

### **Cash or card? That will be 2% extra for the cash payment**

"Higher sales tax proposed if you pay by credit card" - Around the turn of the century, I remember reading headlines like these, as cash-strapped state governments thought up ever newer ways of raising revenues. Since credit cards were considered a rich man's tool, this method of raising revenues was considered okay. From there to now, when the government has put out a draft proposal for facilitating electronic transactions, it has been a long journey indeed.

The benefits of electronic payments to both the consumer and the government are already well-documented. I am addicted to English crime serials where I see many crimes being solved by following the money trail, just like you see Indian crime serials showing crimes being solved by following mobile phone usage. This is simply an aside to point out how thoroughly our lives will change, should payment by electronic means become as widespread as mobile usage is today.

The bulk of citizens do not have any unaccounted money and, therefore, would definitely use electronic payment methods if sufficiently incentivised. Draft proposals have already recommended sales tax benefits for electronic payments but that probably would just about cover the cost of operations of the card issuer and acquirers. To enable a little more benefit there should be a stiff extra if paid by cash. The material requirements planning printed on product labels should clearly state it is valid only for electronic payments and a higher amount (say, two per cent more) if paid by cash. Every time a customer buys any product, he will be reminded that he has to pay higher if he pays cash. This extra amount can be used by the government to cross-subsidise the incentive for electronic payments. These benefits will still not be enough for personal services such as medical, education, entertainment, health and body care, renovation, repair and products such as provisions, vegetables, etc, where tax evasion (and cash payment) is a norm.

The income tax benefit proposed in the draft can be used for catching this segment. Though income tax benefits affect only a minute portion of the population their spending habits can be used to promote more compliance in the otherwise tax evasion-prone personal services sector. The income tax deduction should be allowed as a small percentage of the amount spent only for product/service purchases made from merchant establishments from this tax that would have otherwise been paid for in cash.

Remember the 'We accept Visa card' signage's on shop doors? I am imagining similar signage in your doctor's clinic that says 'Elpay here and save income tax'. In the hands of a good marketing team, this can spread the message as nothing else can. Of course electronic payments made to PMJDY (Pradhan Mantri Jan Dhan Yojana) savings accounts should also be eligible for the income tax benefit so that the common man is incentivised to pay electronically for services/products such as servants, drivers, and vegetable and other smalltime vendors, etc, who mightnot take a POS (point of sale) terminal. Also any existing tax benefits for expenses such as tuition fees, house rent, medical expenses, life insurance premiums, etc, transport expenses, car expenses, etc, should be available only if paid electronically. The income tax benefits can thus be

designed to make the consumer prod the otherwise tax avoiding services sector to also embrace the electronic payment bandwagon. This benefit should not be wasted on sectors that anyway are part of the formal economy.

Most important, there should not be discouragement for the smaller merchant establishments to promote trackable electronic payments. Any limits of turnover for simplified processes or assumed taxation under value added tax or service tax or income tax must be revised upward for those with a specified percentage of the revenue through electronic payments. This is as important if not more important as they being allowed a tax benefit as already proposed in the draft plan. Also these limits should not be part of the Act itself but be notified every year so that appropriate adjustments can be made for inflation. Smaller merchants will thus be assured that they will not fall into the hassles of tax compliance or tax processes just because of inflation.

Of course, cannot end without saying that the first thing the government should do is immediately remove the service tax is currently leviable if you pay interest through a credit card. This is a relic from the past, when only rich people had credit cards and it was okay to tax them if they chose to borrow through that.

*(Business Standard)*