



NOTE REGARDING CASH PAYMENT

1. Section 40A(3) of the Income Tax Act contains provision for disallowance of expenditure where any payments are aggregate of payments made to a person in a day otherwise then by account payee cheque / bank draft and electronic clearing system which exceeds Rs.20,000/-.

This section has been amended and w.e.f. 01.04.2017 if any cash payment or any payment in a day exceeding to Rs.10,000/- is made in cash then such expenditure shall not be allowed as deduction as against Rs.20,000/- earlier.

- 1.2 Further the Act has been amended that if any payment exceeding Rs.10,000/- is made in cash even for acquiring fixed assets to any persons on a single day in such case payment will not be considered for computing actual cost of the assets and consequently no depreciation will be allowed u/s 32 of the Income Tax Act. This non deduction is also applicable u/s 35D.

- 1.3 Meaning thereby w.e.f. 01.04.2017 no cash payment in excess of Rs.10,000/- has to be made to a person in a day otherwise the same will be disallowed as expenditure.

The nature of expenditure are broadly as under:-

- a) Purchase of raw material, finished goods, stock or For payment of services, etc.
- b) Any expenditure in the nature of rent, printing and stationery, repair & maintenance.
- c) Freight paid for carriage of goods (the limit in this case is excess Rs.35,000/-).
- d) Salary, wages paid to workers

- e) Any contract payment made to contractors, sub-contractors, advertising agency, etc.
 - f) Any expenditure of any other nature which stands debited in the profit & loss account.
2. A new Section referred to as Section 269ST has been introduced w.e.f 01.04.2017 which provides that no persons shall receive any amount of Rs.2 Lacs or more in cash:
- a) In aggregate from a person in a day
 - b) In respect of single transaction
 - c) In respect of transaction relating to one event or occasion from a person.
 - d) The aforesaid limit of Rs.2 Lacs shall not apply to any receipt by Govt., Any Banking Company, Post Office, Saving Bank or Co-op Bank.
- 2.1 A new Section 271DA has been introduced in Income Tax Act which provides levy of penalty on a person who receives a sum of Rs. 2 Lac in contravention of the provisions of Section 269ST. Such penalty shall be equal to 100% of the amount received by such person.
3. The effect of the aforesaid section in my opinion will be as under:-
- i. A sale bill can be made in the name of person on any day for less than Rs. 2 Lacs and cash can be received from such person.
 - ii. If a sale bill is issued for say Rs.4 Lacs (single transaction) then cash cannot be received from such persons on the same day Rs.4 Lacs or in installments say Rs.1 Lac or 2 Lacs each even on different dates which will attract the penal provisions and therefore it is not advised to issue bill above Rs.2 Lacs to the customer in a single day.

- iii. If the assessee accept Rs.2 Lacs or more from same person in a day even against different bills, section is violated.
- iv. If you accept Rs.2 Lacs or more from a person for a series of transaction any amount from one event or occasion, section is attracted.
- v. If one sells goods worth Rs.4,50,000/- through three bills of Rs.1,50,000/- each to one person and accepts cash in single day at different times, section will be violated.
- vi. If 'A' accept cash of Rs.1 Lac for catering, Rs.1,50,000/- for decoration, Rs.1,50,000/- for tent work then section will be get violated even if cash is accepted on different dates.
- vii. "A" sells to "B" product "C" for Rs.1.0 Lakh and subsequently, during the same day or another day sells product "D" for Rs.1.5 lakhs. The aggregate of receipts from "B" on a single day against both transactions cannot exceed Rs.2 lakhs.
- viii. Suppose "A" has sold goods worth Rs.2.5 lakhs to "B" who has paid in cash as follows:

	Rs.
April 2017	1 lakh
May 2017	.5 lakhs

If subsequently "B" approaches "A" for making further payment in cash, "A" cannot accept any amount in excess of Rs.49,999.

Since the aggregate of receipt over a period has to be considered, the recipient will have to maintain proper records.

- ix. It appears that the restriction applies to transaction already effected before 1.4.2017. Suppose "A" has sold goods of Rs.2.5 lakhs to "B" in March, 2017 against which "B" has not made any payment till 31.3.2017. It appears that this transaction is covered by section 269ST and "A" cannot receive Rs.2 lakhs or more by impermissible modes.
- x. "A" has sold goods to "B". If "C" offers to make payment to "A" on behalf of "B", then this payment would also be covered by the restriction.
- xi. "A" is the event manager in respect of a marriage in "B" family. Suppose, "B" has agreed to hold multiple functions on the occasion of marriage. It may be argued that each function is a separate event or occasion. However, if in respect of the same function, suppose "B" has to be make payment to say, decorator, caterer and music party, and if all payments are routed through "A", the aggregate should not exceed Rs.2 lakhs otherwise than by permissible modes.
- xii. The CBDT issued Press release dated 05.04.2017 it has been clarified that any withdrawal of cash from a Bank, Co-op Bank, Post Office Saving Bank in excess of Rs.2 Lacs the provision of Section 269ST will not apply.

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