E-PAYMENT TRENDS IN INDIA
Amendments in the Income Tax Act for Cashless Economy

Abstract

The volume of electronic payments is increasing significantly, especially after demonetisation in 2016. Internet data revolution in India also contributed to digital payments with the launch of easy to use UPI apps. UPI payments have increased by four times from 2018-19 to 2020-21. At the same time, cheque payments have decreased considerably. After COVID-19 pandemic, people moved from card payments to UPI payments since they preferred to stay in house and carry on online transactions. The Government's focus on digitalisation of economy is evident from the fact that amendments have been made in Income Tax Act after demonetisation to discourage cash transactions.

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INTRODUCTION

Electronic payments play a key role in our monetary transactions. There is a perceptible change in the way payments are being effected. This trend has become more visible since demonetisation in the year 2016. Digital transactions are replacing the cheque payments and cash payments. The Government has always been trying to reduce the volume of cash transactions in the economy. It has taken many measures to encourage digital transactions and reduce cash transactions. The Government has incorporated various provisions in the income tax law for discouraging cash transactions and encouraging digital payments. Digital payments increased from Rs. 920.38 trillion to Rs. 1623.05 trillion over a period of 5 years ending financial year 2020. Despite the fact that digital payments have grown enormously, the data released by RBI revealed that the value of notes in circulation went up from Rs. 17.74 trillion on 04th November, 2016 to Rs. 29.17 trillion on 29th October, 2021.

TYPES OF ELECTRONIC PAYMENTS IN VOGUE

(i) RTGS and NEFT

Electronic payments in India started in the early 2000's. The Reserve Bank of India's Real Time Gross Settlement (RTGS) system started in March, 2004. Later, National Electronic Funds Transfer (NEFT) system was introduced by RBI in November 2005. RTGS and NEFT transactions have reduced the payment cycle time significantly by eliminating the time consuming process of clearing of cheques, especially in the case of out station cheques.

(ii) Card Payments

Debit cards were earlier used only for ATM transactions. With point-of-sale (POS) terminals being introduced at many retail outlets, card payments started replacing cash payments. POS terminals paved the way for increasing electronic payments being made by the consumers. Besides debit cards and credit cards, prepaid cards were also introduced. Now a day, banks are entering into tie ups with major retail franchisees and online retail stores for giving discounts on products purchased through their cards. These incentives are motivating the consumers to make electronic payments using bank cards.

UPI Applications

POS terminals cannot be set up in small retail stores like neighbourhood kirana stores. Hence, the need for further simplification arose. Unified Payment Interface (UPI) is a system in which payments are made through mobile apps. UPI apps can also be used for making funds transfer. UPI payments rose significantly with mobile internet data revolution and forced circumstances due to COVID-19 pandemic situation.

Internet Banking

Electronic payments and online transfer of money can be made using internet banking facility provided by the concerned banks to its customers.

E-wallets

Money can be transferred from bank accounts to e-wallets and used whenever required for making electronic payments or for transferring funds to other e-wallets. Some of the popular e-wallets in India include State Bank Buddy, Airtel Money, ICICI Pockets, Citrus Pay, Freecharge, Mobikwik, JioMoney, Paytm, Samsung Money and Ola Money.

With the advent of smart phones, e-payments have gone to the next level. Those who are not willing to swipe their cards at POS terminals for security reasons started making payments using UPI apps and e-wallets.

REVIEW OF LITERATURE

Iyer, V. M. (2021) observe that in India, digital payments became increasingly prevalent after demonetization, and the trend of digital payments has exploded since then. The Digital India programme is the Government of India's flagship initiative. This programme has the goal of transforming India into a digitally enabled society and knowledge economy. One of Digital India's goals is to be "faceless, paperless, and cashless." There has been a surge in digital payments with the introduction of the Digital India programme. Digital payments have evolved in terms of technology and security over time, with the goal of reducing cybercrime. Businesses are continually enhancing their digital security procedures to protect client safety. Cashless transactions got a robust growth during the epidemic since people do not want to leave their homes to buy commodities and make cash payments. Digital payments facilitate the transparency of transactions. This research paper aims to collect people's thoughts on digital payments and determine whether they believe digital payments are the way of the future in India. The study also looks into the platforms' cyber security capabilities in order to protect consumers' privacy.

