

## Treatment of Cash Transactions above Rs 2 Lakhs

As we all are aware of [Section 269ST](#) which was introduced by finance act, 2017 in Income tax act, 1961 by the central government in order to curb the tax evasion, regulation and circulation of [Black money](#). This article will cover the detailed analysis of the said section along with some practical examples.

### 1. Basic Understanding of Section 269ST

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As per Section 269ST, any person who enters into a transaction of Rs 2 Lakh or above in cash, will be liable to a penalty of an amount equivalent to the amount of transaction.

**For example:** If you buy an expensive watch for cash worth Rs 7 Lakh, it is the shopkeeper who will have to pay the tax (*penalty*) of Rs 7 Lakh. So, here the tax rate is 100%.

Though this new section on Cash Transaction limit sounds simple, we need to go through it in details, as I believe that this may have quite an impact on our daily financial lives.

### 2. What does Section 269ST say?

Insertion of  
new section  
269ST.  
Mode of  
undertaking  
transactions.

**84.** After section 269SS of the Income-tax Act, the following section shall be inserted, namely:—

‘269ST. No person shall receive an amount of two lakh rupees 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,

otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account:

Provided that the provisions of this section shall not apply to—

(i) any receipt by—

- (a) Government;
- (b) any banking company, post office savings bank or co-operative bank;

(ii) transactions of the nature referred to in section 269SS;

(iii) such other persons or class of persons or receipts, which the Central Government may, by notification in the Official Gazette, specify.

*Explanation.*—For the purposes of this section,—

- (a) “banking company” shall have the same meaning as assigned to it in clause (i) of the *Explanation* to section 269SS;
- (b) “co-operative bank” shall have the same meaning as assigned to it in clause (ii) of the *Explanation* to section 269SS.’.

With effective from 1st April, 2017, no person shall receive an amount of **Rs 2 Lakh** 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.

The new Cash transaction limit is not applicable, if a person receives the amount through an Account Payee Cheque (or) an Account Payee Bank Draft (or) through use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed.

### **3. Non Applicability of Section 269ST**

(i) any receipt by—

(a) Government;

(b) any banking company, post office savings bank or co-operative bank;

(ii) transactions of the nature referred to in section 269SS;

(iii) such other persons or class of persons or receipts, which the Central Government may, by notification in the Official Gazette, specify.

### **4. Penalty Under Section 271DA:**

Kindly note that **Penalty u/s 271DA** will be imposed on a person who receives a sum of Rs 2 Lakh and above in cash. The extent of penalty will be a **sum equal to the amount of such receipt**. The said penalty shall however not be levied if the person proves that there were good and sufficient reasons for such contravention. Further please note that this penalty shall be imposed by Joint Commissioner.



## 5. Practical examples on Section 269ST & Rs. 2 Lakh Cash Transaction Limit

**A. Single Person:** Cash Receipt of Rs 2 lakh or more, from a **single person in a day** is not allowed even if the amount has been paid through multiple transactions during the day which are below Rs 2 lakh.

**For example :** Mr Modi buys a gold chain worth Rs 2 Lakh and pays the amount by cash to Mr Rahul on a single day in 4 equal installments of Rs 50,000 each. As Mr Rahul accepted cash worth Rs 2 Lakh from a single person and in a single day, section 269ST is applicable in this case. Mr Rahul has to pay a penalty of Rs 2 Lakh.

**B. Single Transaction:** Cash receipts of Rs 2 Lakh or more which are related to a single transaction are prohibited.

**For example :** Mr Kejriwal goes through a medical surgery and the hospital charges him a bill of Rs 4 Lakh. Kejriwal clears the bill in 4 installments of Rs 1 Lakh each on four different dates. Here, the cash receipts got by hospital are less than Rs 2 Lakh and have been received on different dates.

Whether this transaction violates section 269ST? – Yes. Hospital has to pay the penalty. Because, they received the payments with respect to single bill / transaction. So, splitting of payments over several days is prohibited.

**C. Single Event / Occasion:** Cash transactions or cash receipts related to a single event or occasion, cannot be more than Rs 2 Lakh.

**For example :** Nagachaitanya gets married to Samantha. On their wedding occasion, their relatives gifted Cash amount worth Rs 10 Lakh on different dates. Even if we

assume that each person has gifted cash worth less than Rs 2 Lakh, are these receipts come under the purview of Section 269ST? Is penalty applicable?

Yes, penalty can be levied. Here, marriage is a 'single occasion' and cash gifts worth Rs 2 Lakh or more cannot be received from relatives and other persons.

## 6. Other Important Points on Section 269ST

- Based on my interpretation of Section 269ST, payment modes like bearer cheque and self-cheque will also be considered on par with Cash based transactions only.
- It has been clearly stated that penalty (if any) is chargeable to an individual who violates section 269ST, even if you do not have PAN and/or is not a tax assessee.
- The restriction of receipt of money in Cash of Rs 2 Lakh or above in cash is applicable irrespective of whether it is for personal / business purpose, capital or revenue in nature, tax-free or taxable income.
- Kindly note that the payer of money is not liable to pay any penalty, it is the receiver of cash who has to bear the penalty u/s 271DA.
- Donations in cash exceeding Rs 2,000 are not permitted (Donations can be claimed u/s 80G)
- Premiums on Health insurance policies paid in cash cannot be claimed u/s 80D
- Loans or Deposits cannot be repaid in cash in excess of Rs 20,000 or more
- **Payment of above Rs 10,000 per person, cannot be made for any business payment towards any expenses (or) purchase of capital asset.**
- **One should not accept a loan or deposit or sale consideration of immovable assets in cash in excess of Rs. 20,000.**

## 7. Restriction on Capital Expenditure for Business in Cash above Rs. 10000/- [Section 43(1) and Section 32]:

- Where an assessee incurs any expenditure for **acquisition of a depreciable asset** in respect of which a payment (or aggregate of payment made to a person in a day), otherwise than by an account payees cheque/ draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, **exceeds Rs. 10000/-**, such a payment shall **not be eligible for normal/ additional depreciation under section 32.**

## 8. Reduction in the limit of Cash Payment to Rs. 10000/- in a Day [Section 40A(3) & 40A(3A) of the Income Tax Act, 1961:

- The monetary limit on revenue expenditure in cash has been **reduced from Rs. 20,000 to Rs.10,000**(there is no change in the monetary limit pertaining to cash payment upto Rs. 35000/- to Transport Contractors). Few exceptions are also provided in Rule 6DD of the Income Tax Rules. Consequently, any expenditure in respect of which payment (or aggregate of payment made to a person in a day), otherwise than by an account payee cheque/ draft/ use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, exceeds Rs. 10000/-, no deduction shall be allowed in respect of such payment under section 30 to 37 of Income Tax Act, 1961.

Sources: Tax Guru