

Cash Transaction Limits under the Income-tax Act, 2025: Sections 185 to 188 and Section 36(4) (Tax Year 2026-27)

Description

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Quick summary

- Sections 185 to 188 of the Income-tax Act, 2025 replace the old sections 269SS, 269ST, 269SU and 269T: loans, deposits and property advances of ?20,000 or more must come and go through banking modes, and receipts of ?2,00,000 or more must not be in cash.
- The penalty for breaking sections 185, 186 or 188 is equal to the full amount taken, received or repaid (sections 450, 451 and 453); not offering UPI and similar modes when turnover exceeds ?50 crore costs ?5,000 a day (section 452).
- Separately, section 36(4) disallows an expense if more than ?10,000 is paid to one person in a day by cash (?35,000 for goods carriage hire), and section 36(5) treats the same cash payment of an earlier year's liability as income.
- Banking mode means an account payee cheque or draft, electronic clearing through a bank account, or a prescribed electronic mode.

Cash dealings above certain limits are barred or penalised under the income tax law. The 1961 Act scattered these rules in sections 269SS, 269ST, 269SU, 269T and 40A(3). In the Income-tax Act, 2025, which applies from 01/04/2026, the first four sit together in **Chapter XII (sections 185 to 189)**, with penalties in sections 450 to 453, and the business expense rule is **section 36(4) to (7)**.

Old and new sections

Old section	New section	Subject	Limit
269SS	185	Taking or accepting a loan, deposit or specified sum	?20,000 or more
269ST	186	Receiving money in cash	?2,00,000 or more

Old section	New section	Subject	Limit
269SU	187	Facility for digital payment modes	Turnover above ?50 crore
269T	188	Repaying a loan, deposit or specified advance	?20,000 or more
40A(3) and 40A(3A)	36(4), (5), (6), (7)	Expense paid in cash	More than ?10,000 in a day
271D, 271DA, 271E	450, 451, 453	Penalty	Equal to the amount

Section 185: loans, deposits and property advances

No person may take or accept a **loan, deposit or specified sum** except by an account payee cheque, an account payee bank draft, electronic clearing through a bank account, or another prescribed electronic mode, if:

- the amount (or aggregate amount) is ?20,000 or more; or
- the earlier loans, deposits or specified sums from the same person that remain unpaid, whether due or not, are ?20,000 or more; or
- the total of the two is ?20,000 or more.

A **specified sum** is any sum receivable, as advance or otherwise, in relation to a transfer of immovable property, whether or not the transfer takes place. “Loan or deposit” means a loan or deposit of money (section 185(5)).

Example. Mr P took a loan of ?10,000 by cheque from ABC and repaid ?3,000 in cash, leaving ?7,000 unpaid. If he now takes a further ?15,000 in cash from ABC, the amount (?15,000) plus the unpaid earlier loan (?7,000) is ?22,000, which is above ?20,000. Section 185 is broken and the penalty is equal to the ?15,000 accepted.

Exceptions

Section 185 does not apply to loans, deposits or sums taken from or by the Government, a banking company, the post office savings bank, a co-operative bank, a corporation established by a Central, State or Provincial Act, a Government company, or a body notified by the Central Government. It also does not apply where both parties have agricultural income and neither has income chargeable to tax under the Act. For a primary agricultural credit society or a primary co-operative agricultural and rural development bank, the limit with its members is **?2,00,000** (section 185(4)).

Section 186: receipts of ?2,00,000 or more

No person may receive ?2,00,000 or more **in aggregate from a person in a day**, **for a single transaction**, or **for transactions relating to one event or occasion** from a person, except by account payee cheque, account payee bank draft, electronic clearing through a bank account or another prescribed electronic mode. It does not apply to receipts by the Government, banks, the post office savings bank and co-operative banks, to transactions covered by section 185, or to persons or receipts the Central Government notifies.

Section 187: digital modes for large businesses

A person carrying on business or profession whose total sales, turnover or gross receipts exceeded **?50 crore** in the preceding tax year must give customers the facility to pay through the prescribed electronic modes in addition to any others. Rule 133 prescribes RuPay debit card, UPI (BHIM-UPI), UPI QR code and Tier III full KYC Central Bank Digital Currency wallets. The penalty is **?5,000 a day** (section 452).

Section 188: repayment of loans, deposits and advances

A bank branch, another company, a co-operative society, a firm or any other person must not repay a loan or deposit, or return a specified advance, except by account payee cheque, account payee bank draft drawn in the name of the person who made it, or electronic clearing or another prescribed electronic mode, where the amount with interest, or the total held from that person, is **?20,000 or more**. A bank branch may also repay by crediting the depositor's savings or current account at that branch. The same exceptions as in section 185 apply, and for a primary agricultural credit society the limit with its members is ?2,00,000. The penalty is the amount repaid (section 453).

