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UNDERSTANDING STATEMENT OF FINANCIAL TRANSACTION (SFT)

To keep a watch on high value transactions undertaken by the taxpayer, the Income-tax Law has framed the concept of **statement of financial transaction or reportable account**. With the help of the statement the tax authorities will collect information on certain prescribed high value transactions undertaken by a person during the year. Statement of financial transaction or reportable account is to be filed by certain prescribed entities (discussed later), and in such statement they are required to furnish the details of specified financial transactions or any reportable account registered/recorded/maintained (discussed later) by them during the year. Thus, on the basis of the information provided by certain prescribed entities in statement of financial transaction or reportable account, the Income-tax Department keeps a track of specified financial transactions carried on by a person during the year. In this part you can gain knowledge on various provisions relating to statement of financial transaction or reportable account.

Basic provisions

As per Section 285BA of the Income Tax Act, 1961, specified entities (Filers) are required to furnish a statement of financial transaction or reportable account (hereinafter referred to as 'statement') in respect of specified financial transactions or any reportable account registered/recorded/maintained by them during the financial year to the income-tax authority or such other prescribed authority.

Persons required to file statement of financial transaction or reportable account

Following persons shall be required to furnish statement of financial transactions or reportable accounts registered or recorded or maintained by them during a financial year to the prescribed authority:

- (a) an assessee;
- (b) the prescribed person in the case of an office of Government;
- (c) a local authority or other public body or association;
- (d) the Registrar or Sub-Registrar appointed under section 6 of the Registration Act, 1908 (16 of 1908);
- (e) the registering authority empowered to register motor vehicles under Chapter IV of the Motor Vehicles Act, 1988 (59 of 1988);
- (f) the Post Master General as referred to in clause (j) of section 2 of the Indian Post Office Act, 1898 (6 of 1898);
- (g) the Collector referred to in clause (g) of section 3 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (30 of 2013);
- (h) the recognised stock exchange referred to in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- (i) an officer of the Reserve Bank of India, constituted under section 3 of the Reserve Bank of India Act, 1934 (2 of 1934);
- (j) a depository referred to in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996 (22 of 1996); or
- (k) a prescribed reporting financial institutions
- (l) a person, other than those referred to in clause (a) to (k), as may be prescribed.

Transactions that are required to be reported

The statement of financial transaction shall be furnished by every person mentioned in column (3) of the Table below in respect of all the transactions of the nature and value specified in the corresponding entry in column (2) of the said table, which are registered or recorded by him on or after the 1st day of April, 2016, namely:-