Pal, A., De, R., & Herath, T. (2020) opine that through financial inclusion, mobile payment technology contributed to socio-economic growth. The researchers created a methodology based on the theories of two important development economists—Schumacher and Sen—to assess the significance of mobile payments in sustainable human-centric development (Schumacher 2011; Sen 2001). The framework incorporates aspects such as low-cost technology, ease of implementation and operation, local utility, and creative appropriation potential. To evaluate the framework, the researchers conducted an in-depth field study which included interviews with merchants and consumers. Their findings are backed up by secondary survey data. The findings from the study reveal that, in addition to low-cost, simple installation, and operability, mobile payment technology allows for innovative uses such as reflection on past expenses. The findings point to the necessity for more local small-scale merchants to be included in the process.

Sheetal, J. U., Purohit, D. N., & Anup, V. (2019) state that digital payments might be responsible for the shift in Indian society's buying and selling habits following demonetization. Demonetization in 2016 prompted a greater use of technology to streamline and expedite the execution of digital transactions. In 2016, the Indian Government demonetized all bank notes of the denominations Rs. 500 and Rs. 1,000. It left consumers with no choice but to gradually move away from cash transactions. The use of the internet for online services is rapidly increasing. cashless transactions are becoming increasingly popular among business people of all sizes (small, medium, and large). These days, online payment applications are extremely popular. The study aims to determine how the quantity of online payment applications and mobile app usage has changed since demonetization. The way people react to digital transactions following demonetization has a big impact on the society. To ensure the study's validity, an online poll was undertaken.

Rus, A., Rovinaru, M., Rovinaru, F., & Mihut, M. (2019) note that with the rise of the e-environment came a slew of issues, ranging from errors, misunderstandings, and poor operating procedures to outright fraud and identity theft. The risk is much greater in Eastern European emerging economies, which have been slow to develop the electronic side of the sector and are now confronted with difficulties that have already evolved in other markets. This research aims to provide an introduction to risk management in online payments and to establish a framework for a bigger, more comprehensive consideration of risks in the current financial system. The paper takes a theoretical approach while emphasising various practical aspects of coping up with this new type of risk.

Gupta & Asha, D. (2018) opine that digital payments are now on the path of becoming the mainstream payment system. The acceptance of digital payment systems varies in the world with some methods being highly used and other methods being not so popular. There are four broad reasons for rise in digital transactions. The first reason is increasing penetration of smart phones and internet on mobile. Secondly, several non-banking institutions also started offering electronic payment services. Thirdly, customer especially youth are looking for one touch payment solutions, which is best met by UPI payment apps. Fourthly, regulatory framework is also supporting digital transactions. The research paper emphasises on the security concerns of people on digital transactions.

ANALYSIS

The annual report of Reserve Bank of India for the year 2020-21 showed the trend of payments. (Table 1)

TABLE 1*:

VOLUME OF TRANSACTIONS

(In millions)

Srl. No.	Payment mode	2018-19	2019-20	2020-21
1	RTGS	137	151	159
2	Credit transfers	11848	20651	31785
3	Debit transfers and direct debits	491	753	1046
4	Card payments	6177	7238	5784
5	Prepaid payment instruments	4607	5332	4939
6	Paper-based Instruments	1124	1041	670
	Total retail payments (2+3+4+5+6)	24247	35015	44223
	Total payments (1+2+3+4+5+6)	24384	35165	44382
	Total digital payments (1+2+3+4+5)	23260	34124	43712

*Source: Annual report of RBI for the year 2020-21

The above figures include all payments except cash transactions. The volume of electronic payments in total payments is 95 per cent, 97 per cent and 98 per cent respectively for the years 2018-19, 2019-20 and 2020-21 respectively. The volume of paper based instruments like cheques etcetera in the total payments is 5 per cent, 3 per cent and 2 per cent respectively for years 2018-19, 2019-20 and 2020-21 respectively. Thus, the payments through cheque mode are negligible and continuing to decrease every year.

