

The Digital Dragnet: An Analysis Of The Implementation Of Section 194N On Cash Management, Digital Adoption, And Financial Planning Of Small Businesses And Traders In Jaipur, India

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Abstract

The paper will explore the complex impact of Section 194N (Tax Deducted at Source) of the Indian Income Tax Act, 1961, on the small business and trader cash management practices, digital payment adoption and financial planning in the city of Jaipur, Rajasthan. Section 194N which was introduced with the twin goal of reducing tax evasion and expediting the digital economy imposes TDS of 2% on annual cash withdrawals above ₹1 crore and 5% on

non-filers. The research question informing the study is how this policy has influenced the business sector of an already cash-based city. Using a mixed-method design with simulated quantitative and qualitative data, it has been shown that a significant but diverse behavioural change occurred: whereas large traders managed to adapt to it by using advanced cash cycling and opening of multiple bank accounts, smaller, uncoordinated sector actors were under acute liquidity and compliance pressure. Explosion of digital payment, especially UPI, was at first level of Business-to-Consumer (B2C) it is quite intriguing to notice that the adoption of digital payment, especially UPI is held back by an ecosystem constraint and the apparent price and administrative burden of compliance due to the high-value

Business-to-Business (B2B) transactions. The policy has also contributed to the over dependence on informal money markets and decentralization of supply chain payments especially in the traditional markets such as Johari Bazaar and the labour-intensive textile industry of Sanganer. Using Prospect Theory, this paper demonstrates that the success of the policy lies in the psychological aspect of the 5% TDS to non-filers that effectively motivated the filing of tax returns. Nonetheless, the 2 percent TDS charge on compliant companies is not the main reason to promote the expensive compliance avoidance schemes instead of the innate behavioral change towards B2B digitalization. The paper concludes that although Section 194N has effectively brought to the light of day the large cash transactions, its application requires further development in order to balance the high compliance costs imposed on micro and small businesses, in order that the pursuit of a digital economy would not undermine financial inclusion and economic costs.

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I. Introduction

India has in turn shifted towards digital economy in recent years with a number of regulations being introduced to minimize the use of cash-based economy with a focus on financial transparency. Section 194N of the Income Tax Act that was introduced in the 2019 Union Budget, according to which Banks and post offices withhold Tax Deducted at Source (TDS) on cash withdrawals over certain limits is one of such policies. Particularly, it applies a TDS of 2 percent on annual cash withdrawals exceeding ₹1 crore by ordinary taxpayers and up to 5 percent to the individuals who did not file income tax returns during the last three years (CBDT Circular, 2019). The objectives of such policy were clearly defined: to deter high-value cash operations, to reduce tax evasion, and to make it traceable in large cash flows, as well as to promote digital payments throughout the country significantly. By increasing monitoring of the origin of the cash flows, the government tried to keep track of the major financial flows and make them countable and subjected to doubt, which in effect encouraged businesses and individuals to turn to the methods of making transactions digital and formalise their economic operations.

These objectives are well aligned to the bigger picture of a cashless and transparent economy that was promoted by such projects as Digital India and the Aadhaar project. Nevertheless, they have complicated practical implications especially on the large, diverse population of small businesses, traders and informal sector players in India who continue to heavily depend on cash in their daily undertakings, short-term payments in supply chains and labor remunerations (NCAER Report, 2020). In metropolis such as Jaipur, an important economic centre of gems, jewels, textile and traditional crafts, the cash based trade and locals market culture have centrally affected the business culture in Jaiswal. Section 194N, accordingly, imposes

new and frequently compliance-intensive liabilities and liquidity issues, as well as immediate, but not irreversible, tax burdens. It poses some important questions regarding the financial inclusivity, the real rate of digital adoption beyond customer-facing transaction, and whether small-scale and local businesses can strategically adapt to a changing legal and fiscal environment without experiencing much operational friction.

II. Background: The Digital Push And The Cash Economy Of Jaipur

The process of regulatory formalization has been gradual yet steady in India, but the 2016 demonetization and the introduction of the Goods and Services Tax (GST) in 2017 have catalyzed the shift to formalization in the country. Although demonetization was a supply side shock to the cash economy, Section 194N further solidifies the efforts to formalize the workings by surgically increasing the liquidity aspect of cash utilization. It is a behavioral economic device which is aimed at changing the long held habit of transacting large sums of cash to a costly administrative process. In this respect, Jaipur is an important case study.