Sl. No.	Nature and value of transaction	Class of person (reporting person)
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1. (a) Payment made in cash for purchase of bank drafts or pay orders or banker's cheque of an amount aggregating to Rs. 10 lakh or more in a financial year. A banking company or a co-operative bank
(b) Payments made in cash aggregating to Rs. 10 lakh or more during the financial year for purchase of pre-paid instruments issued by Reserve Bank of India.
(c) Cash deposits or cash withdrawals (including through bearer's cheque) aggregating to Rs. 50 lakh or more in a financial year, in or from one or more current account of a person.
2. Cash deposits aggregating to Rs. 10 lakh or more in a financial year, in one or more accounts (other than a current account and time deposit) of a person. (i) A banking company or a co-operative bank
(ii) Post Master General
3. One or more time deposits (other than a time deposit made through renewal of another time deposit) of a person aggregating to Rs. 10 lakh or more in a financial year of a person. (i) A banking company or a co-operative bank
(ii) Post Master General
(iii) Nidhi Company
(iv) Non-banking financial company
4. Payments made by any person of an amount aggregating to—
(i) Rs. 1 lakh or more in cash; or
(ii) Rs. 10 lakh or more by any other mode, against bills raised in respect of one or more credit cards issued to that person, in a financial year. A banking company or a co-operative bank or any other company or institution issuing credit card.
5. Receipt from any person of an amount aggregating to Rs. 10 lakh or more in a financial year for acquiring bonds or debentures issued by the company or institution (other than the amount received on account of renewal of the bond or debenture issued by that company). A company or institution issuing bonds or debentures.
6. Receipt from any person of an amount aggregating to Rs. 10 lakh or more in a financial year for acquiring shares (including share application money) issued by the company. A company issuing shares.
7. Buy back of shares from any person (other than the shares bought in the open market) for an amount or value aggregating to Rs. 10 lakh or more in a financial year. A company listed on a recognised stock exchange purchasing its own securities under section 68 of the Companies Act, 2013
8. Receipt from any person of an amount aggregating to Rs. 10 lakh or more in a financial year for acquiring units of one or more schemes of a Mutual Fund (other than the amount received on account of transfer from one scheme to another scheme of that Mutual Fund). A trustee of a Mutual Fund or such other person managing the affairs of the Mutual Fund
9. Receipt from any person for sale of foreign currency 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 travelers cheque or draft or any other instrument of an amount aggregating to Rs. 10 lakh or more during a financial year. Authorised person under Foreign Exchange Management Act, 1999
10. Purchase or sale by any person of immovable property for an amount of Rs. 30 lakh or more or valued by the stamp valuation authority referred to in section 50C of the Act at Rs. 30 lakh or more. Inspector-General or Registrar or Sub-Registrar appointed under the Registration Act, 1908
11. Receipt of cash payment exceeding Rs. 2 lakh for sale, by any person, of goods or services of any nature (other than those specified at Sl. Nos. 1 to 10 of this rule, if any.) Any person who is liable for audit under section 44AB of the Act.
12. Cash deposits during the period 9th November, 2016 to 30th December, 2016 aggregating to—
(i) Rs. 12,50,000 or more, in one or more current account of a person; or
(ii) Rs. 2,50,000 or more, in one or more accounts (other than a current account) of a person. (i) A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies
(ii) Post Master General as referred to in clause (j) of section 2 of the Indian Post Office Act, 1898
13. Cash deposits during the period 1st of April, 2016 to 9th November, 2016 in respect of accounts that are reportable under SI. No. 12 because cash deposited in this account between 9th November, 2016 to 30th December, 2016 aggregating to—
(i) Rs. 12,50,000 or more, in one or more current account of a person; or
(ii) Rs. 2,50,000 or more, in one or more accounts (other than a current account) of a person. (i) A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies
(ii) Post Master General as referred to in clause (j) of section 2 of the Indian Post Office Act, 1898



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The periodicity and due date of furnishing statement of financial transaction or reportable account

The statement of financial transaction shall be furnished electronically (under digital signature) in Form No. 61A to the Director of Income-tax (Intelligence and Criminal Investigation) or the Joint Director of Income-tax (Intelligence and Criminal Investigation). However a Post Master General or a Registrar or an Inspector General may furnish Form No. 61A in a computer readable media being a Compact Disc or Digital Video Disc (DVD), along with the verification in Form-V on paper.

Further, the statement shall be furnished on or before 31st May immediately following the financial year in which the transaction is registered or recorded.

However, the statement of financial transaction in respect of the transactions listed at serial number (12) and serial number (13) in the Table given above, shall be furnished on or before the 31st day of January, 2017. Section 285BA(5) empower the tax authorities to issue a notice to the person who had not filed the statement within due date. In such a case, the tax authorities may serve upon such person a notice requiring him to furnish the statement within a period not exceeding 30 days from the date of service of such notice and in such a case the person shall furnish the statement within the time as specified in the notice.

Reportable transactions for purpose of pre-filing return of income

The CBDT, vide Income-tax (4th Amendment) Rules, 2021, has enhanced the scope of nature of transactions to be reported under Statement of Financial Transaction (SFT) as per Rule 114E. Now, following 'Specified Financial Transactions' are also required to be reported for the purpose of pre-filing the return of income:

S. No.	Nature of transaction	Reporting person
1.	Capital gains on transfer of listed securities or units of Mutual Funds	<ul style="list-style-type: none">• Recognised Stock Exchange;• Depository as defined in section 2(1)(e) of Depositories Act, 1996;• Recognised Clearing Corporation;• Registrar to an issue and share transfer agent registered under section 12(1) of the SEBI Act, 1992.
2.	Dividend income	A Company
3.	Interest income	<ul style="list-style-type: none">• A Banking company or a Co-op. Bank to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act);• Post Master General as referred to in section 2(j) of the Indian Post Office Act, 1898;• Non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934), to hold or accept deposit from public.

