

To push digital transactions, Modi government lines up measures to discourage large cash use

Among many proposals to incentivise digital transactions, a 'cash tax' is being considered by the government. If the proposal is cleared, it may figure in the February 1 budget.

The government is weighing the pros and cons of the proposal, which could be a tweaked form of the earlier banking cash transaction tax under the United Progressive Alliance government, under which tax will be levied on cash withdrawals above a certain ceiling from bank accounts, a government official familiar with deliberations on this matter said.

"A number of steps are under discussion," the official said. The aim of the new tax is to shrink the scope of cash economy and encourage digital transactions.

The government has taken a series of measures since demonetisation in November last year to incentivise digital transactions. The final call will be taken "at the highest political level", one official said.

"The idea is under consideration and there is good chance it could be announced in the budget," another official said.

Officials who spoke to ET for this story did so on the condition they not be identified, since they are not authorised to speak on budget matters. The Special Investigation Team (SIT) on black money has already recommended a ban on cash transactions above ₹3 lakh and a Rs 15 lakh limit on individual cash holding.

The Tax Administration Reform Commission (TARC), headed by Parthasarathi Shome, had also recommended the reintroduction of banking cash transaction tax (BCTT). TARC had also noted that currently there is no instrument that captures details of cash withdrawals from bank accounts, other than savings accounts data.

Digital payments transactions in December last year were 43% higher than in November and totalled 958 million, according to central bank data.

Officials and experts have been pointing out that while digital transactions involve, in some forms, explicit costs at micro levels in terms of annual fees for credit cards or transaction charges at points of sale, the macro cost of producing large amounts of cash is even greater.

A January 2015 study – 'Cost of Cash in India' – commissioned by MasterCard and brought out by the Institute For Business In The Global Context estimated India's central bank and commercial banks bear an annual currency operations cost of Rs 21,000 crore. Government strategists on post demonetisation policies have been emphasising that saving on costs of currency operations is an economic plus, apart from the transparency benefits of digital transactions.

(Economic Times)

