



Complete guide on SFT “Specified Financial Transaction”

As we all are aware the filing of SFT return is nearby, i.e. 31st May, 2020. Here , is a small step to guide you all before filing the return.

Under the Annual Information Return (AIR) Scheme, which was introduced w.e.f. 01-04-2004, specified entities were required to report notified transactions to Income Tax Department.

Section 285BA of the Income Tax Act was amended w.e.f. 01-04-2015, and it now requires specified persons to furnish Statement of Financial Transaction or reportable account.

- Rule 114D of Income Tax rules 1962, details of Form 60 are required to be reported in Form 61.
- Rule 114E mentions the nature and value of transactions which are required to be reported.
- Rules 114F, 114G and 114H deal with due diligence procedure for identification and reporting of reportable accounts.

Now the following Question arises before filing or checking the applicability of SFT. Here are some of the commonly used question.

1. What is statement of financial transaction?

SFT is a report of specified financial transactions by specified persons including prescribed reporting financial institution. Such specified persons who register, maintain or record such specified financial transaction are under a mandate to submit SFT to the income tax authority or such other specified authority or agency.

2. Who is a Reporting Entity?

Reporting Entity or Reporting Person is an entity which is required to furnish a Statement of Financial Transaction (in Form 61 A) or Statement of Reportable Account (in Form 61B) with the Income tax Department as per the provisions of section 285BA of the Income-tax Act 1961. Also, Under Rule 114D of Income Tax rules 1962, any entity/person receiving Form 60 is required to report details of Form 60 in Form 61.

Reporting Entity or Reporting Person is require to obtain **Income Tax Department Reporting Entity Identification Number (ITDREIN)**.

ITDREIN is an identification number allotted by the Income Tax Department to a Reporting Entity once the registration process is completed on reporting portal. ITDREIN is to be quoted by reporting entity for reporting any reportable transaction of a specified type. A Reporting Entity may have more than one ITDREIN for each type of reporting obligation.

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



If already registered on e-filing portal, log in to income tax e-filing site and go to My Account > Manage ITDREIN > Click on 'Generate New ITDREIN'

Select form type and Reporting entity category and click on 'Generate ITDREIN'

The ITDREIN is a system generated **16-character identification number** in the format **XXXXXXXXXX.YZNNN** where

- XXXXXXXXXX is a PAN or TAN of the Reporting Entity
- Y is Code of Form Code
- Z is Code of Reporting Entity Category for the Form Code
- NNN is Sequence number.

3. What are different forms relating to third party reporting u/s 285BA?

There are three forms namely Form 61, 61A and 61B.

• Form 61: Details of Form 60 submitted by transacting parties not having PAN

As per rule 114B of IT rules 1962, an entity is required to obtain PAN of the transacting party for the transactions specified.

Under certain circumstances as mentioned in this rule, a person not having a PAN can file declaration in **Form 60** and undertake such transaction. (*With reference to the para 8 of instruction No. 1 of 2018 dated 05/04/2018, the Reporting Person/Entity has to generate Form 60 acknowledgement number on its own.*)

The entity which accepts such declarations is required to file a summary of such declarations received in **Form 61** to comply with the reporting obligations. **Form 61 has two parts.**

- i. **Part A** contains particulars of the reporting person and whether the statement is original or revised.
- ii. **Part B** contains details of the transacting person and details of financial transactions undertaken.

Every person who has received any declaration in Form 60, on or after the 1st day of January, 2016, in relation to a transaction specified in rule 114B has to submit Form 61.

Details of these Form 60 are to be reported in **Form 61** for the period

1st April to 30th September of the financial year by **31st October** and
1st October to 31st March of the financial year by **30th April**.

As per Rule 114B, a person is required to quote his PAN if he wishes to undertake a transaction mentioned in this rule.

Contact us:
GBC Group

+91-9045773456, +91-9045326352

contact@gbcgroup.in , www.gbcgroup.in



- **Form 61A: Statement of financial transactions (SFT)**

As per rule 114E of the Income Tax Rules 1962, a Reporting Entity is required to file statement of financial transaction in Form 61A. A Reporting Entity has to report in specified SFT reportable transaction of the nature specified in this rule for the relevant financial year **on or before 31st May** immediately following the financial year.