The Statement in respect to above transactions shall be furnished in the manner specified by the Principal Director General of Income Tax (Systems) or the Director General of Income Tax (Systems), as the case may be, with the approval of the CBDT.

The Statement shall be furnished at such frequency as may be specified by the Principal Director General of Income Tax (Systems) or the Director General of Income Tax (Systems), as the case may be, with the approval of the CBDT.

Consequences of not furnishing statement of financial transaction or reportable account

Non-furnishing of statement of financial transaction or reportable account will attract penalty under section 271FA. Penalty can be levied of Rs. 500 per day of default.

However, section 285BA(5) (as discussed earlier) empower the tax authorities to issue a notice to the person directing him to file the statement within a period not exceeding 30 days from the date of service of such notice and in such a case person shall furnish the statement within the time specified in the notice. If person fails to file the statement within the specified time, then a penalty of Rs. 1,000 per day will be levied from the day immediately following the day on which the time specified in such notice for furnishing the statement expires.

Inaccurate or defective statement of financial transaction or reportable account

If any person, after filing the statement, comes to know or discovers any inaccuracy in the information provided in the statement, he shall inform such inaccuracy to the prescribed income- tax authority within a period of ten days and furnish the correct information.

On the other hand, the prescribed income-tax authority may also intimate the defect to the person and give him an opportunity of rectifying the defect within a period of thirty days from the date of such intimation or within such extended period as may be allowed by prescribed income-tax authority.



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If a person fails to rectify the defect within the said period than such statement shall be treated as an invalid statement and the provisions of this Act shall apply as if such person had failed to furnish the statement.

However, w.e.f., September 1, 2019, if a person fails to rectify the defect in the statement, it shall be deemed as such person had furnished inaccurate information in the statement.

Consequences of filing inaccurate or defective statement of financial transaction or reportable account

Section 271FAA levies penalty for furnishing inaccurate statement of financial transaction or reportable account.

Upto 30-09-2024:

If a prescribed reporting financial institution referred to in Section 285BA(1) who is required to furnish statement of financial transaction or reportable account, provides inaccurate information in the statement, and where:

- (a) the inaccuracy is due to a failure to comply with the due diligence requirement as prescribed under rule 114H of the Income-tax Rules, 1962 or is deliberate on the part of that person;
- (b) the person knows of the inaccuracy at the time of furnishing the statement but does not inform the prescribed income-tax authority or such other authority or agency;
- (c) the person discovers the inaccuracy after the statement is furnished and fails to inform and furnish correct information within a period of 10 days as specified under section 285BA(6),

then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

Further, a penalty of Rs. 5,000 would be levied on reporting financial institution if there is any inaccuracy in SFT and such inaccuracy is due to false or inaccurate information submitted by the holder of reportable accounts. The reporting financial institution may also recover such penalty amount from the holder of the reportable account.

With effect from 01-10-2024

If a prescribed reporting financial institution referred to in Section 285BA(1) who is required to furnish statement of financial transaction or reportable account:

- a) provides inaccurate information in the statement or fails to furnish correct information within the specified period; or
- b) fails to comply with the prescribed due diligence requirement

then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

Further, a penalty of Rs. 5,000 would be levied on reporting financial institution if there is any inaccuracy in SFT and such inaccuracy is due to false or inaccurate information submitted by the holder of reportable accounts. The reporting financial institution may also recover such penalty amount from the holder of the reportable account.

Registration

Every reporting person mentioned in column 3 of the Table (*supra*) shall communicate to the Principal Director General of Income-tax (Systems) the name, designation, address and telephone number of the Designated Director and the Principal Officer and obtain a registration number.

"Designated Director" means a person designated by the reporting person to ensure overall compliance with the obligations imposed under section 285BA and rules 114B to Rule 114E and includes:

- (i) the Managing Director or a whole-time Director duly authorised by the Board of Directors if the reporting person is a company;
- (ii) the managing partner if the reporting person is a partnership firm;
- (iii) the proprietor if the reporting person is a proprietorship concern;
- (iv) the managing trustee if the reporting person is a trust;
- (v) a person or individual, who controls and manages the affairs of the reporting entity if the reporting person is, an unincorporated association or, a body of individuals or, any other person.

