

AccountAble™

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NGOs have always found it easier to use cash to run their programs. This is mainly because cash is preferred in the remote areas where NGOs work. Cash is also easier to handle and allocate to multiple sets of account books that NGOs are required to keep: for their donors, for FCRA and sometimes for Income Tax. However, cash is also most vulnerable to pilferage and fraud. Sometimes shops and beneficiaries are not paid what is claimed from the NGO or booked in accounts. Cash also helps create a parallel economy where people don't pay taxes. The Government is, therefore, vigorously discouraging use of cash.

This issue of AccountAble tries to answer some questions about cash which NGOs often ask during workshops. It also explains what can be done to avoid penalties and problems.

1. What is the limit on cash payments?

There is a limit of Rs. 10,000 on cash payments for expenses or purchase of assets. This limit is applicable to NGOs also.¹ Deduction for expenses or purchase of assets above this, if incurred in cash, can be disallowed.

FCRA Department has placed a higher limit of Rs. 20,000 on cash payments.² This limit applies to FCRA funds only. This limit is not part of FCRA Act or Rules. It is given as a directive from the Department. Some donors also place limits on cash payments. These limits are applicable for payments made under projects supported by them.

You should always honour the lowest limit applicable to a cash payment. For example, if a donor has placed a limit of Rs. 20,000 for cash payments, you should honour the lower limit of Rs. 10,000 imposed by Income Tax Department. If a donor has placed a limit of Rs. 5,000, then you should follow this limit (at least for the project supported by them), as it is lower than the Income Tax limit of Rs. 10,000.

Some people try to bypass these limits by giving program advances to their staff through crossed account payee cheque or bank transfer. The staff in turn make payments which may be more than the applicable limit. Others ask the vendors to split the bills into smaller amounts or show the payment on multiple dates. Such bypassing is not accepted in law or by donors. It should, therefore, be avoided.

¹ Sections 40A(3) and 40A(3A), read with Sections 11 and 10(23C) of Income Tax Act, 1961

² In Oct'14, FCRA Department issued a notice asking NGOs not to make payments above Rs. 20,000 in cash. FCRA Department's Charter for Associations Applying for Grant of Prior-Permission/Registration under FCRA 2010 also mentions Rs. 20,000 as the list for cash transactions (Point 7 of Annexure, https://fcraonline.nic.in/home/PDF_Doc/Chartered_for_registration.pdf; last accessed 19-Jul-2019). However, FCRA Do's and Don'ts put the limit on cash withdrawals and payments at Rs.2,000 (Don'ts, dated 27-Feb-2018, https://fcraonline.nic.in/home/PDF_Doc/Dont_27022018.pdf; last accessed 19-Jul-2019).

2. How much cash can be withdrawn from bank?

There is no legal limit on cash withdrawals from bank. The limit of Rs. 2 lakh on any kind of cash payment³ doesn't apply to withdrawals from banks or post offices. Some banks ask you to alert them in advance if you want to make a large withdrawal. Banks also set daily limits on ATM withdrawals, for operational reasons.

FCRA Department has asked NGOs not to make large withdrawals from FCRA bank accounts. Initially this limit was set at Rs. 40,000, with a warning that larger cash withdrawals may lead to scrutiny of their accounts. Later, the FCRA Department said that NGOs should not withdraw more than Rs. 2,000 in cash at a time from FCRA bank accounts. This appears to be a typing error, as the Charter for NGOs still gives the limit for cash payments as Rs. 20,000.⁴ However, at least one bank is not allowing NGOs to withdraw more than Rs. 2,000 a day from FCRA accounts.

What should you do? You withdraw cash to make cash payments. If you reduce cash payments, your cash withdrawals will automatically come down. There are some NGOs who don't withdraw any cash at all from the bank.

3. Will the bank deduct tax if we withdraw more than Rs One Crore in a year?

The Finance Bill of Jul-19 has proposed TDS of 2% if anyone withdraws more than Rs. One crore in a year.⁵ The Tax Department will ask you to give reasons for large cash transactions. They may scrutinise or disallow these. They may even track down people who have received large cash payments from you.

