

E-NEWSLETTER

LIMIT OF CASH TRANSACTIONS FOR NGOS – PART I



ISSUE NO 24. | OCTOBER 2020 | Volume I

E-Mail: ashis@ngoenable.com
Contact No: 9038966010

Gradually the Indian Economy is getting digitalized and ultimately moving towards a cashless economy. Digital transactions have increased multifold in past few years as against cash transactions. From the time the demonetisation was announced, there has been a paradigm shift in the approach and perspective of tax authorities towards cash transactions. The objective of imposing restrictions on cash transactions is to curb the generation and circulation of black money which is not only adversely affecting the revenue of the Government in the form of reduced tax but is also affecting the investment for productive purposes as most of such cash transactions remains unaccounted.

However, there has always been an ambiguity related to limit of cash transactions as different limits are prescribed by different statutory acts. It becomes even more difficult for NGOs to abide by such limits as most of them are usually caught unaware regarding the provisions and amendments so prescribed. So in this newsletter we have tried to cover the various limits of cash transactions so prescribed and provide clarity on the same, in the context of charitable organizations.

LIMIT PRESCRIBED UNDER IT ACT, 1961 **LIMIT PRESCRIBED UNDER FCRA, 2010**

Section 40A(3) of the Income tax Act restricts the limit of cash payment to Rs. 10,000 on a single day to a single person. The section provides that:

"If any payment or aggregate of payments in a day to a person otherwise than by an account payee cheque or bank draft or use of electronic clearing system through a bank account or any other electronic mode as may be prescribed, exceeds Rs. 10,000/-, no deduction shall be allowed in respect of such expenditure."

Disallowance of expenditure in the context of charitable organizations means it shall not be considered as utilization while calculating the minimum 85% criteria for utilizing the funds received during the year, that has to be met by such organizations.

As per the Circular released by the FCRA department dated 21.10.2014, if any organization registered under FCRA makes any payment exceeding Rs. 20,000 in cash, it shall be subjected to intense scrutiny and investigation.

It seemed that it was done in line with the limit so prescribed for cash payments in the Income tax act as in that year, the limit was Rs. 20000 (which was reduced to Rs. 10000 only w.e.f 01.04.2017). However, till date no circular or intimation under FCRA has been released for reducing such limit.

Moreover, according to the FCRA Don'ts published on the FCRA website, it is advised not to make cash payments above Rs. 2,000.

However, in our opinion, since it is only an advisory and not directive, the payments can be done above Rs. 2000 but should not exceed Rs. 10,000 as it will be in contravention to the provisions of Income Tax Act.

So, basically what we discussed in this newsletter was limits on cash payments/expenditures. However, in our next newsletter, we shall discuss the limits on cash donations and other interesting aspects related to it.

Disclaimer: This newsletter is just a compilation by Team NGOenabler and the opinion is purely that of the author.



CERTAIN EXCEPTIONS TO SECTION 40A(3) i.e. Instances when payment above Rs. 10,000 is permissible

Rule 6DD of the Income Tax Rules, 1962 provides certain exceptions to payments made under Section 40A(3) where no disallowance shall be made even if the payment or aggregate of payments made in cash to a single person in a day exceeds Rs. 10,000/-. Lets have a look on those relevant to NGOs:

- 1) Where the payment is made to:
 - a) The Reserve Bank of India or the any other banking company
 - b) Any co-operative bank or land mortgage bank
 - c) Life Insurance Corporation of India

- 2) Where the payment is made to any Government authority such as corporation taxes, payment to electricity to State Board, stamp duty etc..

- 3) Where the payment is made for the purchase of:
 - a) Agricultural or forest produce
 - b) The produce of animal husbandry
 - c) Fish or Fish Products
 - d) The products of horticulture or apiculture
 - e) To the cultivator, grower or producer of such articles, produce or products

- 4) Where the payment is made in a village or town, which on date of such payment is not served by any bank.

- 5) Where any payment not exceeding Rs. 50,000/- is made to an employee of the assessee or the heir of such employee on or in connection with:
 - a) Retirement;
 - b) Retrenchment;
 - c) Resignation;
 - d) Discharge or death of such employee;
 - e) Gratuity or
 - f) Similar other terminal benefits

- 6) Where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike.

However, in spite of such exceptions provided in law, we are of the opinion that considering the current stringent regulations and various steps taken by the Government in promoting digital mode of payments and discouraging cash transactions, any payment above the prescribed limits should be avoided by the organizations. As it is cash transactions are always looked upon with suspicion because unlike electronic transactions which leaves a clear money trail which can be traced later, it does not and mostly remains unaccounted. So, **GO CASHLESS, GO DIGITAL.**