Furnishing of statement of financial transaction and reportable account by prescribed reporting financial institution



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In order to facilitate effective exchange of information in respect of resident and non-resident, Section 285BA also provides for furnishing of statement by a prescribed reporting financial institution in respect of specified financial transaction or reportable account. The statement shall be furnished for each calendar year in Form No. 61B on or before 31st May of the next year. [For more details, see rules 114F, Rule 114G and Rule 114H of the Income-tax Rules, 1962]

MCQ ON UNDERSTANDING ANNUAL INFORMATION RETURN (AIR)

Q1. With the help of _____ the tax authorities collect information on certain prescribed high value transactions undertaken by a person during the year.

- (a) Return of Income (b) TDS/TCS Statement
(c) Statement of financial transaction or reportable account (d) Tax Audit Report

Correct answer : (c)

Justification of correct answer :

With the help of statement of financial transaction or reportable account the tax authorities collect information on certain prescribed high value transactions undertaken by a person during the year.

Thus, option (c) is the correct option.

Q2. As per Section _____ of the Income Tax Act, 1961, read with Rule 114E to Rule 114H of the Income Tax Rules, 1962, certain specified entities are required to furnish the details of specified financial transactions or any reportable account registered/recorded/maintained by them during the financial year to the Income-tax Authority or such other prescribed authority.

- (a) 285B (b) 285BA
(c) 288A (d) 288B

Correct answer : (b)

Justification of correct answer :

As per Section 285BA of the Income Tax Act, 1961, read with Rule 114E to Rule 114H of the Income Tax Rules, 1962, certain specified entities (*i.e.*, Filers) are required to furnish the details of specified financial transactions or any reportable account registered/recorded/ maintained by them during the financial year to the Income-tax Authority or such other prescribed authority.

Thus, option (b) is the correct option.

Q3. Non-furnishing of statement of financial transaction or reportable account will attract penalty under section 271FA.

- (a) True (b) False

Correct answer : (a)

Justification of correct answer :

Non-furnishing of statement of financial transaction or reportable account will attract penalty under section 271FA. Penalty can be levied of Rs. 500 per day of default.

However, section 285BA(5) empower the tax authorities to issue a notice to the person directing him to file the statement within a period not exceeding 30 days from the date of service of such notice and in such a case person shall furnish the statement within the time specified in the notice. If person fails to file the statement within the specified time, then a penalty of Rs. 1,000 per day will be levied from the day immediately following the day on which the time specified in such notice for furnishing the statement expires.

Thus, the statement given in the question is true and hence, option (a) is the correct option.

Q4. Furnishing of inaccurate particulars in statement of financial transaction or reportable account will attract penalty under section 271FAA.

- (a) True (b) False

Correct answer: (a)



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Justification of correct answer :

Section 271FAA levies penalty for furnishing inaccurate statement of financial transaction or reportable account.

Upto 30-09-2024:

If a prescribed reporting financial institution referred to in Section 285BA(1) who is required to furnish statement of financial transaction or reportable account, provides inaccurate information in the statement, and where:

(d) the inaccuracy is due to a failure to comply with the due diligence requirement as prescribed under rule 114H of the Income-tax Rules, 1962 or is deliberate on the part of that person;

(e) the person knows of the inaccuracy at the time of furnishing the statement but does not inform the prescribed income-tax authority or such other authority or agency;

(f) the person discovers the inaccuracy after the statement is furnished and fails to inform and furnish correct information within a period of 10 days as specified under section 285BA(6),

then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

Further, a penalty of Rs. 5,000 would be levied on reporting financial institution if there is any inaccuracy in SFT and such inaccuracy is due to false or inaccurate information submitted by the holder of reportable accounts. The reporting financial institution may also recover such penalty amount from the holder of the reportable account.

With effect from 01-10-2024

If a prescribed reporting financial institution referred to in Section 285BA(1) who is required to furnish statement of financial transaction or reportable account:

c) provides inaccurate information in the statement or fails to furnish correct information within the specified period; or

d) fails to comply with the prescribed due diligence requirement

then, the prescribed income-tax authority may direct that such person shall pay, by way of penalty, a sum of fifty thousand rupees.

Further, a penalty of Rs. 5,000 would be levied on reporting financial institution if there is any inaccuracy in SFT and such inaccuracy is due to false or inaccurate information submitted by the holder of reportable accounts. The reporting financial institution may also recover such penalty amount from the holder of the reportable account.



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