Form 61A is further divided into statement details and report details.

a) **Part A** which contains statement level information is common to all transaction types. The report level information has to be reported in one of the following parts (depending of the transaction type):

b) **Part B (Person Based Reporting)**

Part B shall be used for person based reporting which is relevant to following transactions:

- i. **SFT- 001:** Purchase of bank drafts or pay orders in cash
- ii. **SFT- 002:** Purchase of pre-paid instruments in cash
- iii. **SFT- 005:** Time deposit
- iv. **SFT- 006:** Payment for credit card
- v. **SFT- 007:** Purchase of debentures
- vi. **SFT- 008:** Purchase of shares
- vii. **SFT- 009:** Buy back of shares
- viii. **SFT- 010:** Purchase of mutual fund units
- ix. **SFT- 011:** Purchase of foreign currency
- x. **SFT- 013:** Cash payment for goods and services

Any person, whether proprietary concern (Individual) or any other entity, liable for audit under section 44AB, who have **received cash payment exceeding two lakh rupees for sale**, by any person, of goods or services of any nature need to **file SFT - 013 (Cash payment for goods and services)**. Please note that No Aggregation of transactions is to be done in this case.

Note: For determining reportable persons and transactions, the reporting person/entity is required to **aggregate** all the transactions of the **same nature** recorded in respect of the person during the financial year. In a case, where the transaction is recorded in the name of more than one person, the reporting person/entity should attribute the entire value of the transaction or the aggregated value of all the transactions to all the persons.

E.g.: If a person has multiple credit cards and the aggregate value of the transactions in all credit cards exceeds the threshold value, the aggregate transaction value will be reported in section **B3 of form 61 A** and the transactions pertaining to individual credit cards can be reported in section **B4 of form 61 A**.

**Contact us:
GBC Group**

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



S. No.	Nature of transaction along with respective reporting person	Value of transaction
SF T- 001	Cash payment purchase of bank drafts or pay orders or banker's cheque reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 002	Cash payments for purchase of pre-paid instruments issued by Reserve Bank of India and reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 005	One or more time deposits (other than renewed time deposit of another time deposit) of a person reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies or by Post Master General or by Nidhi companies or By NBFCs	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 006	Credit card payments made by any person either in cash or by any other mode in a Financial Year reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies or any other company or institution issuing credit card	Aggregating to ' - Rs 1 lakh or more in cash or ' - Rs 10 lakh or more by any other mode in a Financial Year
SF T- 007	Receipt from any person for acquiring bonds or debentures issued by the company or institution (other than renewal of the bond or debenture issued) reported by A company or institution issuing bonds or debentures	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 008	Receipt from any person for acquiring shares (including share application money) issued by the company and Reported by a company issuing shares	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 009	Buyback of shares from any person (other than the shares bought in the open market) reported by a company listed on a recognised stock exchange purchasing its own securities	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 010:	Receipt from any person for acquiring units of one or more schemes of a Mutual Fund (other than transfer from one scheme to another of that Mutual Fund) reported by A trustee of a Mutual Fund or such other person managing the affairs of the Mutual Fund as may be duly authorised by the trustee in this behalf	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 011	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 travellers cheque or draft or any other instrument reported by Authorised person as referred to in clause (c) of section 2 of the Foreign Exchange Management Act, 1999	Aggregating to Rs 10 lakh or more in a Financial Year
SF T- 013	Receipt of Cash payment for sale, by any person, of goods or services of any nature (other than those specified at Sl. Nos. 1 to 10) reported by any person who is liable for audit under section 44AB of the Act	Exceeding Rs 2 lakh

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



c) **Part C** (Account Based Reporting)

Part C shall be used for account based reporting which is relevant to following transactions:

- i. **SFT- 003:** Cash deposit in current account
- ii. **SFT- 004:** Cash deposit in account other than current account
- iii. **SFT- 014:** Cash deposits during specified period (9th Nov to 30th Dec, 2016).