TABLE 2

PERCENTAGE OF VOLUME OF TRANSACTIONS OF EACH PAYMENT MODE*

Sl. No.	Payment mode	2018-19	2019-20	2020-21
1	RTGS	0.6	0.4	0.4
2	Credit transfers	48.6	58.7	71.6
3	Debit transfers and direct debits	2.0	2.1	2.4
4	Card payments	25.3	20.6	13.0
5	Prepaid payment instruments	18.9	15.2	11.1
6	Paper-based instruments	4.6	3.0	1.5

The volume of card payments has decreased from 6177 million transactions in 2018-19 to 5784 million transactions in 2020-21. The proportion of volume of card payments decreased from 25 per cent in 2018-19 to 13 per cent in 2020-21.

The volume of prepaid payment instruments remained almost the same, 4607 million transactions in 2018-19 against 4939 million transactions in 2020-21. The proportion of volume of prepaid payment instruments decreased from 19 per cent in 2018-19 to 11 per cent in 2020-21.

Thus, card payments and prepaid payment instruments decreased by 24 per cent of total volume of transactions during the period. This is compensated by increase in credit transfers like IMPS, NEFT and especially UPI payments during this period whose share in the total volume of transactions rose from 49 per cent in 2018-19 to 72 per cent in 2020-21. Credit transfers like IMPS, NEFT and especially UPI payments increased from 11848 million transactions in 2018-19 to 31785 million transactions in 2020-21, almost an increase of 250 per cent.

CHART 1
VOLUME OF TRANSACTIONS
(In millions)

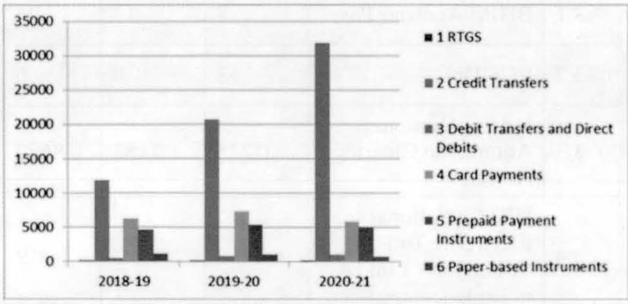

TABLE 3*
VOLUME OF CREDIT TRANSFER TRANSACTIONS
(In millions)

Sl. No.	Payment mode	2018-19	2019-20	2020-21
2.1	AePS (Aadhar Enabled payment Systems - Fund Transfers)	1	1	1
2.2	APBS	1495	1677	1437
2.3	ECS Cr	5	2	0
2.4	IMPS	1753	2579	3278
2.5	NACH Cr (National Automated Clearing House)	883	1129	1645
2.6	NEFT	2319	2745	3093
2.7	UPI	5392	12519	22331
	Total credit transfers	11848	20651	31785

*Source: Annual report of RBI for the year 2020-21

The key point which can be observed is that the volume of UPI transactions increased by more than four times up from 5392 million transactions in 2018-19 to 22331 million transactions in 2020-21.

TABLE 4*
VOLUME OF DEBIT TRANSFER AND DIRECT DEBIT TRANSACTIONS
(In millions)

Sl. No.	Payment mode	2018-19	2019-20	2020-21
3.1	BHIM Aadhaar Pay	7	9	16
3.2	ECS	1	0	0
3.3	NACH (National Automated Clearing House)	483	734	963
3.4	NETC (National Electronic Toll Collection - Linked to Bank Account)	1	9	65
	Total debit transfers and direct debits	491	753	1044

*Source: Annual report of RBI for the year 2020-21

The volume of National Automated Clearing House doubled during the three-year period 2018-19 to 2020-21.

The volume of National Electronic toll collection transactions multiplied extensively.