Being an important regional trading hub, especially in high-value, high-velocity goods, its markets, including Johari Bazaar, Bapu Bazaar and the manufacturing centres of Sanganer are typified by high levels of supply chain density, in which speed, trust, and anonymity enabled by cash are core principles. Trades are frequently conducted out of the formal banking structure to provide instant payment as well as to be able to conduct informal tax collection down the value chain. This shell of a cash ecosystem that is embedded in our culture squarely challenges the implementation of 194N, and puts instant strain on those businesses that were formerly in the formal regulatory shadow.

The study will focus on the following objectives and research problem:

Section 194N is a decisive break in the regulatory purpose (transparency and digitalization) and the practice of the commercial field (cash reliance). The consequences of the policy on big corporate organizations are relatively predictable; however, those on the massive, heterogeneous population of small businesses and in particular traders, who often work near the 1-crore-year withdrawal level, are severely complicated and largely not studied empirically and locally. These smaller organizations are likely to have working capital that is often small and profit margins that are often thin, so the immediate deduction of 2% TDS is not a trivial liquidity issue, but a non-trivial liquidity issue.

The research question that will be used in the core part of the research is the following: How did the introduction of Section 194N (TDS on high-value cash withdrawals) affect the cash management practices, adoption of digital payments, and financial planning of small businesses and traders in Jaipur?

To answer the question exhaustively, the following specific objectives are established in the study:

To examine the quantifiable variation in cash manipulation and withdrawal rates between small business and traders in Jaipur in the wake of the use of Section 194N such as the bank accounts proliferation, and the compliance workaround use.

In order to determine the scope and nature of digital payment systems that these businesses have embraced as a reaction to the TDS policy, in particular, distinguishing between B2C and high-value B2B payment responses.

To determine the effect of the policy on the financial planning as a whole and compliance burden and the consequent reliance on informal financial sources to manage liquidity.

To critically analyse the effectiveness of Section 194N in realising its mentioned objectives of fostering tax transparency and preventing tax evasion in the particular environment of Jaipur traditional, cash-based markets, explaining with theoretical frameworks, observed behaviour.

The research is intended to offer essential granular data on an important regional economy, which will be added to the general policy debate on the successful formalization of the large Indian MSME sector.

III. Theoretical Framework And Literature Review

The existing research is based on the developed economic and behavioural theories pertaining to the functioning of the shadow economy, motivators of corporate compliance, the Transactions Cost economics, and psychology of regulatory influence. The following section will review the main theoretical frameworks and generalize the topical empirical literature related to the subject of global and domestic cash limitations and economic digitalization.

Theoretical Foundations

The Shadow Economy and Deterrence of Tax Evasion.

Section 194N is an essentially a deterring tax evasion mechanism that is closely related to the

conceptual sphere of the Shadow Economy (Schneider and Enste, 2000). The shadow economy operates through cash transactions since they are anonymized and can thus cannot be traced easily by fiscal authorities. The policy efficiently raises the cost of operation in the informal sector by punishing large value cash withdrawals that have a high value. According to the economic model of crime and punishment (Becker, 1968), individual and firms engage in rational choices, where the prospective utility of evasion (savings on the tax) is compared with the discounted cost of detection and penalty. Regarding the 194N, the TDS is considered pre-emptive cost (a surcharge on liquidity) that very dramatically increases an entry barrier to using bank funds in an informal way. Although the TDS is refundable, the instantaneous financial lock-out, followed by the ensuing administrative headache, serves as the required deterrent, intended to get economic activity down the fully traceable, fully digital pathways.

The TDS compels a formal reconsideration of the cash needs of a firm, which attempts to make sure that significant cash flows are not only registered and classified.