The limit is applicable to each entity, not to each bank account. This means that an organisation with two bank accounts also can withdraw Rs 1 crore per year only. This may create difficulties for large NGOs with multiple offices. Some may try to bypass this limit by making bank transfers to their staff, who then withdraw cash to make payments. However, this approach should be avoided as it weakens internal controls.

4. How much cash can be deposited in bank?

There is no legal limit on deposit of cash in the bank account. There are many retail businesses (petrol pumps, sweet shops, etc.), which receive large amounts of cash everyday, and have to deposit this in bank.

However, if an individual or an NGO deposits cash of more than Rs. 50,000 in its bank at a time, the bank will have to file a report.⁶ This report helps the Government track down tax evasion and money laundering. You may then get a notice from the Income Tax Department.

5. What is the limit on cash loans?

Limit on taking or repaying advances, loans, deposits, etc., in cash is Rs. 20,000. This limit is not just on each receipt or payment — it also kicks in if total outstanding amount crosses the limit of Rs. 20,000. For example, if a person has already taken loans of Rs. 18,000 in cash, then the next payment of Rs. 3,000 must be made by crossed account payee cheque or bank transfer.⁷ The loan must then be repaid only by crossed account payee cheque or bank transfer.⁸

This limit applies to each person, not to total amount of loans. Therefore, sometimes people take a large loan from one person but record it as smaller loans from several persons. Such deceptions should be avoided.

6. What is the limit on cash donations? 5. What is the limit on cash loans?

If a person donates more than Rs.2,000 in cash, then they cannot claim deduction under sec.80G for such a donation. What if the donor doesn't want to claim a tax deduction? In such cases, there is a general limit of Rs. 2 lakh on any cash payment or receipt.⁹ Does this mean that NGOs can accept big donations in cash? They can — but they may be asked some very tough questions by the Income Tax Department. Their own auditors or donor auditors would also find such donations very strange.

Therefore, NGOs should avoid accepting large amounts of donations in cash, unless they are prepared to prove these.

³ Section 269ST of Income Tax Act

⁴ Strangely FCRA has set the limit on cash withdrawals at Rs.2,000 (Don'ts https://fcraonline.nic.in/home/PDF_Doc/Dont_27022018.pdf; last accessed 19-Jul-2019). FCRA Department responded to a query on this saying: 'Please check rules/guidelines on fcraonline.nic.in!'

⁵ Sec 194N of Income Tax Act

⁶ If you split the deposits over several days, then also these may be scrutinised.

⁷ Section 269SS of Income Tax Act

⁸ Section 269T of Income Tax Act

⁹ Sec. 269ST of Income Tax Act

7. Can we accept donations in foreign currency notes?

There is no restriction on accepting foreign currency notes as donation from non-resident Indians visit-ing India. If the donor is a foreign citizen, then the donation becomes foreign contribution. You must have FCRA registration to accept donations from foreigners or Persons of Indian Origin.

Whether foreign contribution or not, if you receive any foreign currency notes or coins as donation, you should deposit it in your bank account. The bank may ask you for a declaration and documents related to nature of transaction and the donor. If a donation in foreign currency notes is more than USD 5,000, the bank may also ask for a copy of customs declaration which the donor made while entering India.

8. Do we need cash-in-safe insurance?

You should think about this only if you keep large amounts of cash in your office. Most NGOs do not have cash collections from customers. Also with restrictions on cash withdrawals and payments, you might be keeping just about Rs. 20-50,000 in office. In such cases, cash in hand insurance is not required.

However, if you are running a micro-credit program, you may have to keep large amounts of cash in your safe overnight. In such cases, cash in safe insurance should be taken. What should be the amount insured? The maximum level of cash that you might have on any one day over next one year.

9. Do we need cash-in-transit insurance?

Cash in transit insurance is for people who move large amounts of cash. This policy can be taken for a particular route (bank to office) or for several routes (anywhere in city to anywhere in city). It can even be taken covering all routes (anywhere in India to anywhere in India). The amount of insurance has two limits: maximum amount that will be carried in any one movement, and the total amount of cash that will be carried through the year.

If you don't have cash collections from customers or from micro-credit programs, you probably do not need cash in transit insurance.

10. Should we keep separate cash boxes for each of the donors?

The cash box is not a part of your accounting records. Therefore, there is no need to keep separate cash box for a donor, unless the donor insists on this. Remember that keeping multiple cash boxes makes your controls over cash weaker — not stronger.

