



SAY NO TO CASH TRANSACTION



Income Tax Department
Central Board of Direct Taxes

A. Income Tax Act, 1961 discourages transactions in cash through several of its Provisions. This is done with a view to:

- Counteracting money laundering and tax evasion;
- Encouraging transparent business practices;
- Providing enabling environment for growth of transparent businesses; &
- Easing of auditing and investigations.

B. The Provisions Relating to Cash Transactions are Broadly Summarized as under:

1. Taking or accepting certain loans, deposits and specified sum [Refer section 269SS]

- No person is permitted to accept an amount (or aggregate amount) of Rs. 20,000 or more in cash for any loan or deposit or any specified sum.
- 'Specified sum' means any sum of money receivable, whether as advance or otherwise, in relation to transfer of an immovable property, whether or not the transfer takes place.
- The amount or the aggregate amount shall include any cash received earlier and remaining unpaid.
- There are certain exceptions to this provision. These are sums of the aforesaid nature accepted from or by -
 - a. The Government;
 - b. Any banking company, post office savings bank or co-operative bank;
 - c. Any corporation established by a Central, State or Provincial Act;
 - d. Any Government company as defined in section 2(45) of the Companies Act, 2013;
 - e. Notified institution, association or body or class of institutions, associations or bodies.
- The provision is also not applicable if the payer and the payee are both having agricultural income and neither of them has any income chargeable to tax under Income-tax Act, 1961.
- **Consequences of violation [refer section 271D]:** Penalty of a sum equal to the amount taken in cash will be levied on recipient of cash.

2. Other Cash Transaction [Refer section 269ST]

- No person is allowed to receive in cash an amount of Rs. 2,00,000/- or more-
 - a. In aggregate from a person in a day; or
 - b. In respect of a single transaction; or
 - c. In respect of transactions relating to one event or occasion from a person.
- This provision does not apply to-
 - i. Any receipt by Government or any banking company, post office savings bank or co-operative bank;
 - ii. Transactions of the nature referred to in section 269SS;
 - iii. Notified persons or class of persons or receipts.
- **Consequences of violation [Refer section 271DA]:** Penalty of an amount equal to the amount of such sum received in cash will be levied on recipient.

3. Acceptance of payment through prescribed Electronic Modes [Refer section 269SU]

- Every person, carrying on business and having total sales/turnover exceeding 50 crores in immediately preceding financial year is mandatorily required to provide facility for accepting payment through prescribed electronic modes in addition to facility for other electronic modes, provided by such person.
- **Consequences of violation [Refer section 271DB]:** A failure to do so, would attract a penalty of Rs. 5000/- for every day during which such failure continues.



4. Repayment of certain loans or deposits [Refer section 269T]

- No branch of a banking company or a co-operative bank and no other company or co-operative society and no firm or other person is permitted to repay any loan or deposit or any specified advance in cash if such amount (or the aggregate amount) together with interest is Rs. 20,000/- or more.
- **'Specified Advance'** means any sum of money in the nature of advance, by whatever name called, in relation to transfer of an immovable property, whether or not the transfer has taken place.
- The aggregate amount shall include amounts held by the person in his own name or jointly with other person on the date of such repayment.
- There are certain exceptions to this provision. The above provisions shall not apply to repayment of any loan or deposit or specified advance taken or accepted from -
 - a. Government;
 - b. Any banking company, post office savings bank or co-operative bank;
 - c. Any corporation established by a Central, State or Provincial Act;
 - d. Any Government company as defined in section 2(45) of the Companies Act, 2013.
 - e. Notified institution, association or body or class of institutions, associations or bodies.
- **Consequences of violation [Refer section 271E]:** Penalty for an amount equal to the amount of such loan or deposit or specified advance so repaid in cash will be levied on the person making the repayments.

5. Exemption of income in the hands of Political Parties (Section 13A)

- One of the condition for exemption of income of political party registered under section 29A of the Representation of the People Act, 1951 is that no donation exceeding Rs 2000/- is received by such political party in cash.



6. Deduction in respect of expenditure on specified business [section 35AD]

- Under the provisions if certain conditions are satisfied, the assessee engaged in the specified business are eligible for deduction @ 100% (few cases weighted deduction @ 150%) of the capital expenditure incurred wholly and exclusively for the purpose of such specified business carried on in the previous year.
- No deduction under section 35AD shall be allowed in respect of payment or aggregate payment per day made to a person against such expenditure in cash in excess of Rs. 10,000/-.

