

Declare foreign assets in your ITR

Non-disclosure can lead to a penalty of ₹10 lakh



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AS PER Section 139 of the Income Tax Act, 1961 (ITA), individuals are mandatorily required to file an income tax return if they hold, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India. It also includes those having signing authority in any account located outside India, or are beneficiaries of any asset (including any financial interest in any entity) located outside India.

This requirement applies even if the taxpayer's income is below ₹2.5 lakh, the minimum amount not chargeable to tax. However, it is a little-known fact that individuals meeting this condition should not file ITR 1 but ITR 2 or ITR 3, as applicable.

Prevent tax evasion

Schedule FA was introduced in the income tax return for AY 2012-13 to prevent tax evasion through offshore routes, providing taxpayers an opportunity to disclose offshore assets and income upfront. The Schedule requires the disclosure of details of foreign depository accounts, details of foreign custodial accounts, details of foreign equity and debt interest, details of immovable property (land and building) situated outside India, etc. This schedule is only applicable to residents, and non-residents, including residents who are not ordinarily resident (RNOR), are exempt from reporting this.

All the specified details of foreign assets and income must be disclosed in Schedule FA, along with references to the relevant schedule in the ITR where such taxable income is declared. If you have invested in shares outside India, you must also reference the corresponding dividend income, if any.

ITR filing for AY 2024-25

Unlike the information in the ITR, which pertains to the period between April and March, details of foreign assets must be furnished calendar year-wise, as most countries follow the calendar year, unlike India, which follows the financial year. For ongoing ITR filings for AY 2024-25, details pertaining to January 2023 to December 2023 need to be disclosed. Further, for conversion of foreign assets or foreign-sourced income into Indian currency, the rate of exchange shall be the "telegraphic transfer buying rate," i.e., the rate of exchange adopted by the State Bank of India for buying such currency where it is made available to the bank through a telegraphic transfer.

Under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, a penalty is provided for failure by a resident taxpayer to furnish or for furnishing inaccurate particulars of foreign assets or foreign incomes in the return. The penalty is ₹10 lakh, with the only exception being for a foreign bank account whose balance was less than the equivalent of ₹5 lakh during the year.

By understanding the requirements and ensuring thorough compliance, taxpayers can avoid the pitfalls of non-disclosure and ensure their tax obligations are fully met. Proper reporting not only aligns with legal mandates but also contributes to a transparent and fair taxation system.

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