S. No.	Nature of transaction along with respective reporting person	Value of transaction
SF T- 003	Cash deposits or Cash withdrawals (including through bearer's cheque) in one or more current account of a person reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies	Aggregating to Rs 50 lakh or more in a Financial Year
SF T- 004	Cash deposits in one or more accounts other than a current account and time deposit of a person reported by A banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies or by Post Master General	Aggregating to Rs 10 lakh or more in a Financial Year

d) **Part D** (Immovable Property Transaction Reporting)

Part D shall be used for reporting of purchase or sale of immovable property

(SFT- 012). The reportable immovable property transactions have to be determined by applying the threshold limit. The reporting person/entity is required to submit specified details of immovable property transactions which are determined as reportable.

S. No.	Nature of transaction along with respective reporting person	Value of transaction
SF T- 012	Purchase or sale of immovable property by any person reported by Inspector-General appointed under section 3 of the Registration Act, 1908 or Registrar or Sub-Registrar appointed under section 6 of that Act.	An amount of Rs. 30 lakh rupees or more or valued by the stamp valuation authority referred to in section 50C of the Act at Rs 30 lakh rupees or more

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



Preliminary response for Form No. 61A can be submitted by the Reporting Entities to indicate whether they have a liability to file SFTs for the reporting period. Reporting Entity may select any of the following option for each SFT code:

- ❖ Yes (Liable to file statement and having reportable transactions)
- ❖ Nil Transactions (No transaction to report)
- ❖ Not Applicable (Not liable to file statement)

- **Form 61B: Statement of reportable accounts (SRA)**

Requirement of filing Form 61B is raised for implementation of **FATCA (Foreign Account Tax Compliance Act)** and **CRS (Common Reporting Standard)**. For this purpose rule 114F, 114G and 114H are to be referred. Briefly, these rules provide for due diligence procedure for identification of reportable accounts.

With a view to implement the CRS on AEOI and also the IGA with USA, and with a view to provide information to other countries, necessary legislative changes have been made by amending section 285BA of the Income-tax Act, 1961.

Income Tax Rules, 1962 were amended by inserting Rules 114F to 114H and Form 61B to provide a legal basis for the Reporting Financial Institutions (RFIs) for maintaining and reporting information about the Reportable Accounts.

Once a Reporting Entity identifies reportable accounts, information about such accounts is to be filed in Form 61B for the calendar year by **31st May** following the **end of the calendar year**.

“Foreign Account Tax Compliance Act” (FATCA) :

In 2010, USA enacted a law known as “Foreign Account Tax Compliance Act” (FATCA) with the objective of tackling tax evasion through obtaining information in respect of offshore financial accounts maintained by USA Residents and citizens. The provisions of FATCA essentially provide for 30% withholding tax on US source payments made to Foreign Financial Institutions unless they enter into an agreement with the Internal Revenue Service (US IRS) to provide information about the accounts held with them by US persons or entities (Companies/ Firms/ Trusts) controlled by US persons.

Financial Institution :

The definition of Financial Institution is in rule 114(F) 3 which classifies Financial Institution into four different category:

- i. **Custodial Institutions** - “Custodial Institution” means any Entity that holds, as a substantial portion of its business, Financial Assets for the account of others. Entities such as central securities depositors (CSDL & NSDL), custodian banks and depository participants would generally be considered as custodial institutions.

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



- ii. **Depository Institutions** - A depository institution is a financial institution (such as a savings bank, commercial bank, savings and loan associations, or credit unions) that is legally allowed to accept monetary deposits from consumers in the ordinary course of a banking or similar business.
- iii. **Investment Entities** – Entity's primary business consists of trading in money market instruments, foreign exchange, exchange, interest rate & index instruments, transferable securities or individual & collective portfolio management, investing, administering or managing financial asset or money for or on behalf of a customer'.
- iv. **Specified Insurance Companies** - “Specified Insurance Company” means any Entity that is an insurance company (or the holding company of an insurance company) that issues, or is obligated to make payments with respect to, a Cash Value Insurance Contract or an Annuity Contract.