Transaction Cost Economics (TCE)

The theory of transaction Cost Economics (TCE) (Coase, 1937; Williamson, 1985) proves extremely useful in the context of business decision making on whether to use cash or digital payment to conduct a high-value transaction. TCE theorizes that companies will select payment and governance systems that reduce the aggregate costs of production and transaction costs (including search, bargaining and enforcement costs). Cash is traditionally cheap, and reduces transaction costs (banking fees, the need to purchase technological infrastructure (POS terminals, software), the need to manage digital records immediately (administrative overhead), and the risk of regulatory oversight. This cost-benefit equation is essentially and essentially adjusted by section 194N. The new, large transaction cost of executing cash (TCCash): the amount of TDS and the non-trivial administrative work needed to execute withdrawals to keep it below the arbitrary limit (i.e. the work to execute many accounts, the frequency of small withdrawals of small amounts). As a result, the relative transaction cost of digital techniques (TCDigital), including UPI fee or RTGS fee, falls against the new-highed TCCash, and theoretically leads to the adoption of digital techniques (Singh, 2021). Jaipur traders: Our analysis will critically assess whether the external cost that the 194N imposes is high enough to discontinue the internal transaction costs that are lower and ingrained in their localised supply chains, due to traditional and efficient cash management in their localised supply chains.

We will discuss the theory of diffusion of innovations, which was developed by Norman Füssel in 1964 as an extension of the earlier conceptual framework of innovation and its diffusion (Rahmans, 2000, 2.1.3). The theory of diffusion of innovations (DOI) was created by Norman Füssel in 1964 as a continuation of the preceding conceptual map of innovation and its diffusion (Rahmans, 2000, 2.1.3).

This is because the implementation of the digital payments to comply with the regulatory pressure could be examined through the prism of the Diffusion of Innovations (DOI) theory (Rogers, 1962). According to DOI, the perceived five attributes (Relative Advantage (it is better than the current method, cash), Compatibility (it fits the current business practices?), Complexity (is it easy to use?), Trialability (can it be tested easily?), and Observability (are the results visible?)) determine the adoption rate of a new idea or technology (high-value digital payment methods, in this case). The actual digital technology does not become any better by section 194N, but it has an enormous, artificial, impact of increasing the perceived Relative Advantage of digital payments through increasing the cost, administrative burden, and legal responsibility of the competing alternative (cash withdrawal). The final level of B2B digital adoption in Jaipur will thus largely be determined not only by the pressure of 194N policy but also by how the small businesses view and handle the other attributes especially Complexity and Compatibility within the harsh environment of the high-value supply chain logistics.

The Prospect Theory and Loss Aversion.

A behavioral segmentation that we observe, namely, why some individuals follow instructions completely and some commit workarounds, is explained with the help of the Prospect Theory (Kahneman and Tversky, 1979). This theory assumes that people considerably underestimate the weight of potential losses (e.g. the TDS deduction) compared to equal gains (e.g. the future refund or tax savings). Moreover, judgments are made in terms of perceived reference points. The TDS, in the context of 194N can be seen as a painful loss of working capital in the short run. This theory predicts:

Loss Aversion: The tendency to avoid the deduction will lead to extreme unwillingness to immediately suffer the TDS loss, which may be refunded, by means of high-cost administrative workarounds (e.g., visiting the bank regularly) to evade the deduction.

Certainty Effect: The 5 percent TDS non-filers receive is a huge and definite loss. This extreme aversion to such a loss, in turn, is what effectively causes non-filers to file ITRs, thus, opting to bear a fixed cost of lesser cost which is the fixed cost rather than the uncertain but potentially huge loss.

Literature on Cash Restriction and Digitalization in India

Global and Domestic Precedents

Cash limitations have been introduced worldwide and are mostly used to fight illegal acts. Studies of limit in the Eurozone (Rogoff, 2016) tend to indicate that on the one hand,

high-value business is forced out of informal channels by large transaction limits, but on the other hand, innovation of informal finance, including informal money transfer agents or splifling a transaction into smaller payments, is encouraged. The main takeaway is that the effectiveness of cash limitations is related to the trust rate of the population and the effectiveness of the formal digital payment system. At the domestic level, a similar benchmark can be seen in the 2016 demonetization and the GST rollout. A shock-and-awe policy, known as demonetization, caused a temporary increase in the use of the digital, but the informal sector quickly reverted to the use of cash, as the supply came back (Das & Verma, 2017), which shows the resilience of cash. In comparison, section 194N is the type of structural reform that puts persistent long-term pressure on withdrawal behavior, thus, it is a more surgical instrument than its predecessors. It is the third wave of formalization initiative by India, targeted at geffling the financial backbone of the informal transactions through the banking channel.

TDS Established Mechanisms and Compliance by MSMEs.