7. Disallowance of expenses incurred in Cash [Refer section 40A(3)] & Deemed Income of business or profession if expenditure is incurred in one year and payment is made in cash in subsequent year [Refer section 40A(3A)]

- If a person incurs any expenditure for his business or profession, in respect of which payment or aggregate of payments made to a person in a day in cash exceeds Rs. 10,000/-no deduction is allowed in respect of such expenditure.
- If an allowance has been made in respect of any liability incurred by a person for any expenditure, and later during any subsequent year the person makes payment in respect thereof, in cash, the payment so made is deemed to be Profits and Gains of business or profession and is chargeable to income-tax as income of the subsequent year, if the payment or aggregate of payments made to a person in a day exceeds Rs. 10,000/-.
- Exceptions to the above are provided in Rule 6DD of the Income-tax Rules, 1962.
- In case payment is being made for plying, hiring or leasing goods carriages, then the aforesaid limit is Rs. 35000/-.

8. Disallowance of depreciation [Refer 2nd proviso to section 43(1)]

- In case a person incurs any expenditure for acquisition of any asset in respect of which a payment or aggregate of payments made to a person in a day in cash exceeds Rs.10,000/-, such expenditure is not included for the purposes of determination of actual cost of such asset. This means that no depreciation benefit will be available on such capital expenditure incurred in cash.

9. Threshold limit for audit of accounts increased if cash transactions do not exceed 5% [Refer proviso to section 44AB(a)]

- Threshold limit for Tax Audit for business is Rs. 10 Crore provided that:
 - a. Aggregate of all cash receipts during the year does not exceed 5% of total receipts; and
 - b. Aggregate to all cash payments during the year does not exceed 5% of total payment.
- The above provision is slated to be applicable w.e.f. assessment year 2022-23.
- Earlier for AY 2021-22, the threshold limit was Rs. 5 Crore if the above criteria are satisfied. Normal tax audit threshold limit for business is otherwise Rs. 1 Crore.

10. Amount borrowed or repaid on hundi [Section 69D]

- Where any amount is borrowed on a hundi from, or any amount due thereon is repaid to any person in cash, it is deemed to be income of the person borrowing or repaying the amount in the financial year in which amount is borrowed or repaid.

11. Deduction in respect of health insurance premia [Refer section 80D(2B)]

- Section 80D allows deduction in respect of health insurance premium. The payment, however has to be made by any mode other than cash. Exception is provided in case of any sum paid on account of preventive health check-up.



12. Cash Donations exceeding Rs. 2000/- [Refer section 80G(5D)]

- Section 80G allows deduction in respect of donations to certain funds, charitable institutions etc. No deduction is allowed u/s 80G in respect of donation of any sum exceeding Rs. 2000/- unless such sum is paid by any mode other than cash.

13. Cash donations exceeding Rs. 10,000/- for scientific research or rural development [Refer section 80GGA(2A)].

- Section 80GGA allows deduction in respect of certain donations for scientific research or rural development. No deduction is however allowed in respect of any sum exceeding Rs. 2,000/- (w.e.f. 01.06.2020) unless such sum is paid by any mode other than cash.

14. Cash contributions given to political parties [Refer section 80GGB & section 80GGC].

- Section 80GGB allows deduction to Indian companies in respect of any sum contributed by them to any political party or an electoral trust. Similar deduction is allowed u/s 80GGC to other persons (except local authority and every artificial juridical person wholly or partly funded by the Government).
- However, no deduction is allowed in respect of any sum contributed by them in cash.



15. Deduction in respect of employment of new employees [section 80JJA]



- Subject to certain conditions additional deduction of an amount equal to 30% of additional employee cost is allowed.
- No deduction is allowed in this clause for payments made in cash.

16. TDS on payment of certain amounts in cash [Refer section 194N]

- TDS @ 2% is applicable on cash withdrawals above Rs. 1 crore.
- However, in case of a person who has not filed returns of income for the past three assessment years relevant to three previous years for which time limit to file return u/s 139(1) has expired the applicable TDS rate is 2% on cash withdrawals in excess of Rs. 20 lakh and upto Rs. 1 crore and 5% on withdrawals above Rs. 1 Crore.



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This Brochure should not be construed as an exhaustive statement of the law. For details reference should always be made to the relevant provisions in the Acts and the Rules

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