

SECTION 285BA R.W.R. RULE 114E ON STATEMENT OF FINANCIAL TRANSACTIONS (SFT) (FORM 61A)



What is Statement of Financial Transactions(SFT)?

Statement of financial transactions or SFT refers to information related to certain high-value transactions which specified persons are required to report to the Income Tax Department. The SFT was earlier known as **'Annual Information Return (AIR)**.

Objectives of introducing SFT:

Accumulation of black money has been one of the major threats to the Indian economy. The government of India along with the ministry of finance has been **striving towards curbing black money and also widening the tax base and has taken numerous initiatives in this regard.** One such initiative was to cast an obligation on government agencies and other authorities who are a valuable and reliable source of information, to report high-value transactions. Such specified persons were required to submit 'Annual Information Return (AIR)' introduced in 2003 with respect to specified financial transactions under Section 285BA.

Later, Finance Act 2014 replaced **Section 285BA** and renamed it as '**obligation to furnish statement of financial transaction or reportable account**' to widen the scope of specified persons and to introduce various other provisions.

- **Section 285BA** of the Income Tax Act, 1961 deals with Statement of Financial Transaction. It requires Specified Reporting Persons to furnish statement, in a specified form and manner, of specified financial transaction.

"specified financial transaction" means any—

- (a) transaction of purchase, sale or exchange of goods or property or right or interest in a property; or
- (b) transaction for rendering any service; or
- (c) transaction under a works contract; or
- (d) transaction by way of an investment made or an expenditure incurred; or
- (e) transaction for taking or accepting any loan or deposit,

which may be prescribed :

Provided that the Board may prescribe different values for different transactions in respect of different persons having regard to the nature of such transaction. The Board has further widened the scope of SFT.

Latest update as on 13 August, 2020

The scope of Statement of Financial Transactions (SFT) **has been expanded** to widen the tax base. The notified persons should report the following transactions in their SFT:

1. Payment to hotels above Rs. 20,000
2. Payment of property tax above Rs. 20,000
3. Payment of health insurance premium above Rs.20,000
4. Payment of rent above Rs. 40,000
5. Payment of life insurance premium above Rs. 50,000
6. Electricity consumption above Rs.1 lakh

7. Payment of educational fee/donations above Rs.1 lakh p.a.
8. Purchase of jewelry, white goods, painting, marble etc. above Rs.1 lakh
9. Deposit/credits in the current account above Rs.50 lakh
10. Deposit/credits in the non-current account such as savings accounts above Rs.25 lakh
11. Domestic business class air travel or foreign travel
12. Share transactions/D-MAT accounts/Bank lockers

Due Date for filing SFT in Form 61A:

Rule 114E of the Income Tax Rules, 1962 states that the statement of financial statement must be furnished in Form 61A. The statement of financial transactions shall be furnished ***on or before the 31st May***, immediately following the financial year in which the transaction is registered or recorded. This rule further provides ***nature and value of transaction*** as well as ***class of persons*** required to furnish the report.

Significant Changes in SFT

| Nature of Financial Transactions | Specified class of persons (reporting persons) |
|--|---|
| <p>Purchase of bank instruments:</p> <ul style="list-style-type: none"> i. Purchase of bank drafts/ pay orders/ banker's cheque in cash aggregating \geq Rs.10 lakhs in a financial year ii. Purchase of pre-paid instruments issued by RBI under Payment and Settlement Systems Act in cash aggregating \geq Rs.10 lakhs during the financial year <p>Cash deposit/ withdrawal* in Current account:</p> <ul style="list-style-type: none"> i. Cash deposits OR cash withdrawals (including through bearer's cheque) aggregating \geq Rs. 50 lakh in a financial year, in or from one or more current account of a person. | <ul style="list-style-type: none"> I. A banking company; or II. A co-operative bank |
| <p>Cash deposits in other accounts:</p> <p>Cash deposits aggregating \geq Rs. 10 lakhs in a financial year, in one or more accounts (<i>other than current account and time deposits</i>) of a person</p> | <ul style="list-style-type: none"> I. A banking company; or II. A co-operative bank III. Post Master General as per Indian Post Office Act |

* Cash deposits and cash withdrawals limits to be computed independently

| Nature of Financial Transactions | Specified class of persons (reporting persons) |
|---|---|
| <p>Time Deposits:</p> <p>One or more time deposits aggregating \geq Rs. 10 lakhs in a financial year (other than a time deposit made through renewal of another time deposit)</p> | <p>I. A banking company; II. A co-operative bank III. Post Master General as per Indian Post Office Act IV. Nidhi company V. NBFC registered with RBI to hold public deposits</p> |
| <p>Buy back of shares:</p> <p>Buy back of shares from any person for amount or value aggregating \geq Rs. 10 lakhs in a financial year <i>(other than the shares bought in the open market)</i></p> | <p>A listed company undertaking buy back of its shares as per Indian Companies Act</p> |
| <p>Sale of foreign currency by Authorised Person:</p> <p>Receipt of funds from any person for sale of foreign currency by Authorised Person including any credit of such currency to foreign exchange card or expense in such currency through a debit or credit card or through issue of travellers' cheque or draft or any other instrument of an amount aggregating \geq Rs. 10 lakhs during a financial year.</p> | <p>Authorised person under Foreign Exchange Management Act</p> |

| Nature of Financial Transactions | Specified class of persons (reporting persons) |
|--|---|
| <p>Cash sale of goods/ services:</p> <p>Receipt of cash payment > Rs. 2 lakhs for sale of goods or services (not specifically covered under any other categories of new Rule)</p> | <p>Person (seller) liable to get his accounts audited* for tax purposes under Income Tax Laws</p> |