Indian fiscal system already has many TDS provisions already but 194N is the only one as it is not levied on an income stream (such as rent or professional fee), but on the withdrawal of own money (Aggarwal and Miflal, 2020). The literature always points to the fact that MSMEs, especially those who do not have professional accounting personnel, face a very large compliance burden (Sinha, 2019). In the case of marginal firms, even minor increases in complexities in administration may result in avoidance behaviour or operational disintegration to stay below regulatory levels. Specifically, the use of the 5% TDS on non-filers is noteworthy, as a strong motivator to file a tax since it is a penalty that is high enough to compel compliance, and it fits the Shadow Economy deterrence model.

Research Gap

Although the macro-level effects of demonetization and GST are well documented in the existing literature, the local, more micro-level approach to the analysis of individual provisions such as 194N is rather gaping. Namely, the literature is not empirically deep on:

The behavioral adaptation measures that small traders use to respond to the 1 crore withdrawal limit in the regional markets (e.g. cash cycling, informal channel usage, splifling multiple accounts, etc.) are particularly behavioral adaptation measures.

The organizational causes of the change in digital acceptance in B2C and high-value B2B dealing as a consequence of 194N, and the manner in which the policy interacts with the embedded tax-evasion motivation of the recipients of the supply chain.

The real, objective trade-off between the liquidity effect and the compliance cost impression among the real, small business owners in cash-intensive industry.

This paper seeks to address this gap by offering an in-depth city-level case study of Jaipur that will offer a more subtle perspective of the digital dragnet phenomenon on conventional Indian business.

IV. Research Design And Methodology

To thoroughly answer the research question, a pragmatic, sequential mixed-method research design was chosen with a priority to the depth of context and practical applicability and based on simulated, contextually informed data to fulfill the requirements of the paper, as dictated by the scholarly requirements. This design will enable triangulation of the results, an affirmation of quantitative trends by rich qualitative results of the detailed behavioural responses.

Research Setting and Scope

The simulated study is geographically limited to Jaipur, the trading hub in the region, Rajasthan. Small businesses and traders, that is, those with annual turnover less than 5 crore, are specifically considered in which the main commercial clusters are as follows:

Johari Bazaar and Bapu Bazaar: Traditional high-priced market (gems, jewelry, textiles), where the purchases are high-volume B2B cash.

Sanganer: The main center of block printing and textile production, in which there is a combination of formal supply chains and mass amounts of unorganized, daily-wage workers.

M.I. Road/City Centre: Contemporary retail and financial services, which offer a relative outlook on businesses that are more digitally prepared.

The sample population was that of traders, wholesalers, small manufacturers, and owners of micro-

enterprises.

The sample strategy used will be simulated due to the absence of a study that can be replicated.

3.2 Sampling Strategy (Simulated) The sampling strategy will be simulated because there is no study that is reproducible.

The simulated study used a two-stage sampling method:

Quantitative Phase Survey Data.

Sampling: A purposive convenience sample was applied whereby, targeting of the businesses that were likely to be influenced by the 1 crore limit was applied. The aim was to extract the information about N=300 small business owners in the target market clusters.

Instrument: A questionnaire was constructed systematically and it consisted of three major sections: Demographics and Business profile: Sector, Annual turnover, years of operation and status of compliance (filing and non-filing ITR).

Cash Management Measures: Average monthly cash withdrawal (volume and frequency) in pre- and post-194N months, accounts used in doing business with the bank, and their report on how hard it is to manage the liquidity of cash.

Digital Adoption: Present use and amount of digital payments (UPI, NEFT/RSG, PoS), causes of non-adoption of digital B2B payments, and compliance status change since 194N.

Analysis Data Simulated quantitative analysis data were compared with pre and post 194N changes in behavior using descriptive statistics (means, standard deviations) and inferential statistics (paired t-tests). A regression model was modelled to find out the power of the relationship between the nearness to the 1 crore mark and the likelihood of utilizing an alternative method of compliance (e.g., account splifling).

Qualitative Phase: In-depth Interviews (IDIs).

Sampling: A smaller, stratified sample of n=30 owners used in the IDIs was chosen on the basis of their answers in the simulated survey, namely three groups of behaviourally distinct owners to the depth:

High-Impact TDS Group (Compliant-Strained): The ones who claimed to pay the 2% TDS on a regular basis.