Penalties

Section broken	Penalty section	Amount
185 (loan, deposit, specified sum)	450	Equal to the amount taken or accepted
186 (receipt)	451	Equal to the sum received
187 (digital modes)	452	?5,000 for every day of failure
188 (repayment)	453	Equal to the amount repaid

The Assessing Officer "may" impose these penalties, and the general rules of the penalty Chapter apply:

- **Reasonable cause:** no penalty under sections 450, 451, 452 or 453 is imposed if the person proves there was reasonable cause for the failure (section 470).
- **Hearing:** the order cannot be made without hearing the assessee, and a show-cause notice is required (section 471(1), as amended by Finance Act 2026).
- **Approval:** the prior approval of the Joint Commissioner is needed where the penalty exceeds ?10,000 (by the Income-tax Officer) or ?20,000 (by the Assistant or Deputy Commissioner) (section 471(2)).
- **Time limit:** the order must be passed within six months from the end of the quarter in which the proceedings are completed, the appeal order is received or the penalty notice is issued, as the case may be (section 472(1)).

Section 36(4) to (7): cash business expenses

Separate from the above, a business or professional expense is not allowed as a deduction if the payment, or the aggregate of payments made in a day to a person, **exceeds ?10,000** and is not made through a specified banking or online mode (section 36(4)). If a liability was allowed in an earlier year and is later paid in cash above the same limit, the amount is **deemed to be business income** of the year of payment (section 36(5)).

For plying, hiring or leasing of goods carriages the limit is **?35,000** (section 36(6)). The Rules can exempt cases having regard to banking facilities and business expediency (section 36(7)). The “specified banking or online mode” means an account payee cheque or bank draft, electronic clearing through a bank account, or another prescribed electronic mode (section 2).

A payment of more than ?10,000 in a day in cash for acquiring an asset is also left out of the actual cost for depreciation (section 39(2)).

Reporting in the tax audit report and ITR

The tax audit report (Form 26) has a clause (clause 45 of the form) asking whether any loan, deposit or specified sum was taken or accepted above the section 185 limit, whether any receipt or payment above the section 186(1) limit was made otherwise than by the permitted modes, and whether any repayment above the section 188(1) limit was made otherwise than by those modes. The auditor reports these as facts, so keep proof of the mode of every large entry.

How CSM & Co LLP can help

We review cash entries before the tax audit, reply to penalty notices under sections 450 to 453 and set up payment practices that keep a business within the limits. Please reach out to our team and we will be happy to assist.

Frequently asked questions

What is the cash limit for taking a loan or deposit?

A loan, deposit or specified sum must come by account payee cheque, account payee bank draft, electronic clearing through a bank account or another prescribed electronic mode if the amount, or the amount together with the earlier loans and deposits from the same person that are still unpaid, is ?20,000 or more (section 185(1)). This is the old section 269SS.

Can I receive ?2,00,000 in cash for a sale?

No. Receiving ?2,00,000 or more in a day from one person, for a single transaction, or for transactions relating to one event or occasion, is allowed only through banking modes (section 186). The penalty is equal to the sum received (section 451). Receipts by the Government, banks, post office savings banks and co-operative banks are outside the section.

Does the ?20,000 limit apply to advances for property?

Yes. “Specified sum” means any sum receivable, as advance or otherwise, in relation to a transfer of immovable property, whether or not the transfer takes place (section 189(c)). Accepting it in cash at ?20,000 or more attracts section 185 and a penalty equal to the amount.

What is the limit for cash business expenses?

If more than ?10,000 is paid to one person in a day other than through a specified banking or online mode, the expenditure is not allowed as a deduction (section 36(4)). The limit is ?35,000 for plying, hiring or leasing of goods carriages (section 36(6)).

Which payments are exempt from sections 185 and 188?

Dealings with the Government, banks, post office savings banks and co-operative banks, corporations created by a Central, State or Provincial Act, Government companies, and bodies notified by the Central Government. Section 185 also does not apply where both parties have agricultural income and neither has income chargeable to tax. The limit is ?2,00,000 for loans and deposits between a primary agricultural credit society (or a primary co-operative agricultural and rural development bank) and its members.

Who must offer UPI and other digital payment modes?

A person carrying on business or profession whose total sales, turnover or gross receipts in the preceding tax year exceeded ?50 crore (section 187). The modes listed in Rule 133 are RuPay debit card, UPI, UPI QR code and Tier III full KYC Central Bank Digital Currency wallets. The penalty is ?5,000 for every day of failure (section 452).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 36, 185 to 189, 450 to 453)
- Income Tax Department: Income-tax Rules, 2026 (Rule 133 and Form 26 clause 45)

Related reading

- Charitable Trusts and NGOs under the Income-tax Act, 2025: Registration, Exemption and Compliance (Tax Year 2026-27)
- Tax-Free Income in India: Complete List for Tax Year 2026-27

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