

## **Start maintaining a personal balance sheet**

After making the Permanent Account Number (PAN) mandatory for high-value transactions, the government is now considering banning all-cash transactions of more than ~3 lakh. The Supreme Court-appointed Special Investigations Team (SIT) on black money has recommended this to the Centre. It has also proposed that holding more than ~15 lakh in cash be made illegal for individuals and for companies.

“Domestic black money is a bigger menace than the illegal cash stash abroad. This will allow the tax department to track all high-value transactions and reduce cash in the economy,” says Neha Malhotra, executive director, Nangia & Co.

Rise in income-tax (I-T) notices?

Once these guidelines are in place, the I-T department will get a better handle on your financial transactions. And, any unexplained highvalue transaction could lead to notices seeking explanation about the source of funds.

At present, some transactions where individuals pay cash of more than Rs.3 lakh include property purchases, buying jewellery, education fees, holding parties and wedding, buying a car, hospital bills and furnishing a house. The problem is that not everyone maintains records of income and expenses, as it is not mandated by law.

It is only from this assessment year that the tax authorities have asked those earning above Rs.50 lakh a year should declare all their assets and liabilities. But, it will be a good idea for all individuals to maintain a record of income, expenses, assets and liabilities if they have high-value transactions.

Chartered accountants say this can come handy if the I-T department sends any notice.

Impact on realty prices

Cash transactions are most prevalent during any property purchase. When the declared property price in the contract is lower than the actual market price, both parties involved in the transaction can reduce their tax burden. In a ~1crore deal, the seller might decide to accept Rs.30 lakh in cash and the rest through the banking channel. This move helps both buyer and seller. The former has to pay lower stamp duty, as the price of the property in the contract is lower by 30 per cent. The latter benefits from a lower capital gains tax.

When state governments calculate ready reckoner rates, guidance value or circle prices, the primary data they look at is property prices declared during the payment of stamp duty and registration. Along with this, they also send out surveyors to compile the reference rates. “If the cash element is taken out of the transaction, properties will have to be registered at the market value. This means an increase in the ready reckoner rates and consequently in property prices,” says a real estate consultant.

The main reason people prefer cash is because of convenience and lower taxes. Also, there's no cost of transaction when you use it. Digital payments have cost attached to it as well. In the case of credit card, it is high — 2.5 to three per cent of the value. In case of internet banking, it's marginal — Rs.25 plus service tax in case of national electronic funds transfer (NEFT) and real-time gross settlement systems (RTGS) for amounts between Rs.2 lakh and Rs.5 lakh.

“The government, on its part, has been using all possible measures to reduce the cost associated with digital transactions,” says Alok Agrawal, partner, Deloitte Haskins and Sells. The finance ministry has asked all government departments to bear transaction charges when individuals make payments through banking and digital means. “But, if two parties decide to transact in cash, it will be challenging to catch them,” adds Agrawal.

Businessmen might be hurt Banning cash possession in excess of Rs.15 lakh can cause inconvenience to business owners. According to the proposal, if a business or an individual wants to hold cash in excess Rs.15 lakh, they need to take special permission of the commissioner of income tax of the area. “The number of people who file tax returns is very low as compared to the number and size of businesses in the country today. This obviously means that cash transactions are prevalent,” says Amarpal Chadha, tax partner, India Mobility leader, EY.

With the government going after black money with vehemence, it is important for individuals and businesses to ensure their income is accounted for and due taxes paid. “Generating and holding black money will only get tougher from here,” says Chadha. “The big motive of people who hold black money is to accumulate wealth. In today's environment and in the coming times, the quality of wealth will also hold equal importance so that families can enjoy that freely.”

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