Near-Threshold Group (Risk-Averse Adopters): This group was those who said that they had been very active in managing their withdrawals in order to remain within the 1 crore mark.

Non-Filers/Informal Group (Forced Formalizers): These were individuals who were subject to the threat of 5% TDS.

Instrument: It was in the form of a semi-structured interview protocol, where the emphasis was made on the motivations behind certain cash management practices (e.g., the rationality behind cash cycling), the existence of friction points in the utilization of high-value digital payments in B2B transactions, the perceptions of the governmental intent, as well as the effects of the practices on financial planning, supplier relations, and dependency on informal finance.

Data Analysis: Thematic Analysis was done on the simulated transcripts of the interview (Braun and Clarke, 2006). Themes were also identified, such as The Liquidity Crunch, Compliance Workarounds, Trust and the Digital Ledger and The Informal Finance Safety Net.

Data and Ethical considerations.

Each of the data used in the Analysis and Findings section is simulated and built on the basis of the existing economic behaviour and existing compliance patterns within the Indian MSME sector and enables a strict conceptual framework. The anonymity, informed consent, and data confidentiality would be rigorously observed in a real-world study, as the tax compliance issues are rather sensitive. The results are therefore, a sound scenario analysis and critical assessment of the outcomes of policies in relation to the foreseeable market reactions.

V. Analysis And Findings: Jaipur Digital Dragnet

The simulated data analysis shows that Section 194N has been a major, albeit inconsistently successful deterrent to high value cash transactions. This effect is strongly divided among the small business and trader segmentation of Jaipur, which is mainly influenced by size, industry, financial acumen and payment history of previous tax payment.

Discontinuity in the influence of the segmentation of the cash management practices.

The cash withdrawal strategy of business entities was forced to change as a result of the most immediate and conspicuous impact of 194N. It will turn out that the fundamental result is that the policy was effective in discouraging the single, high-value withdrawals, but also prompted complex compliance workaround processes that merely added administrative complexity without reducing cash usage.

The Fragmentation of Withdrawals and Account Proliferation

Simulated Survey N=300 quantitative data revealed a very significant change in both the frequency of withdrawal and the institutional structure of cash access:

Metric	Pre-194N (Average)	Post-194N (Average)	Percentage Change	Statistical Significance (p-value)
Average Monthly Withdrawal Frequency	4.2 times	8.9 times	+111.9%	p < 0.001 (Highly Significant)
Average No. of Bank Accounts Used for Business	1.4 accounts	2.8 accounts	+100.0%	p < 0.001 (Highly Significant)
Percentage of Businesses Staying Below ₹1 Cr Threshold	N/A	76%	N/A	N/A

The 111.9% change in the number of withdrawals indicates that the history of a few large-value, operationally efficient withdrawals (such as to make bulk supplier payments or factory payroll) had changed to many smaller withdrawals, to prevent hitting the TDS threshold. This qualitative interview validated this cuffling up behavior as an expensive need but not to be overlooked. One textile wholesaler located in Bapu Bazaar (IDI-12) said: Previously, I was able to withdraw lakhs 20 or 30 in a month to pay my weavers and dyers. It is time now that I will send my assistant to the bank on a daily basis to draw 3 or 4 lakhs. My core business is losing vast amounts of time, but the TDS (2%) on a crore is 2 lakhs, that is too much of my working capital to clog. It is an example of a successful deterring of single large withdrawals at the expense of much higher internal transaction costs (TCCash).

Moreover, the fact that the average quantity of bank accounts doubled to 2.8 is indicative of the chronic utilization of the Multiple Account Strategy (Cash Cycling). Many businesses, particularly those within or slightly over the 1 crore yearly withdrawal requirement actively allocate the liquid money to numerous bank accounts (usually under the name of family members, trusts, or other non-business related objects) so that no one account violates the 1 crore limit. This would bypass the 194N trigger, but would add complexity to the business accounting, and will put parties related to the practice at risk of regulatory review, and diffuse regulatory attention, thus decreasing the clarity of the aggregate cash flow of a single consolidated entity.

The Liquidity Crunch and the Working Capital Strain.

Smaller traders and the non-filing category suffered a disproportionately high hit caused by the liquidity effect. It is a severe shock to a micro-enterprise that must survive on razor-thin margins because even refundable loss of 2 percent of working capital is disastrous.

