

Bank Transactions and Income Tax Compliances

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Beware!

Your every transaction is under surveillance

Of Income Tax Department

If you receive a scrutiny letter from the income tax (I-T) department, don't get surprised. It may not be based on your return of income; there may be many other reasons for scrutiny call. For example, High value transaction in your bank, foreign remittance, receipts in foreign currency, sale/purchase of property, cash deposit in your bank account, credit card payment, refund amount, fixed deposit, foreign travel etc

The induction of advances information technology in Income Tax Department has made it possible to manage the large data of taxpayers and information at Income Tax Department. While on one part, the new policies and mechanism have simplified procedures and set up mechanism that makes it easier for the larger body of honest taxpayer to comply with the tax laws, it simultaneously raises the deterrence for non-compliances to make such behavior uneconomical.

This article has been compiled for the interest of general public who are not much aware about these transactions, how the department gets information about these, and more importantly how does the department deals with the information?

1. PAN - A common Connection

Rule 114B of Income Tax Rules, 1962 has made it mandatory to quote PAN in most of the transaction starting from opening a bank account to purchase/sell of jewellery articles. It has covered almost every significant transaction to track down the possible default in tax compliances. The following transaction has been prescribed where quoting PAN No. would be compulsory.

- a) Sale/purchase of any immovable property of Rs. 5 Lacs or more;
- b) Sale/purchase of motor vehicle;
- c) Fixed Deposit exceeding Rs. 50,000/- in any bank;
- d) Deposit exceeding Rs. 50,000/ - in any post office;
- e) Sale/purchase of Securities exceeding Rs. 1,00,000/-;
- f) Opening an Account with any Bank;

- g) Application for a telephone connection (including a mobile telephone connection);
- h) Payment to hotels and restaurants against their bills for an amount exceeding Rs. 25,000/- at any one time ;
- i) Payment in cash for purchase of bank drafts or pay orders or banker's cheques for an amount aggregating Rs. 50,000/- or more during any one day;
- j) Cash deposit in cash aggregating Rs. 50,000/- or more, with a banking company during any one day;
- k) Payment in cash for any foreign country travel exceeding Rs. 25,000/- at any one time.
- l) Application to any bank for issue of a credit or debit card;
- m) Payment of an amount of Rs. 50,000/- or more to a Mutual Fund for purchase of its units;
- n) Payment of an amount of Rs. 50,000/- or more to a company for acquiring shares issued by it;
- o) Payment of an amount of Rs. 50,000/- or more to a company or an institution for acquiring debentures or bonds issued by it;
- p) Payment of an amount of Rs. 50,000/- or more to the Reserve Bank of India, for acquiring bonds issued by it;]
- q) Payment of an amount aggregating Rs. 50000/- or more or more in a year as life insurance premium
- r) Payment to a dealer for purchase of bullion or jewellery, of an amount of Rs. 5 Lacs or more at any time

If any person does not have PAN No., he/she need to file declaration Form No. 60 for such transaction. Hence, your every transaction can be tracked down by the department.

Further, the decision of Finance Ministry to make PAN as the single unique identifier for financial markets has made the task of the department easier though the data volume has multiplied.

2. AIR - Providing Direct Information to Income Tax Department

Section 285BA of Income Tax Act, 1961 as amended by Finance (No.2) Act, 2004, has brought a concept of Annual Information Report (AIR) of 'specified financial transactions', as distinct from the Return of Income. Under this concept, it has been made mandatory for various regulatory authorities like Registrars of immovable properties, Registering authority for motor vehicles, Post Master General, Reserve Bank,

Stock exchanges, and Depositories etc to furnish an AIR of specified transactions entered into by them during the year.

Since, AIR does not involve any payment of tax, it become easy and hassle- free for third parties to discharge their obligations regarding specified financial transactions.

Specified Financial Transaction:- Section 285BA of Income Tax Act, 1961 defines the 'Specified Financial Transactions' to mean any prescribed transaction above Rs. 50,000/- of

- Purchase/sale or exchange of goods or property or right or interest in a property; or
- Service of any service; or
- Works contract; or
- Investment made or expenditure incurred; or
- Taking or accepting loan or deposit

3. TDS return/Form - 26AS

As per section 206AA of Income Tax Act, 1961 has made it obligatory to furnish PAN no. for all transaction where TDS shall be deducted. In case of non-furnish of PAN No., TDS shall be deducted @ 20% irrespective of the rates prescribed under any other section. Form 26AS contains the detail TDS deducted during any financial year. If any person who has received amount on which TDS has been deducted, person may be required to furnish the records and accounts based on his Form 26AS.

Role of NSDL

IT department has appointed National Securities Depository Limited (NSDL) as the agency to receive these electronic AIRs and TDS Returns. Their mandate requires NSDL to ensure that the AIRs filed electronically conform to prescribed format and that the data is clean and free of virus etc. before it is uploaded on the department's central system. NSDL has made available various facilities making it easier to file these returns correctly. The result is that the department is getting clean and structured information in electronic format in a central database on a regular basis.

How the process works?

The process adopted at Income Tax department can be summarized in the following points:-

- (i) First, the data is identified by PAN No. and TAN No.
- (ii) Since application of these rules is countrywide and the data is uploaded in a central database, it is possible to collate information about different transactions made by a person at different times, at different places, or with different parties. Thus, information about multiple credit cards or different bank accounts or different investments in mutual funds or in immovable properties in different cities made by a person becomes available in a single database.
- (iii) From the above database, an 'Individual Transaction Statement' is prepared in respect of each person based on its PAN.
- (iv) Above statement is supplemented by information coming from the electronic TDS returns which also contain the information about various payments. Even where PAN is not given or incorrect PAN is given it becomes possible to identify the transacting party using advanced IT tools. Thus all transactions of a year in respect of a particular PAN-holder whether coming from AIR or from the returns of Tax Deduction at Source, get appended to the 'Individual Transaction Statement' of the PAN-holder.
- (v) It takes few steps on the central system to create the family tree of a taxpayer along with names/ addresses of the concerns with which he is associated, and then to get the 'Transaction Statements' of such concerns. Once these statements are electronically linked with the data of returned/assessed incomes and tax payments of the taxpayer from the relevant databases, the department has an access to what it calls a 360 degree profile.

The Income tax department utilizes this information at the first level, to widen its tax base, i.e. to identify tax non-filers.

Hence, if such transactions are being reported in your bank accounts, it should be dealt with proper tax planning and reporting.

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Note: The above article is based on the personal interpretation of the Author which may be different from person to person.