However, mixing of foreign contribution with local contribution is a grave sin. FCRA Department asks you to keep books, records, bank accounts for foreign contribution separately. Therefore, it is advisable that you keep a separate cash box for foreign contribution at each location where you keep foreign funds.

11. We keep our accounts in Tally. Do we still need a cash log?

Account books and a cash log are two different things. Account books are part of formal book-keeping. Cash log or rough cash book is used for control over cash. A manual cash log allows you to enter pay-ments or receipts immediately, without waiting for the voucher to be completed or approved. Also, there is usually a lag between the time cash is paid and the time it is recorded in Tally. Entries in Tally can also be altered without detection. Sometimes the Tally file may get corrupted. For all these reasons, it is a good idea to keep a manual cash log and enter all cash transactions in this immediately.

12. Are NGOs allowed to use Debit cards for ATM or online transactions?

There is no legal restriction on Debit Cards being issued to NGOs. Debit cards allow you to withdraw cash or transfer money online yourself, without going to a bank. Some banks also offer you dual authentication online, where one person initiates a transaction, while a second person approves it. Some banks do not issue debit cards to charities due to their risk policies. Other banks don't have such restrictions. One practical problem with ATM or debit cards is that there is no signature trail for the transactions. This can allow a person behind the scenes to use an NGO's Debit card, while the legal holder remains merely a front. Due to this, FCRA Department does not like ATM or Debit cards being used for FCRA bank accounts.¹⁰ Therefore, even if your bank issues you a Debit card for your FCRA account, please do

¹⁰ Don'ts dated 27-Feb-18 at www.fcraonline.nic.in. Interestingly, FCRA Department asks NGOs to pay all FCRA related fees online only. Most NGOs comply by asking one of the office bearers or a consultant to make the payment on their behalf.

not use it for cash withdrawals or online transactions.

13. Is it okay to issue a bearer cheque or a crossed cheque instead of making a cash payment?

A bearer cheque is as good (or as bad) as paying in cash. Such cheques can be cashed by anyone across the counter.

A crossed cheque (simple crossing or with &Co) can be presented only through a bank. However, it is not an account payee cheque. It can be endorsed to a third party. It can be easily misused.

Neither of these modes are treated as payment by crossed account payee cheque. Therefore, you should not use these when the rules call for payment by crossed account payee cheque or bank transfer.

14. Our programs are organised in remote areas. Can we pay cash for food, conveyance, etc.?

Banking facilities have now reached the remotest areas. Most people in villages now have a regular bank account or a Jan Dhan Account. You should, therefore, try to maximise payments by bank transfer. This will help you keep cash handling to a minimum. If you still find that there are a few people in a meeting who don't have access to a bank account, then you may pay small amounts in cash to them. Others can be paid by bank transfer. This also applies to payment for local expenses such as food, incidental expenses.

Maximising payments through bank may increase your administrative burden. However, it will reduce the risk of theft or inflated claims being paid.

Stone Age of Money

Several hundred years before FATF was formed, the Islanders of Yap hit upon a great idea to discourage money laundering. Stone Money was invented. The money (called Rai), was carved out of limestone on Palau Island, and ferried to Yap. It could weigh as much as four tons each, or as little as 100 grams. Payment was by word of mouth — often the money remained where it was. Once Rai was firmly established on Yap, all the pickpockets on Yap climbed on to reed boats and left. With the advent of Keynes in twentieth century, Yap switched to other forms of money. Rai stones are now used only for ceremonial transactions, or as tourist attraction. Nevertheless, Rai Stones could be a great tool to cut down on tax evasion in India also. Is the RBI listening?



What is AccountAble: Each issue of 'AccountAble' covers a different topic related to NPO regulation or accounting. It is posted/emailed to about 3,000 persons in NPOs, Agencies, CSR Departments, Corporate Foundations and audit firms. AccountAid encourages re-production or re-distribution of 'AccountAble' in workshops or NPO newsletters for non-commercial use, provided the source is acknowledged.

Interpretation of law: Law discussed here is valid as of 5-Jun-2018. However, the interpretation is of general nature. Please consult your advisors before taking any important decision.

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