

Enhancing Tax Transparency on Foreign Assets & Income: Understanding CRS & FATCA

A. Purpose of CRS and FATCA

In this globalized economy, tax transparency and compliance has become paramount to ensure that taxpayers disclose their global income and assets accurately. The **Common Reporting Standard (CRS)** and the **Foreign Account Tax Compliance Act (FATCA)** are international frameworks designed to combat tax evasion by increasing transparency and cooperation among tax authorities worldwide.

CRS, is an initiative of the OECD, requiring financial institutions to report information about financial accounts held by foreign residents to their respective tax jurisdictions. This information is then exchanged with other jurisdictions annually. Similarly, **FATCA**, enacted by the United States, mandates foreign financial institutions to report accounts held by U.S. taxpayers to the IRS.

B. Information Received by India

Under CRS and FATCA schema, India receives detailed information about financial accounts held by its residents in foreign jurisdictions. This may include the account holder's name, address, and tax identification number (TIN), account number and balance, and income details such as interest, dividends, and other financial proceeds.

Under the CRS data structure, information may have the details including (but not limited to) account number, account holder; controlling person (individuals who have ultimate control over the entity) details with fields of resident country code, tax identification number, name, address, nationality, birth information; account balance; and payment types such as interest, dividend, gross proceeds/ redemptions and others.

Under the FATCA data structure, information may have the details including (but not limited to) account number, currency code and entity type associated with the account i.e., individual or organization, payment type – interest, dividend, gross proceeds/ redemptions and other; payment amount. The Individual type may have details of resident country code, tax identification number (TIN – PAN, in case of India), name, address, nationality and birth information. The Organization type may have resident country code, identification number (can be TIN, CIN, US-IRS allotted GIIN, Global EIN or others), name and address.

This information helps the Income Tax Department to know global income of its resident taxpayers and to identify taxpayers who may not have reported their foreign assets and income.

C. Disclosure Requirements under Indian Law

Income-tax Act, 1961 require residents to report their foreign assets and income in their Income Tax Returns (ITR). Specifically, Schedule FA (Foreign Assets) in the ITR form is meant for reporting foreign assets, and Schedule FSI (Foreign Source Income) is for reporting income from foreign sources. Additionally, taxpayers can claim tax relief on taxes paid abroad by filing Schedule TR (Tax Relief) along with Form 67 online.

Failure to report foreign assets and income can attract assessment and also stringent penalties and prosecutions under the **Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015**. It is crucial for taxpayers to comply with these regulations to avoid legal consequences.

D. Benefits of Transparency in Tax Returns

1. **Compliance and Good Governance:** Transparency in declaring global income and reporting foreign assets in tax returns reflect a taxpayer's commitment to compliance and good governance. It builds trust with tax authorities and avoids unnecessary scrutiny.
2. **Legal Security:** Full disclosure of foreign assets and income ensures that taxpayers are not exposed to penalties and legal actions under relevant laws.
3. **Claiming Tax Reliefs:** Accurate reporting allows taxpayers to claim tax relief on taxes paid outside India, preventing double taxation and optimizing their tax liabilities.
4. **Contribution to National Development:** Paying the correct amount of tax and declaring global income contributes to national development. It ensures that funds are available for public services and infrastructure development.

E. Reporting Foreign Assets and income in Returns

By filling Schedule FA / FSI/ TR in Income-tax Return, taxpayer can:

- Ensure complete and accurate disclosure of all foreign assets and income
- Avoid assessments, penalties and other legal consequences for non-disclosure
- Avail any eligible tax reliefs under the provisions of Indian tax laws and DTAA.

This is a proactive step towards maintaining compliance and transparency in taxpayer's tax affairs.

F. Opportunity to File Revised Returns

If the taxpayer has failed to report his/ her foreign assets and income in his/ her original ITR, there is an opportunity to rectify this through filing a revised return. The Income Tax Department allows taxpayers to correct any omissions or inaccuracies by filing a revised return. It is worthwhile to mention that selection of proper return form is essential for filling of Schedule FA in return. ITR-1 and ITR-4 do not have Schedule FA, therefore, taxpayers are advised to fill return forms other than ITR-1 and ITR-4 for filling Schedule FA, while filing revised return. For the A.Y.2025-26 revised return can be filed up to 31.12.2025.

G. Conclusion

The Income Tax Department aims to remind taxpayers of their obligation to report foreign assets and income reported under CRS and FATCA. By adhering to these requirements and ensuring full transparency in tax returns, taxpayers can avoid legal hassles, contribute to national development, and maintain a clear conscience.