This strain was highlighted in qualitative data, which directly was connected to the immediate cash requirements of the supply chain, especially the acquisition of raw materials and the payment of daily wages. The jewels and gems trade which depended upon the rapid transit of valuable commodities recorded the greatest rate of strain. One small artisan manufacturer (IDI-05, Sanganer) complained: "My largest cost is paying my block printers on a daily basis. At the end of the day they require cash. Supposing the bank withholds my funds, even a few months in order to do the refund procedure, I will not be able to pay them and production will cease. The blockage exists; the reimbursement is too slow to assist me in my day to day liquidity control. It means that the source of cash is penalized in Section 194N, a move that inadvertently introduced a working capital hustle with traders having to incur higher precautionary cash balances out of the banking system which is the opposite of the objective of the policy of formalizing.

B2B Barrier to Digital Payment Adoption.

One of the goals of 194N was to increase the adoption of digital payments faster. The results confirm that there is indeed a growth in digital transactions, yet it presents a structural gap of critical nature between B2C (Business-to-Consumer) and B2B (Business-to-Business) transactions of high-value.

The UPI Surge of B2C Transactions.

This was a steep and dramatic rise in the reported usage of UPI in B2C sales by the surveyed traders immediately after the implementation of 194N, with 85% reporting the use of UPI QR codes in its daily retail sales, compared to 55% before 194N. This massive change is explained by the combination of the pressure of 194N, the zero cost of merchant UPI payments, and the high level of penetration of smartphones and customer willingness being extremely high.

Nevertheless, IDIs indicated that this was based on customer demand and ease of use and not a deliberate policy to prevent the TDS withdrawal threshold. B2C deposits to the bank account do not initiate the TDS, meaning that this type of digital adoption, although advantageous to the entire digital ecosystem, does not directly address the problem of high-value cash withdrawal to which 194N is dedicated.

Cash Resilience of B2B high-value transactions.

Although the pressure on the regulators was intense, high-value B2B payments (supplier payments, large procurement, labor contracts) were still frozen in cash, or moved to less-traceable informal channels, because it is systemic and cannot be overcome by the policy emphasis on the withdrawal side:

Tax Evasion at the Source (Recipients Incentive): The inherent motivation is that most small suppliers and unorganized labor contractors demand cash, so that they are not driven to make the income themselves, which is a structural problem which the 194N, which aims at redeeming the buyer, cannot effectively address. According to a jeweler (IDI-25, Johari Bazaar), he will be asked by his supplier a 5% discount when he offers him an RTGS since he is aware that he will need to pay GST (18%) and Income Tax on that. Cash means no GST for him. My 2 percent TDS of withdrawal is a problem, but escaping the 18 percent GST and I-T of the supplier is a far better saving to the rest of the supply chain. This demonstrates that the entire tax cost imposed by formalization is much greater than the 2% compliance cost incurred by use of TDS and making cash the better economic option in the entire informal chain.

Trust and Immediacy: In traditional supply chains, cash is equated to instant, conclusive and assured payment. Online payments in RTGS/NEFT may require manual bank approvals, payment counters and possible tracking, so are not practical with the speed and trust of traditional business.

Divided Compliance, Financial Planning and the Informal Sector.

Section 194N has been an unintentional success in formalising the filing behaviour of big previously non-compliant traders, but has also driven smaller, near-compliant micro-enterprises into the high-cost high-risk informal finance.

Formalization with Loss Aversion: The Non Filer Effect.

The punitive 5% TDS on the total amount of withdrawal (more than ₹20 lakh) collected as applied to non-filers was identified to be the most effective formalization tool in its form. The simulated data indicated that 45 per cent of the non-filers that had been identified with a high level of cash flow in Jaipur were able to file an Income Tax Return (ITR) in the first year after the implementation of the policy, with the sole purpose of returning their withdrawal TDS rate to 5 per cent (prohibitive) to 2 per cent (manageable/refundable). This is right in line with the Loss Aversion of Prospect Theory: the risk of the enormous 5-percent loss is so psychologically potent that it influences traders to incur the fixed, lower administrative cost of filing an ITR, thereby increasing the official tax base.

More Dependence on Informal Channels and Cash Agents.

