

Restrictions on cash transaction under income tax act, 1961

The Central Government is continuously working to curb and stop black money circulations in our country. In order to achieve their motto Central Government has introduced provisions of Section 269ST and 271DA in the Income Tax Act, 1961, with effect from 1st April, 2017.

The main features are:

The mode of transactions; Section 269ST: no person shall receive an amount of Rs. 2.00 Lakhs or more otherwise than by an account payee cheque or account payee bank draft or electronic clearing transfer system through bank accounts. These provisions will be applicable, whether the person is seller or service provider or transfer of capital assets.

The limit of Rs. 2.00 Lakhs will be calculated as follows:

- The aggregate amount received (other than by account payee cheque/bank draft/electronic transfer) from the same person in a day should not be more than 2.00 Lakh or more;
- Amount received received (other than by account payee cheque/bank draft/electronic transfer) in a single transaction should not be more than 2.00 Lakhs or more;
- Amount received received (other than by account payee cheque/bank draft/electronic transfer) in respect of a transaction relating to one event /occasion from a single person should not be more than 2.00 Lakhs or more;

Note: above restriction is not applicable when recipient is Central Government, Local Authorities, Bank, Financial Institutions, Post Offices, Co-operative banks and other person notified by the Government.

IN THE FOLLOWING CASES PROVISIONS OF SECTION 269ST IS NOT APPLICABLE;

- Withdrawal from bank, post offices, c-operative banks according to Notification No. SO1057(E), dated 5th April, 2017;
- CBDT has notified some person, who have exempted from receiving Rs. 2.00 Lakhs from the provisions of Section 269ST of the Income Tax Act, 1961. The CBDT has enlisted following entities;
- The receipt by a business correspondence on behalf of a banking company or co-operative bank according to the guidelines of RBI;
- Receipt by White Label ATM Operator from retail outlet sources of a banking company or co-operative bank, in accordance with the authorisation of RBI;

- Receipt by an agent of an issuer of prepaid payment instruments in accordance with the authorisation of RBI;
- Receipt by a company or institution issuing credit cards against bills raised in respect of one or more credit cards;
- Receipt pertaining to any award / reward which is no included in total income under Section 10(17A).

NOTE: CBDT has clarified that in case of repayment of loan from persons to Non-Banking Finance Companies/ Housing Finance Companies all instalments paid in cash shall not be aggregated, only single instalments should be considered. Suppose Mr. A is paying his Rs. 10,00,000/- loan from a Non-Banking Finance Company in cash and he has paid Rs. 25,000/- of instalments each month. Then in a year his payment will be Rs. 3.00 Lakhs and which violates provisions of Section 269ST in the hand of NBFC(s). Now in this case single transaction should not be more than Rs. 2.00 Lakhs and not all instalments in a year should be aggregated. [Circular No. 22/2017 dated 3rd July, 2017].

PEPANLTY [SECTION 271DA]:

Any person who has received any sum in contravention of the provisions of Section 269ST shall be levied penalty equal to the amount of the sum received, provided that the penalty shall not be levied if he proves that he has not contravened the provisions. The penalty under provisions of Section 269ST shall be levied by the Joint Commissioner of Income Tax.

EXAMPLE:

Mr. X is a wholesaler of cereals he has sold through Invoice No. 50 on 1st June, 2018 to Mr. Y cereals worth of Rs. 15,00,000/- and has received following payments from Mr. Y;

- Rs. 1,90,000/- received in cash as advance;
- Rs. 1,80,000/- received in cash 2nd June, 2018;
- Rs. 4,50,000/- received through RTGS on 2nd June, 2018;
- Rs. 1,10,000/- received through bearer cheque on 3rd June, 2018;
- Rs. 25,000/- received in cash on 4th June, 2018;
- Rest amount in account payee cheque.

NOW in this case;

1. Payment received (otherwise than account payee cheque/ bank draft/ electronic transfer) is Rs. 5,05,000/- (Rs. 1,90,000+1,80,000+1,10,000+25,000). It is covered under provisions of Section 269ST even though the single payment in a day is less than Rs. 2.00 Lakhs and AO will impose 100% penalty on this.

2. Since Mr. X received Rs. 3,75,000/- (Rs. 1,90,000 as advance+ Rs. 1,80,000 on 2nd June, 2018+ Rs. 25,000 on 4th June, 2018) he has to report the same in Form 61A (i.e. Statement of Financial Transaction under Section 285BA) if he is liable to Tax Audit.

TAX CONSEQUENCES FOR MR. Y; [SECTION 43B] if any payment is made otherwise than account payee cheque / bank draft/ electronic in bank account or in cash during the day more than Rs. 10,000/- shall be disallowed by AO. Now in this case the payments of Rs. 5,05,000/- /- (Rs. 1,90,000+1,80,000+1,10,000+25,000) will be disallowed in the hand of Mar.

NOTE:

- So keep in mind, no transaction more than Rs. 2.00 Lakhs in a day from a single person to be received against sale or goods and supply of any services and aggregate of all transaction from a single person should not be more than Rs. 2.00 Lakhs in a year.
- No payment of cash more than Rs. 10000/- in a day to single person.

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