Reporting Financial Institution (RFI) is defined in rule 114F (7) to mean:

A financial institution which is resident in India, but excludes any branch of such institution that is located outside India, and

Any branch of financial Institution (other than a non-reporting financial institution) which is not resident in India, if that branch is located in India.

Financial Institutions will not include Non-reporting Financial Institutions even though they satisfy the above conditions.

An entity needs to find out whether it is a reporting financial institution. Thereafter, reporting financial institution needs to review financial accounts held with it by applying due diligence procedure to identify whether any financial account is a reportable account. If any account is identified as a reportable account, the reporting financial institution shall report the relevant information in Form 61B in respect of the identified reportable accounts.

Reportable Account

A reportable account means an account which has been identified pursuant to the due diligence procedure, as held by:

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



- **A reportable person**

Reportable person has been defined in the Rule 114F(8) and means:-

- 1) One or more specified US persons; or
- 2) One or more persons other than
 - A corporation the stock of which is regularly traded on one or more established securities markets;
 - Any corporation that is a related entity of a corporation described in item (i);
 - A Governmental entity;
 - An International organization;
 - A Central Bank; or
 - A financial institution

Note :

US person has been defined in the Rule 114F(10) and means:-

- 1) An individual, being a citizen or resident of USA
- 2) A partnership or corporation organized in the USA or under the laws of the USA or any state thereof;
- 3) A trust if;
 - A court within the USA would have authority to render orders or judgments on issues regarding administration of the trust; or
 - One or more US persons have the authority to control all substantial decisions of the trust; or
- 4) An estate of a descendent who was a citizen or resident of the USA.

That is resident of any country or territory outside India (except United States of America) under the tax laws of such country or territory or an estate of a dependent that was a resident of any country or territory outside India (except US) under the tax laws of such country or territory.

Thus, generally speaking, there are two types of reportable persons. First one has been defined specifically for USA. Second one is for other countries.

- An entity, not based in USA, with one or more controlling person that is a specified controlling person.
- A passive non-financial entity with one or more controlling persons that is a person described in sub-clause (b) of clause (8) of the rule 114F.

Contact us:
GBC Group

+91-9045773456, +91-9045326352

contact@gbcgroup.in , www.gbcgroup.in



Reporting Financial Accounts

A financial account is an account maintained by a financial institution and includes specific categories of accounts as discussed in Rule 114F (1). There are broadly five types of financial accounts:

- i. **Depository Accounts:** “Depository Account” includes any commercial, checking, savings, time, or thrift account, or an account that is evidenced by a certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar instrument maintained by a Financial Institution in the ordinary course of a banking or similar business.
- ii. **Custodial Accounts:** The term custodial account means an arrangement for holding a financial instrument, contract, or investment (including, but not limited to, a share of stock in a corporation, a note, bond, debenture, or other evidence of indebtedness, a currency or commodity transaction, a credit default swap, a swap based upon a nonfinancial index, a notional principal contract as defined an insurance or annuity contract, and any option or other derivative instrument) for the benefit of another person.
- iii. **Equity and Debt Interest:** Equity and debt interests are financial accounts if they are interests in an investment entity e.g. a capital or profits interest in a firm and any interest held by any person treated as a settlor or beneficiary of all or a portion of the trust. Where an entity is an investment entity solely because it acts on behalf of a customer by investing, managing or administering Financial Assets in the name of the customer, the debt and equity interest in the investment entity are not Financial Assets provided it renders only investment advice to, or manages portfolios for, the customer.
- iv. **Cash Value Insurance Contracts:** Insurance contract means a contract under which issuer agrees to pay an amount upon the occurrence of a Specified contingency involving mortality, morbidity, accident, liability, or property risk. The term “Cash Value Insurance Contract” means an Insurance Contract (other than an indemnity reinsurance contract between two insurance companies) that has a Cash Value greater than US \$50,000 at any time during the calendar year.
- v. **Annuity Contracts:** Annuity contract means a contract under which the issuer agrees to make payments for a period of time determined in whole or in part by reference to the life expectancy of one or more individuals.