TABLE 5
VALUE OF TRANSACTIONS
(Rs. in trillions)

Sl. No.	Payment mode	2018-19	2019-20	2020-21
1	RTGS	1357	1312	1056
2	Credit transfers	261	286	335
3	Debit transfers and direct debits	5	7	9
4	Card payments	12	14	13
5	Prepaid payment instruments	2	2	2
6	Paper-based instruments	82	78	56
	Total retail payments (2+3+4+5+6)	363	388	415
	Total payments (1+2+3+4+5+6)	1720	1699	1471
	Total digital payments (1+2+3+4+5)	1637	1621	1415

The above figures include all payments except cash transactions. The value of electronic payments in total payments is 95 per cent, 95 per cent and 96 per cent respectively for the years 2018-19, 2019-20 and 2020-21. The value of paper based instruments like cheques etc. in the total payments is 5 per cent, 5 per cent and 4 per cent respectively for the years 2018-19, 2019-20 and 2020-21. Thus, the payments through cheque mode are negligible and are on decreasing trend.

TABLE 6
PERCENTAGE OF VALUE OF TRANSACTIONS OF EACH PAYMENT MODE

Sl. No.	Payment mode	2018-19	2019-20	2020-21
1	RTGS	78.9	77.2	71.8

2	Credit transfers	15.2	16.8	22.8
3	Debit transfers and direct debits	0.3	0.4	0.6
4	Card payments	0.7	0.8	0.9
5	Prepaid payment instruments	0.1	0.1	0.1
6	Paper-based instruments	4.8	4.6	3.8

CHART 2

VALUE OF TRANSACTIONS

(Rs. in trillions)

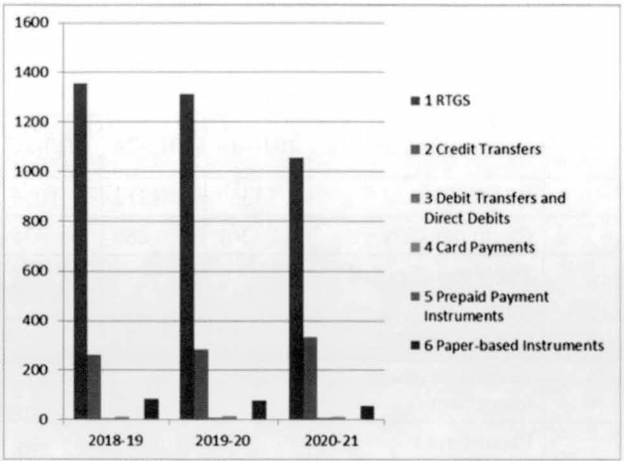

TABLE 7

VALUE OF CREDIT TRANSFER TRANSACTIONS

(Rs. in billions)

Sl. No.	Payment mode	2018-19	2019-20	2020-21
2.1	AePS (Aadhar Enabled payment Systems - fund transfers)	5	5	6
2.2	APBS	862	992	1127
2.3	ECS Cr	132	51	0
2.4	IMPS	15903	23375	29415
2.5	NACH Cr (National Automated Clearing House)	7297	10432	12327
2.6	NEFT	227936	229456	251309
2.7	UPI	8770	21317	41037
	Total credit transfers	260905	285629	335222

It can be observed that the value of UPI transactions rose by more than four and a half times between 2018-19 to 2020-21.

TABLE 8

VALUE OF DEBIT TRANSFER AND DIRECT DEBIT TRANSACTIONS

(Rs. in billions)

Srl. No.	Payment mode	2018-19	2019-20	2020-21
3.1	BHIM Aadhaar Pay	8	13	26
3.2	ECS Dr	13	0	0
3.3	NACH (National Automated Clearing House)	5225	7182	8689
3.4	NETC (National Electronic Toll Collection - Linked to bank account)	0	2	9
	Total debit transfers and direct debits	5246	7197	8726

NACH (National Automated Clearing House) payments constitute the main component of debit transfers and direct debits and rose by 67 per cent over the three-year period 2018-19 to 2020-21. During the same period, it is reported that BHIM Aadhar payments value multiplied by three times.