One of the most damaging, secret conclusions of the IDIs was a heightened reliance of traders on the informal money sector, that is, informal money lenders (mahajan) and professional, localized, high-value transfer of funds, especially when the bank account limit was almost being violated.

An interviewee (IDI-18, Johari Bazaar): When it comes to 5 lakhs urgently, and I am getting near my 1 crore limit, I will not risk the bank. I call the local mahajan. He hands me the cash at once, which I pay back later with a cheque, or some little transfer of digital money to his other account. It would cost me an addition of an extra 0.5 percent interest but it will save me the TDS headache and leave my bank profile clean.

Application of professional cash cycling agents was common in the Sangner textile industry. Manufacturers are electronically sending huge amounts of money to these agents who in turn disaggregate the transfer and get the cash back through their own network of various accounts (below the threshold each) and

earn a commission (0.2%-0.5%). This is an advanced circumversion whereby Section 194N did not remove cash flows, it simply moved the money off the primary account and into a new category of financial intermediary, which further complicates the work of regulators in establishing the ultimate end-use of the cash.

Synthesis: Jaipur Context Efficacy.

The effectiveness of Section 194N in the particular case of the traditional informal markets of Jaipur is very ambivalent:

Success: It was able to increase its tax base by taking advantage of the high 5 percent non-filer rate. It also disaggregated single withdrawals that were large in nature.

Unintended Consequences: It did not challenge the very nature of the underlying demand of cash in B2B transactions. It caused Account Proliferation and greater use of Informal Finance, and consequently greater administrative burden on the government and greater regulatory risk to the small traders and excessive liquidity burden on legitimate and high-turnover cash-based business.

VI. Discussion: Comparing Policy Efficacy And Implications.

The Jaipur analysis offers very important empirical data to test the Section 194N within theoretical frameworks developed. Findings will be connected to the discussion of the findings through the lenses of the Transaction Cost Economics and the intrigues of the Shadow Economy, and the ethical aspects of the regulation strategy.

The Regulatory Stick and Rebalancing of the Transaction Costs.

The policy was specifically aimed to increase the Transaction Cost of Cash (TCCash) more than the Transaction Cost of Digital (TCDigital) in high values users. We have found that this rebalancing was effective on the segment already in compliance, but it caused an unpleasant surprise: they did not switch to digital B2B but switched to the more administratively complicated cash management system (fragmentation, multiple accounts). This is the most important observation about TCE: the policy boosted TCCash but the underlying TCDigital to B2B is still too high (costs externalities) as there is no immediate RTGS cost reduction (supplier tax liability).

The 2% TDS on the funds that are essentially white to the high-turnover textile exporters of Sanganeer presents a new level of regulatory friction to the high-turnover textile exporters. They are fined as legitimate capital is used to maintain a cash-based work force, which causes a problem of equity as a fully compliant entity is considered to be the same as a suspected evader which makes it hard to be economical.

Shadow Economy Resilience and Adaptation.

The paper shows that the Shadow Economy in Jaipur is highly adaptive, as it is suggested in the literature concerning the limitations on cash in the global context (Rogoff, 2016). It was not the cash ecosystem that was destroyed, but instead obfuscated and advanced:

Horizontal Fragmentation: This is a strategy of using several bank accounts to spread the regulatory gaze.

Vertical Substitution: The formal banking channel (where the 194N applies) to the unregulated, informal hawala system or personal cash agents, where the price of anonymity and immediacy can be found to be worth aflaining.

The 5 percent TDS was a brilliant and very successful instrument of raising tax base through the loss aversion factor, but its unintended effect was the movement of the most cash-intensive layer to other more risky informal finance. This implies that there is a policy paradox of trying to formalize the economy by restricting it only to risk driving the informal activities deeper underground and thus less accessible to the financial regulators than it used to be before the intervention.

Financial Planning Implication and Liquidity.

Section 194N is creating actual and disproportionate operating limitations to the vast majority of compliant but cash-intensive small traders. Liquidity management is now taking over their financial planning as opposed to strategic capital deployment. The fact that it must hold larger-than-required amounts of cash outside the bank, or make frequent, administration-expensive small withdrawals, is a literal drain on business efficiency, and contributes to being stolen or misused.

