arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules.

##### **What Are OECD Pillar Two Rules?**

The OECD's Pillar Two initiative is a landmark global tax reform aimed at ensuring large multinational enterprises (MNEs) pay a minimum effective corporate tax rate of 15% in every country where they operate — regardless of how aggressively structured their cross-border operations may be.

The framework introduces a Global Minimum Tax (GMT) and allows jurisdictions to impose a Qualified Domestic Minimum Top-up Tax (QDMTT) to 'top up' taxes for companies operating below the 15% floor in their territory. India, along with many other nations, is in the process of enacting legislation to give domestic effect to these rules.

## Why Does This Matter for Indian Companies?

Before this amendment, there was ambiguity about whether Indian companies should recognise deferred tax assets (DTAs) or deferred tax liabilities (DTLs) arising specifically from Pillar Two taxes under AS-22. The amendment provides clarity on this critical question:

- Indian companies are now explicitly covered under AS-22 for Pillar Two income taxes
- The amendment aligns Indian accounting standards with similar exceptions already provided under IFRS and Ind AS frameworks globally
- Importantly, for interim periods ending on or before 31 March 2026, companies are not required to provide the disclosures mandated under these new Pillar Two provisions

## Who Is Affected?

This amendment primarily concerns larger Indian companies and subsidiaries of multinational groups that apply AS-22 (non-Ind AS companies) and whose effective tax rates, or the effective tax rates of their group entities, may fall below the OECD's 15% minimum threshold. For most smaller companies and those with effective tax rates comfortably above 15%, the immediate operational impact may be limited — but the amendment is an important signal of India's convergence with global financial reporting norms.

## Key Takeaway for Professionals

Finance teams and auditors must now factor in the implications of Pillar Two taxes when preparing and auditing financial statements under AS-22. This may require fresh assessment of deferred tax positions, disclosures in annual reports, and communication with group tax functions. Companies should revisit their tax accounting policies in light of this notification before closing their FY 2025-26 accounts.

***Disclaimer: This article is for informational purposes only. Readers should refer to the official MCA notification G.S.R. 169(E) dated 10 March 2026 and the full text of AS-22 for complete guidance.***