CBIC facts about 1% payment of tax liability in cash as per Rule 86B.

S. No	Misconception	Realty
1	Large Number of taxpayers would be affected by this rule	The rule provides for various exemptions like exports, supplier of goods of inverted duty structure, taxpayers having a footprint in the income tax data base etc. It is expected that this rule would be applicable to less than 0.5% of total taxpayer base of 1.2 crores. The rule clearly identifies where the risk to revenue is high and imposes differences to the fraudsters in a multi-layered fraud of passing fake ITC. This rule would help to control such fraudsters, who issue fake invoices and show higher turnover, but have no financial credibility and flee after misusing ITC without payment of any tax liability in cash.
2	The requirement of cash payment of 1% liability will create huge burden on small business and will increase their working capital requirement.	The cash payment of 1% is to be calculated on the tax liability in a month and not turnover of the month. In fact, it amounts to only 0.01% of the turnover. For example, if a dealer has made a sale of Rs.1 crore of the goods whose tax rate is 12% and if he is discharging his tax liability more than 99% through ITC, then he has to pay Rs.12,000 under this rule. On the other hand, a composition dealer would have paid Rs. 1 lakh in cash with this volume of sales.
3	This rule adversely affects small and medium enterprises	The new position which restricts the use of ITC for discharging output tax liability is applicable to the registered persons whose value of taxable supplies and exports, in a month exceeds Rs.50 Lakhs that means those whose annual turnover is more than Rs.6 crores. Therefore, the rule does not apply to micro and small businesses, and composition dealers.
4	All the registered persons will be	This rule is applicable to only those registered persons whose value of taxable supplies other than exempt supply and exports, in a month exceeds Rs.50 Lakhs that means

	required to pay 1% cash liability.	those whose annual turnover is more than Rs.6 crores. The rule is not applicable in cases where the registered person: a. Has deposited more than Rs.1 lakh rupees as Income Tax in each of the last 2 years. b. Has received a refund of more than Rs. 1 lakh in the preceding financial year on account of export or inverted duty structure. c. Has paid output tax in cash in excess of 1% of total output tax liability, applied cumulatively, up to the month in the current financial year. d. Is a government department, PSU, Local authority, statutory body.
5	This rule adversely affects genuine taxpayers	This rule is only applicable to taxpayers who has taxable supplies of more than Rs.50 Lakhs in a month which amounts to an annual turnover of more than Rs.6 crores. Besides, the registered person falling under any of the exempted category including paying Rs. 1 lakh as income tax in each of the last 2 Financial years or having received refund of more than 1 lakh in previous years on account of exports or inverted duty structure, etc. are also out of purview of this rule. With these exemptions and conditions and precious targeting, the requirement of mandatory payment of at lease 1% of tax liability in cash would apply only to risky or suspicious tax payers and genuine taxpayers would remain excluded.