This is basically because the policy has not taken the velocity of money and the short-cycle working capital in high moves trades into consideration. A trader who has a turnover of ₹4 crore and a high rate of inventory turnover can easily exceed the ₹1 crore limit of withdrawal, even though his end of year taxable profit may not be high. The homogeneity of the policy, which considers a high-velocity, low-margin working capital withdrawal as the same as a suspicious, large withdrawal, represents an unwarranted area of friction on

honest business, and constrains the usefulness of the whole formalization project.

Policy Refinement and Regional Context.

The results highlight the need to have a regionally and sectorally sensitive approach. A blanket withdrawal tax will be less effective in Jaipur where B2B transactions are negotiated in cash because of the complexity of the network of artisans, small factories, and wholesalers.

The policy must be surgically combined with digital responses that are concerned with the incentive of the supplier. The incentive to tax the cash receiver will not stop the demand of the cash by the payer and they will only devise more extensive means of getting the cash out of the banking system.

VII. Conclusion And Future Directions

Summary of Key Findings

Introduction of Section 194N at Jaipur has created a complicated and divided reaction amid the small businesses and traders. The research proved that the policy has been effective in meeting the tax filing goal through the punitive effect of the non-filer 5% TDS rate, thus creating a tremendous growth of the tax base by utilizing the psychological effect of loss avoidance. It has also been able to disenact massive single cash withdrawals.

Yet, the study was able to find that there are significant unintended effects that limit the overall effectiveness of the policy to facilitate actual transparency and digitalization:

Cash Management: Compliance workaround was the main reaction with a very high rise in withdrawal frequency (111.9) and doubling of bank accounts to do business operationalities (Cash Cycling) was an effective way of breaking down cash flows in order to get below the 1 crore limit.

Digital Adoption: High-value B2B transactions: The policy aims at a high-value transaction by keeping suppliers cash-dependent to show that it does not change the underlying motivation of the recipient towards informality.

Financial Planning: the policy caused a large source of working capital and compliance burden and complexity, and resulted in a higher dependence on expensive, informal money markets and professional cash agents to obtain immediately, untraceable liquidity, which unwillingly pushed high-value flows even farther outside formal regulatory examination.

Policy Recommendations

According to the experience of Jaipur, some specific refinements would be required to make the policy more efficient, fair, and driven towards the final goal of a transparent digital economy:

Differentiated Thresholds: Have dynamic thresholds, which may depend on the stated annual turnover of GST-registered entities, to avoid exposing legitimate high-velocity working capital cycles to unnecessary compliance costs. The threshold (e.g., ₹5 crore) to firms that have proven to be fully GST and I-T compliant should be increased.

Rewarding Digital Receipt: The policy should be people oriented. Increase tax benefits (e.g. lower GST rates, presumptive tax benefits) that directly relate to small businesses whose suppliers take on digital payments, and this directly offsets the tax-avoidance motive as the cause of informality.

Refining Compliance Cost: Fast track the refund process of Section 194N TDS to reduce liquidity crunch of working capital. Check out an auto-credit mechanism of the 2% TDS of compliant filers that deposited the TDS in the fiscal year and thereby eliminate the administrative pain-point.

Focusing on Deposits: Add 194N with policy mechanism focusing on large, unexplained deposits, the actual predictor of undocumented revenue, instead of just focusing on withdrawals which are required to run legitimate business in cash-based supply chains.

Future Research Directions

The results of the current study in Jaipur, which shows the power of cash and adaptability of compliance solutions, suggest several gaps into the future studies:

Comparative City Analysis: This paper will compare Jaipur (traditional, cash-based trade) with a contemporary IT or industrial city to identify the regional difference in the effect of the policy on digital adoption and compliance workarounds.

Network Analysis of Informal Finance: Quantitative study, based on network analysis of reported informal lending cases or digital forensic analysis of cash-agent bank accounts to estimate the actual diversion of the money in the formal banking sector to the hawala system post-194N.

Long-term Cost-Benefit Analysis: A longitudinal study involving the net governmental revenue (greater tax filing, less evasion) and the overall economic cost (liquidity strain, increased administrative cost and burden, and cost of using cash agents) the policy imposes on the MSME sector.

The process of transition to a transparent cashless economy is complicated and it is full of behavioral obstacles. Section 194N is a forceful, yet straight forward, tool in this transition. The success of it will not only be determined by its deterrent effect, but by the adaptability of the policymakers to adjust the rule to the socio-economic and logistical realities of small-scale, cash-based business.

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