IMPOSITION OF THE PROPOSED BANKING CASH TRANSACTION TAX IS DETRIMENTAL TO GROWTH

The Chief Ministers' Panel on digital payments under the chairmanship of Mr. Chandrababu Naidu, Hon'ble Chief Minister of Andhra Pradesh has proposed the banking cash transaction tax (BCTT) for the cash withdrawals or transactions of Rs 50,000 or more and has also recommended limits to the use of cash in any large transaction as part of a series of steps the Government should take to help India move to a less-cash economy. It has further suggested abolishing the merchant discount rate (MDR) for digital payments made to government entities.

The re-introduction of BCTT would put huge pressure on MSMEs that are withering the downward business cycle due to the ill impact of demonetisation. This proposed recommendation would exert severe pressure on companies and will further affect the economy and hurt the GDP growth. All India Association of Industries strongly urges Government to abolish such business unfriendly measure.

Banking cash transaction tax

Earlier in 2005, Government had introduced the BCTT on cash withdrawals of over Rs 50,000 to keep track of unaccounted money and trace its source. It was later withdrawn in April 1, 2009 due to practical difficulties as well as limitations that it had imposed on businesses then.

World over, many countries battling with lower taxes and poor revenue collections introduced the bank transaction tax. These include Australia and many Latin American countries such as Argentina and Brazil. Australia abolished it in 2005 with the introduction of GST, whereas Argentina abolished it in 1992 and Brazil abolished it in 2007. This was introduced to reduce public deficit. Such taxes proved derogatory to the economy as the poor were often subjected to higher taxes. As a result these countries abolished these taxes. India has strong fundamentals with RBI doing commendable job in protecting economy by taking various measures to control inflation and easing liquidity in the system.

Government of India had earlier imposed tax collected at source (TCS) of 1% to buy goods and services using cash of Rs. 2 lakh to discourage cash transactions. The re-introduction of BCTT would impose additional difficulties to the businesses particularly MSMEs and infrastructure companies that are already reeling under the demonetisation impacts such as severe revenue loss and job losses. Most of these companies employ informal migratory labour and large part of their transactions are based on informal credit. BCTT would dampen demand in the short run, particularly for MSMEs as the additional transaction cost would be transmitted to consumers. This will ultimately increase cost of goods. As the Government is ready to implement GST in 2017, such adverse taxes would hurt the economic growth.

Promoting digital economy

Recommendations of the Chief Ministers' Panel to promote digital economy and bring down the cost of digital transactions are pragmatic and key to the success of digital payments acceptance. The success of such initiatives largely depends on the extended use of such initiatives by masses. To achieve wide acceptance, the cost of transactions must be kept at the minimum and that the users should not be unnecessarily burdened by forcing to share this cost. Government has earlier introduced the UPI – Unified Payment Interface and BMIM – Bharat Interface for Money to expand digital economy. However the Government must create a progressive and enabling regulatory and licensing framework to safeguard all stakeholders and ensure minimal cost and time-efficient transactions.

The proposed abolition of 'merchant discount rate' while promoting Aadhaar Enabled Payment System (AEPS) is a praiseworthy. Traders and small merchants would greatly benefit with the proposed subsidy of Rs. 1000 on smart phone purchase together with abolition of retrospective taxes. Tax incentives for micro ATMs and biometric sensors will help to reduce the banking transaction cost for the use of physical money.

The panel has also suggested creating a fund from savings generated through cashless transactions for incentivising bank acceptance infrastructure creation in semi-urban and rural areas. Earlier reports have shown that India has very poor track record of spending funds/cess. CAG Report tabled in Parliament in March 2016 reported that Rs. 64,288 crore collected during 2006-15 under the Secondary and Higher Education Cess (SHEC) was lying unutilised. The SHEC is levied on all tax payers at the rate of 1 per cent. There have been similar instances observed on the National Clean Energy Fund and Primary Education Cess. Government should therefore create an effective mechanism to use the fund effectively.

India lags in digital connectivity. India ranks 91 on the Networked Readiness Index (NRI) 2016, a key component of the World Economic Forum's The Global Information Technology Report 2016. Nearly 33% of the India's population lacks basic literacy and a similar share of youth is not enrolled in secondary education. Only 15 out of 100 households have access to the Internet and mobile broadband remains a privilege of the few, with only 5.5 subscriptions for every 100 people.

Government's intention to promote digital economy is a welcome step. It must also ensure that a fully functional infrastructure is in place apart from bringing large work force into formal banking system in addition to people covered under Jan Dhan accounts. At present the network connectivity in rural India is abysmally low. The imposition of such taxes need to be considered under the lights of several encompassing factors that will provide legitimate alternate channels to counter the use of cash effectively.