PROVISIONS OF INCOME TAX ACT

It could be seen from the analysis given in the earlier part of this article that electronic payments constitute more than 95 per cent of the total payments excluding cash payments. The payments through paper based instruments like cheque etc. constitute less than 5 per cent of the total payments. Thus, if we reduce the cash payments, automatically the electronic payments will increase.

The Income-tax Act,1961 has various provisions for discouraging cash transactions and encouraging electronic payments. The main provisions are explained hereunder.

1. **Section 40A (3) disallowance**

   Section 40A (3) of the Income-tax Act provides that in case an assesse incurs an expenditure in respect of which he makes a payment in excess of Rs. 10,000 through cash or bearer cheque, the whole expenditure will be disallowed and cannot be claimed as business expenditure. This will increase the tax liability of the assesse and thus the assesse is discouraged from making cash payments.

   The prescribed modes through which payment can be made include:

   i. Account payee cheque/draft

ii. Credit card
iii. Debit card
iv. Net banking
v. IMPS (immediate payment service)
vi. UPI\
vii. RTGS/NEFT
viii. BHIM (Bharat Interface for Money)
ix. Aadhar pay

This limit used to be Rs. 20,000 up to the financial year 2016-17. After demonetisation, the limit has been reduced to Rs. 10,000 vide Budget 2017 to discourage cash transactions being made by business assesses.

2. **Penalty under Sections 269SS and 271D**

Section 269SS of the Income-tax Act states that a person cannot accept a loan or deposit or any advance relating to transfer of immovable property from another person through cash or bearer cheque, if the amount of such loan or deposit or advance either individually or together equals or exceeds an amount of Rs. 20,000.

Any contravention of the provisions of section 269SS will lead to imposition of penalty under section 271D. The penalty is equal to the amount of loan or deposit accepted.

The restriction under section 269SS is not applicable if the loan or deposit is accepted from

a. Government
b. Banking company, post office savings bank or co-operative bank
c. Any corporation established by Centrals, State or provincial Act
d. Government company
e. Institution or association notified in Official Gazette

3. **Penalty under Sections 269ST and 271DA**

After demonetisation, the Central Government with the intention of moving towards cashless economy inserted sections 269ST and 271DA in the Income -tax Act through Budget 2017. These provisions came into force from financial year 2017-18.

Section 269ST provides that no person shall receive an amount equal to or exceeding Rs. 2.00 lakhs through cash or bearer cheque.

The aggregate amount received from the same person in a day through various transactions should not exceed Rs. 2.00 lakhs. The amount received in respect of the same event or occasion should also not exceed Rs. 2.00 lakhs even if the amount is received on different days.

Contravention of the provisions of section 269ST will lead to imposition of penalty under section 271DA. The penalty shall be equal to the amount received.

4. **Deduction for medical insurance premium**

Section 80D of the Income -tax Act provides for deduction of expenditure incurred on medical insurance premium or health check-up. This section provides for a deduction up to Rs. 25,000 for medical insurance premium paid by the assesse for himself or his spouse and children. A further deduction of Rs. 25,000 is available for medical insurance premium paid by the assesse for his parents. The limit of Rs. 25,000 for self has been increased to Rs. 50,000 where the assesse is a senior citizen. The limit of Rs. 25,000 for parents has also been increased Rs. 50,000 where the parents are senior citizens. Thus, the maximum amount of deduction is Rs. 1.00 lakh (where both the assesse and his parents are senior citizens). *This deduction is permissible only if the payment is made otherwise than through cash or bearer cheque.*

5. **Enhanced Tax Audit Limit**

Section 44AB of the Income -tax Act provides that a person carrying on business should get his accounts audited if the total sales, turnover or gross receipts in business exceeds Rs. 1.00 crore.

