

Business Standard

Ban on cash transactions may hit luxury goods purchases

The Special Investigation Team (SIT) has recommended that cash transactions above Rs 3 lakh for any kind of goods and services must be banned

Priya Nair | Mumbai July 15, 2016 Last Updated at 12:33 IST



If

you are planning to splurge on a Chanel handbag that costs Rs 3.5 lakh, and planning to pay by cash, you may not be able to do so. The Special Investigation Team (SIT) has recommended that cash transactions above Rs 3 lakh for any kind of goods and services must be banned.

“This could impact purchase of luxury goods like branded handbags, cars, watches. No longer will people be able to walk into a luxury showroom and pay for these ultra-expensive items by cash,” says Amit Maheshwari, partner, Ashok Maheshwary & Associates.

But the incremental impact of SIT's proposals could be limited because cash transactions above Rs 2 lakh already require furnishing of PAN number and is subject to Tax Collection at Source (TCS).

When cash (usually black money) was paid for such goods and services, the seller or service provider used to show his income as received in cash and it used to get converted into white money. But TCS reduced this practice and the ban on cash transactions will reduce it even further. Only small jewelers may accept cash and not show it in their income. But spending the unaccounted money in small amounts will be cumbersome.

"The intention of introducing TCS was to plug expenditure of black money, which has been successful to a large extent. The sale of luxury goods have taken a hit and many well travelled and affluent customers have chosen to shop abroad for these goods," Maheshwari adds.

Real estate is another area where lot of cash transactions happen. Buyers pay a part of the property value in cash. But the ban is unlikely to impact this, because these transactions are already unaccounted for and the rate is charged above circle rates. Builders may continue to hide these transactions and show only the payment made in cash as value of property.

The proposal to declare illegal cash holding above Rs 15 lakh is also a good move, and will discourage business people from doing large scale cash transactions, says Kuldip Kumar, Partner and Leader Personal Tax PwC India.

"Until now whenever the Income-Tax department recovered large accumulation of cash, people used to get away by declaring it and paying the tax. But now they will not be able to it. The proposal to allow cash holding in case of genuine reasons with prior approval of the tax authorities, is also helpful," he says.

For instance, in case of a wedding, small service providers like decorators, cooks, make-up persons, etc., may accept only cash. While individually these may not amount to more than Rs 3 lakh, together they may amount to more than Rs 15 lakh and people may keep huge amounts of cash.

"There should be incentive for making payments through credit card to reduce cash transactions, such as discounts or reward points, instead of charging additional charge," Kumar adds.