* Audit based on gross turnover/ receipt threshold

SFT – Changes in Monetary Limits

| Nature of Financial transaction | Earlier limit | New limit |
|---|---|---|
| Credit card payments | Payments aggregating to \geq Rs. 2 lakhs in a financial year | Payments (in respect of one or more cards) aggregating to: 1. \geq Rs. 1 lakh in cash 2. \geq Rs. 10 lakhs by any other mode in a financial year |
| Receipt from any person for acquisition of bonds/ debentures issued by company/ institution (primary subscription) | \geq Rs. 5 lakhs | Amount aggregating to \geq Rs. 10 lakhs in a financial year <i>[Other than the amount received on renewal of bond/ debenture]</i> |
| Receipt from any person for acquiring shares issued by a company (primary subscription) | \geq Rs. 1 lakh (public or rights issue) (share application excluded) (private placement excluded) | Amount aggregating to \geq Rs. 10 lakhs in a financial year - share application money included - Private placement included now |
| Receipt from any person for acquiring units of a Mutual Fund | \geq Rs. 2 lakhs | Amount aggregating to \geq Rs. 10 lakhs in a financial year <i>[Other than amount received on account of transfer of funds from one scheme to another scheme of that Mutual Fund]</i> |
| Purchase or sale of immovable property | \geq Rs. 30 lakhs as per agreement | \geq Rs. 30 lakhs as per agreement or as valued by stamp duty authority |

Other Changes in SFT

- ▶ The new Rule provides clarifications on aggregation for computing the monetary thresholds for AIR (e.g. in case of joint holding in any account or transaction, same information shall be furnished for all joint holders)
- ▶ AIR return to be furnished exclusively online under DSC. Only exception is for Post Master General and Registrar/Inspector General, who may furnish return in floppy/CD/DVD
- ▶ The time limit for furnishing AIR has been preponed to **31 May** (instead of 31 August) immediately following the relevant financial year.

Form 61A- Statement of Financial Transactions

As per Rule 114E, the Statement of Financial Transactions must be filed in Form 61A. The due date of filing such form is 31st May of next year for every previous financial year where the transaction occurs.

If an entity hasn't entered into any of Specified financial transactions in the financial year but falls into the reporting class of person as provided under the provisions of the Income Tax Act, do they still require to furnish a NIL SFT in Form 61A?

There is no concrete answer to the above query. However, in our opinion, to avoid unnecessary litigation, the entity should furnish a NIL SFT Report.

Different parts of Form 61A

Form 61A has **two parts**. Part A which contains statement level information is common for all transaction types.

The report level information has to be reported in one of the following parts (depending on the transaction type):

- Part B (Reporting of aggregated financial transactions by the person)
- Part C (Reporting of bank accounts)
- Part D (Reporting of immovable property transactions)

Process of filing SFT online:

- **Register** on the Reporting portal under **My Account** menu.
- All statements uploaded to the Reporting Portal should be **in the XML format** consistent with the **prescribed schema** published by the Income Tax Department.
- Once XML is generated, **sign and encrypt the XML** using the Submission utility and **prepare package** to be uploaded.
- **Submit** the statement on Reporting Portal.
- Upon successful submission, an **email** with “**Acknowledgment Number**” will be sent to the registered email id.

Penalty for default in furnishing of Form 61A

A penalty u/s **271FA of Rs 500 per day** shall be levied for the initial failure to file within due date. The authorities would issue a notice to such an assessee, demanding the assessee to submit the form within 30 days from issuance of such notice. In case such assessee continues to be the assessee in default by not answering to such notice, a penalty would be levied on the assessee that would amount to Rs 1000 per day of such default. This penalty would be calculated from the expiry of the period as stipulated in such notice.

SFT AND FORM 26AS

The income tax department *vide* a **Press Release dated 18th July 2020** informed that **Part-E of the new Form 26AS will show Specified Financial Transactions (SFT) from “specified persons”** like banks, mutual funds, institutions issuing bonds and registrars or sub-registrars etc., under **section 285BA** of Income-tax Act, 1961.

The **objective of improving the Form 26AS** is to enable a taxpayer to file his income tax return correctly and smoothly without missing any financial transactions carried out by the taxpayer during a financial year. The **new Form 26AS will act as a ready reckoner** for the taxpayer. This will help the taxpayer in computing his total income correctly and consequently, the tax liability.