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SC ruling on reporting cash deals above ₹2 lakh empowers taxman, may deter litigation in civil suits

Krishna Yadav | 3 min read | 17 Apr 2025, 05:29 PM IST

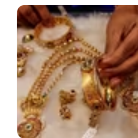


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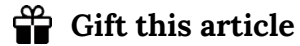
SC order on cash deals above ₹2 lakh empowers taxman, may deter litigants

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Section 269ST of the Income Tax Act prohibits cash receipts of ₹2 lakh or more from a single person in a day, either for a single transaction or for transactions related to one event or occasion. (REUTERS)

SUMMARY

Experts said the Supreme Court's ruling requiring reporting of significant cash transactions could discourage genuine litigants from seeking justice, as it increases scrutiny from the Income Tax Department and may lead to penalties for cash-based dealings.



A recent Supreme Court ruling requiring lower courts to report civil suits and property registration documents involving cash transactions of ₹2 lakh or more to the Income Tax Department is expected to increase scrutiny in property and financial disputes, legal and taxation experts told *Mint*.

This could deter individuals involved in such disputes from approaching the courts, fearing tax penalties and investigations.

"This ruling undeniably aligns with the broader push toward a cashless economy," said Kunal Savani, a partner at Cyril Amarchand Mangaldas. "However, it simultaneously empowers the Income Tax Department with greater oversight, potentially subjecting even bona fide litigants to scrutiny if large cash transactions are involved."

Savani emphasised that the ruling would significantly impact various transactions, including property dealings, inheritance disputes, unregistered business contracts, and informal loan arrangements,

especially in semi-urban and rural areas where cash usage continues to be widespread.

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“Genuine litigants who have engaged in impermissible cash transactions, despite having a valid claim, could be deterred from approaching the courts to avoid tax penalties and inquiries,” said Abbas Jaorawala, senior director and head of tax at Khaitan Legal Associates.

The Supreme Court bench comprising Justices J.B. Pardiwala and R. Mahadevan issued the ruling on Wednesday.

The court also said that any property registration document reflecting a cash payment of ₹2 lakh or more must be reported to the jurisdictional income tax authority by the sub-registrar concerned if it violates Section 269ST of the Income Tax Act, which prohibits cash receipts of ₹2 lakh or more.

Action against non-compliance

The court said if tax officials uncover such payments through any source or legal proceedings and the registering authority had failed to report them, the matter must be escalated to the chief secretary of the state or Union Territory.

Moreover, the Income Tax Department is mandated to initiate

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which sought to block the trust from transferring land it had held since 1929. The claim involved an agreement to sell the land for ₹9 crore, with ₹75 lakh already paid in cash.



New

Implications of Section 269ST

The ruling references Section 269ST of the Income Tax Act, which was introduced in the Finance Act of 2017 and became effective on 1 April 2017.

This section prohibits cash receipts of ₹2 lakh or more from a single person in a day, either for a single transaction or for transactions related to one event or occasion. Violations of this provision are subject to penalties equal to the amount received.

This provision was introduced a few months after the government's demonetisation drive in November 2016, which aimed to reduce the circulation of black money and encourage digital transactions.

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Tushar Kumar, an advocate at the Supreme Court, noted that the ruling marks a significant institutional shift away from the tolerance of cash-based dealings, especially in rural and semi-urban areas where such practices are often defended as custom.

“This judgment compels both litigants and registration authorities to recognise that legal recognition cannot shield transactions that, on their face, violate fiscal law,” Kumar pointed out.

Pre-2017 transactions

While the ruling brings clarity on the treatment of cash transactions going forward, legal experts have raised questions about how courts will handle cases where cash is alleged to be involved and those pertaining to transactions made prior to 2017.


“It will be interesting to see what happens to disputes regarding transactions where the cash component was paid prior to the 2017 amendments,” noted Abraham C. Mathews, one of the counsels in the case.

Pallav Pradyumn Narang, a partner at CNK, a chartered accountant firm, added, “It remains to be seen how courts will report cases where cash is merely alleged to be involved, but no trail is established. Will reporting occur only when the case is adjudicated and a cash transaction above the defined threshold is proven, or even at the stage of mere allegation?”

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However, some lawyers said that while the ruling may increase scrutiny over litigation—even genuine cases—it will not impact civil disputes.

“Mandatory reporting by courts and sub-registrars to income tax authorities will not impact civil litigation in any way as income tax proceedings will run in parallel to any civil proceedings. Income tax proceedings being independent proceedings will not interfere with the civil litigation,” suggested Lokesh Shah, a partner at IndusLaw.

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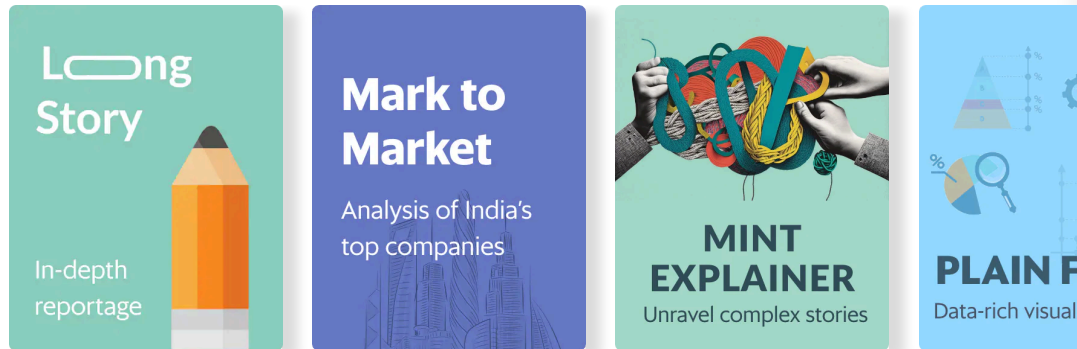
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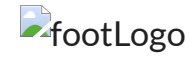
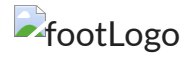
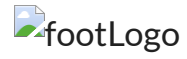
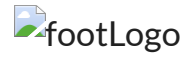
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