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



4. Who is required to file Statement of Financial Transactions (SFT)?

As per Rule 114E, following persons are required to furnish statement of financial transactions registered or recorded or maintained by them during a financial year to the prescribed authority.

- Any person who is liable for audit under **section 44AB of the Income Tax Act, 1961**
- A Banking Company
- A Co-operative Bank
- Post Master General of Post office
- A Nidhi referred to in sec 406 of the Companies Act 2013
- A Non-banking Financial Company (NBFC)
- Any Institution issuing Credit Card
- A Company or Institution issuing bonds or debentures
- A Company issuing shares
- A company listed on a recognized stock exchange purchasing its own securities
- A Trustee of a Mutual Fund or such other person authorized by the trustee
- Authorized Dealer, Money Changer, Off-shore Banking Unit or any other person defined in FEMA, 1999
- Inspector-General or Sub-Registrar appointed under Registration Act, 1908

5. What is the periodicity and due date of furnishing statement of financial transaction?

The statement of financial transactions (online return in Form No. 61A with digital signature) shall be furnished **on or before 31st May**, immediately following the financial year in which the transaction is registered or recorded.

Section 285BA (5) empower the tax authorities to issue a notice to a person who is required to furnish a statement as above and who has not filed the statement within prescribed time, requiring person to furnish the statement **within a period not exceeding 30 days** from the date of service of such notice and in such case, the person shall furnish the statement within the time as specified in the notice.

6. What are the consequences of not furnishing statement of financial transactions or reportable accounts?

Failure to furnish statement of financial transaction or reportable account will attract a penalty under **section 271FA** at the rate of **Rs. 500/-** for every day during which such failure continues.

As per provisions of section 285BA (5), the prescribed Income-tax authorities may issue a notice to a person who is required to furnish such statement and has not furnished the same in the prescribed time, directing person to file the statement within a period not exceeding 30 days from the date of service of such notice and in such case, the person shall furnish the

Contact us:

GBC Group

+91-9045773456, +91-9045326352

contact@gbcgroup.in , www.gbcgroup.in



statement within the time specified in the notice. If such person fails to file the statement within the specified time then a penalty of **Rs.1,000/-** for every day for which the failure continues, may be levied from the day immediately following the day on which the time specified in such notice for furnishing the statement expires.

7. What are the consequences of failure to correct inaccurate or defective statement of financial transaction or reportable account filed?

As per section 271FAA of the Income-tax Act, if a person who is required to furnish statement of financial transaction or reportable account, provides inaccurate information in the statement, and where:

- the inaccuracy is due to a failure to comply with the due diligence requirement prescribed under section 285BA(7) or is deliberate on the part of that person;
- 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;
- 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 **Rs. 50,000/-**

8. Can SFT return be revised, if there is defect in the SFT submitted?

In case if the SFT filed is considered to be defective by the concerned income-tax authority, same shall be intimated to the reporting entity/person by such authority and an opportunity for rectifying the defect **within a period of 30 days** from the date of such intimation shall be given. This due date for rectification of default can be extended further by income tax authority at his discretion on an application made in this behalf.

However, if defect is not rectified within 30 days or such extended period, such statement shall be treated as invalid and consequences of non-furnishing of SFT shall apply.

9. Is NIL return is to be filed , if there is no reportable transaction?

An entity who has not entered into any of the Specified or reportable financial transactions in any Financial Year but who falls entity is a reporting person under Section 285BA, are required to file NIL statement of financial transactions (SFT) in Form No. 61A. However, there is no compulsion.

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in



As per Report Utility there is an option to prepare NIL Statement. Here is the procedure

- Fill required information in Statement (Part A) and select ND (No Data) from Statement drop down field.
- Save XML to desired location

Further , Preliminary response for Form No. 61A can be submitted by the Reporting Entities by opting “NA” for each SFT code:

Author opinion :

To maintain consistency Assessee who has filed Annual Information Return in any previous Financial Year may consider filing such return for next financial year too despite no specified transaction in Financial Year 2018-19.

Please feel free to reach out in case you have any Queries/suggestions...!!

Contact us:
GBC Group

+91-9045773456, +91-9045326352
contact@gbcgroup.in , www.gbcgroup.in