



“What’s
New?”

May 24, 2021

“New Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) requirements”

The Finance Act, 2021 had inserted new sections 194Q, 206AB and 206CCA in the Income-tax Act, 1961 applicable **with effect from July 1, 2021**. Section 194Q provides for TDS on the purchase of goods whereas section 206AB and 206CCA provides for the higher rate of TDS and TCS respectively for non-filers of income-tax returns.

In this alert we have discussed these new TDS/TCS requirements.

Source: The Finance Act, 2021; <https://egazette.nic.in/WriteReadData/2021/226208.pdf>

TDS on purchase of goods

Applicability

- TDS applies on payment made to any resident seller for purchase of goods of the aggregate value exceeding INR 5 million in any previous year.
- TDS is deductible on sum exceeding INR 5 million.
- It is applicable on buyers whose gross sales/ receipts/ turnover is more than INR 100 million in the preceding financial year.
- This section does not apply on purchase of services.

Rate of TDS

- Rate of TDS is 0.1% of value exceeding INR 5 million.
- TDS rate gets increased to 5% if PAN is not provided by the seller.

New requirement of TDS/TCS

Higher rate of TDS/TCS for non-filers of tax return

Applicability

- TDS: Section 206AB of the Act would apply on any sum or income or amount paid or payable or credited, by a person to a "specified person".

TCS: Section 206CCA of the Act would apply on any sum or amount received by a person from a "specified person".

Specified Person

- Who has not filed its income-tax return for last two previous years immediately prior to the year in which tax is required to be deducted/collected and the time limit for filing of such income-tax return has expired under section 139(1) of the Act; and

TDS on purchase of goods

Exemptions from applicability of TDS provisions of section 194Q

- If tax is already being deducted by buyer on the same transaction under other provision(s) of the Act.
- If the same transaction is already being covered under any TCS provisions other than sub-section (1H) of section 206C of the Act.
- If the buyer is exempted under a notification issued by the Central Government in this regard.

Note: In case both provisions of section 194Q and section 206C(1H) are applicable on a transaction then TDS provision will prevail (i.e., TCS will not be applicable in such a case).

Section 206C(1H) levies TCS @0.1% on value of goods purchased for more than INR 5 million.

New requirement of TDS/ TCS

Higher rate of TDS/TCS for non-filers of tax return

- aggregate of TDS/TCS is **INR 50,000** or more in each of these two previous years.

Rate of TDS/TCS

TDS rate will be **higher** of the following:

- Twice the applicable rate; or
- Rate of 5%.

If PAN of Specified Person is not available, then TDS rate would be increased to 20%. This 20% rate does not apply in case of TCS.

Exemptions

- Non-Resident who does not have a permanent establishment in India.
- Salary payments, winnings from lottery or crossword puzzle, horse race, income in respect of investment in securitization trust.

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