This limit has now been enhanced. Tax audit needs to be done only if the total sales, turnover or gross receipts in business exceeds Rs. 5.00 crore (for the financial year 2019-20) or Rs. 10.00 crores (from the financial year 2020-21 onwards) provided that

a. the aggregate of all receipts in cash does not exceed 5 per cent of the total receipts in the financial year;
b. the aggregate of all payments in cash does not exceed 5 per cent of the total payments in the financial year

This provision acts as an incentive to the business assesses to reduce cash transactions.

FINDINGS

1. Electronic payments constitute more than 95 per cent of total payments excluding cash payments. The payments through paper based instruments like cheque payments etc. constitute less than 5 per cent of the total payments.
2. The introduction of 4G technology and reduced data charges and smart phone cost contributed significantly to the increase in digital payments.
3. There is a significant decrease in the volume of card payments and payments by prepaid instruments. Their proportion in total payments decreased from 44 per cent in 2018-19 to 24 per cent in 2020-21
4. The proportion of credit transfers like IMPS, NEFT and UPI transactions increased from 49 per cent in 2018-19 to 72 per cent in 2020-21. Thus, it can be seen that people have moved from card payments to UPI payments.
5. There is a phenomenal increase

in the volume of UPI payments which increased by four times during the three-year period 2018-19 to 2020-21.

6. There is a significant decrease in the value of total payments in 2020-21 due to the impact of Covid-19 pandemic and the lockdown.
7. The value of card payments and prepaid instruments payments remained more or less the same but the value of cheque payments sharply declined.
8. The value of RTGS transactions reduced significantly in 2020-21. This reflects the fall in high value business transactions due to economic downturn caused by COVID-19 pandemic.
9. However, Aadhar enabled payment systems, NEFT and UPI payments recorded a rise in the value of transactions even during the pandemic period. This is because people moved to online transactions as a precautionary measure to contain spread of the virus.
10. The focus of Government in moving to digital economy after demonetisation can be observed from the fact that it introduced many amendments in the Income -tax Act vide Budget 2017. This includes the insertion of sections 269ST and 271DA to penalise cash transactions.
11. Budget 2017 also brought down the disallowance limit oin respect of cash payments from Rs. 20,000 to Rs. 10,000 by amending section 40A (3).
12. A positive motivational amendment in Income -tax Act is the increase in the turnover limit of tax audit from Rs. 1.00 crore to Rs. 10.00 crores for moving away from cash transactions.

SUGGESTIONS

1. In view of security concerns, a large number of individuals although intending to move towards digital payments, are not utilizing the facility. If financial institutions provide higher level of security in all methods of digital payment systems, there will be an increased participation in digital payment systems.

The introduction of 4G technology and reduced data charges and smart phone cost contributed significantly to the increase in digital payments

2. In order to attract large population towards digital payments, financial institutions facilitating digital transactions need to reduce the internet banking charges to the extent possible, so that people would not feel burdened.
3. Banks can also consider reduction of the number of free cash withdrawals and cash deposit transactions.
4. Section 269ST of the Income -tax Act should be amended to reduce the limit of cash transaction from Rs. 2.00 lakhs to Rs. 1.00 lakh.
5. Turnover limit for tax audit has been raised from Rs. 1.00 crore to Rs. 10.00 crores in respect of assessees carrying on business have least 95 per cent of receipts and 95 per cent of payments otherwise than in cash. This benefit should also be extended to section 44AD – computation of business profit on presumptive basis. The existing turnover limit of Rs. 2.00 crores for computation of profit on presumptive basis should be increased when 95 per cent of receipts and 95 per cent of payments are effected by otherwise than in cash.
6. The condition in section 80D is that payment should not be made by cash or bearer cheque for allowing deduction in respect medical insurance premium. This condition should also be incorporated for certain other deductions like payment of interest on higher education loan under section 80E, deduction for payment of interest on loan taken for residential house property under section 80EE, deduction on donation under section 80G etc.
7. Literacy on digital payments can be improved by distribution of leaflets or flyers in regional language in rural areas to create awareness and sensitization for use of digital payments.
8. The digital payment process can be made simple with user friendly technologies to make it conducive for use by the rural masses. MA

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