Vatsaraj & Co.
Chartered Accountants

18th August 2020

Explaining the changes in the Revised Form 26AS

In July, the government had launched a **revised Form 26AS** which included high-value transactions from Statement of Financial Transactions (SFTs) from assessment year 2021-22, which would be now directly visible to the taxpayer at the time of filing of Income-tax Returns. The government states these measures are aimed at **widening the tax base**. For taxpayers, this implies **enhanced flow of information** to tax authorities. When implemented, it would also reflect in Form 26AS, the consolidated annual statement showing tax deductions/ collections and advance tax against an individual's PAN. This would **create greater onus on the taxpayers to comply** in a voluntary manner.

Though it is a good step to widen the tax base, Senior Citizens and low-income earners would attract unwanted compliance burden due to the lower threshold.

Our PM announced several tax measures on the eve of India's Independence Day last week to honour the honest tax-paying citizen. However, many assessees will now have to file their Returns of Income (ROI) or pay higher percentage of tax deduction at source (TDS) if one spend more than certain expenses or investments in a year. (Please refer to our article on **"Highlights on the Platform for Honest Tax payers".**

Let us understand with some examples:

If one spends over Rs 20,000 a year as hotel expenses, property tax or even pay for a health insurance premium, then your transactions would be reported.

Similarly, if your annual rent exceeds Rs 40,000, life insurance premium is at least Rs 50,000 or electricity bills of Rs 1 lakh or more during a financial year, then you would be answerable to the taxman either via notices or through mandatory filing of ROIs.

What does it imply?

a) The motive of the move is to check whether your spending is in line with the income you actually disclose as earned in the ROI.
b) The Government intends to reduce the number of all cash transactions
c) Increase the number of returns filed. This is done with an intention to expand the tax base and bring more assessees under the tax net.
d) The Government would collect data of spending by assessees to curb tax evasion.

While a formal amendment to the SFT rules is yet to be made by the Government, clearly, the tax-payer's burden is set to go up, thanks partly to the low threshold limits.

If you consider a retired person who would have to pay a mediclaim premium above Rs 20,000, which is very normal during our times as one grows old, even though one has no or low income, one will have to file tax Income Tax returns as the transactions have been reported.

Which transactions tracked currently?

As per the present existing income tax rules mandate financial institutions such as banks, mutual fund houses, share registrar and transfer agents, sub-registrars to report high value transactions exceeding a specified limit during a financial year to the Income Tax Department.

A bank has to report details of every account holder who makes cash deposits of more than Rs 10 lakhs in a year in a savings account or makes a payment of more than Rs 2 lakhs from his credit card in a year. Similarly, asset management companies are required to report details of all the investors who invest more than Rs 2 lakhs in a single mutual fund scheme. However, as per the revised rules, not only the investments and financial transactions will be tracked but also specific spending will also be tracked.

Are all spending / investments have to be informed to the government?

One does not have to go out of your way to inform the government or any authority or financial institution unless asked for in the Income-tax Return forms. When one makes purchases and expenses / investments beyond a threshold, they will be mentioned in the returns filed by hotels, electronic goods seller, artists, schools, ceramic supplier or the Registrar in the case of property purchase apart from banks, mutual fund houses, life and general insurance companies.

Such details would get reflected in the individual tax statement or Form 26AS. This form would be available on your income-tax website on its login. Once you spend beyond the limits as mentioned above, your Form 26AS would capture it. In other words, **you have to file your Income-tax Returns**. Care should be taken to match up the data appearing in Form 26AS details while filing the Returns.

There will be consequences for not filing ITR who is otherwise required to file an ITR. Apart from attracting interest, late fee and penalty, wilful non-filing of ITR may also attract criminal prosecution.

What happens if you make payments on behalf of someone else?

An employee may need to frequently traveller for work and is used to entertaining guests or clients over meals. Although the employer would reimburse the costs, the IT department would capture your credit card from which expenses are made and hence, it would be assumed that all such expenses were all yours.

Care should be now taken to ask for separate hotel invoices in the respective names of the persons if you are traveling in a group.

One should now consider if you wish to pay a consolidated bill, ask the hotel to segregate expenses on your bill that differentiates your spending vis-à-vis that of the group's spending, though, it is not that easy to do.

Another problem will be for Senior citizen parents who are used to getting money from their children living abroad. Apparently, they may also now be required to file ROI even though their income may be low or negligible.

The Ministry of Finance indicated that the total deposits in a savings bank account exceeding Rs 25 lakh a year would have to be reported. The limit for current accounts stands at Rs 50 lakh. The moment your total bank deposits cross Rs 30 lakh you would have to ensure you file a tax return, whatever the source.

Do you need to preserve bills?

In view of comparing the expenses made during the said year with the details appearing I Form 26AS, it is always advisable to keep all records. For taxpayers having business income and claiming deduction for expenses, bills for expenses would have to be maintained.

Such records for your high-value expenses should be maintained for at least 6-7 years as the Returns of income can be re-opened later. Further, care should be taken to take a photocopy of bills on thermal paper at the earliest as they tend to fade away.

From when such bills have maintained?

The government has yet to announce the date on which this would be implemented. However, you may start accumulating the required bills and receipts as a matter of habit from now onwards.