

INTERPLAY BETWEEN TDS U/S. 194Q AND TCS U/S. 206C(1H)



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To understand the interplay between TDS on Purchase of Goods u/s. 194Q and TCS on Sale of Goods u/s. 206C(1H), it is essential first to understand the Sections individually.

1. Section 194Q - TDS on Purchase of Goods:

- The Finance Act, 2021, introduced Section 194Q of the Income-tax Act, 1961, which is related to [Tax Deducted at Source](#) (TDS) on the purchase of goods and not to the provisions of services.

- Applicability:

This Section applies to a buyer in the following cases:

- A Buyer whose turnover or gross receipts or sales in the immediately preceding financial year was more than Rs. 10 Crores

AND

- A Buyer is responsible for making payment to a Resident Seller

AND

- Such payment is to be made for the purchase of goods of the value/aggregate of the value exceeding Rs. 50 Lakhs

- Rate of TDS:

Tax is to be deducted at source at the rate of 0.1% on the amount exceeding Rs 50 lakh in a financial year. In cases where the Seller fails to furnish PAN, TDS would be deducted at 5%.

- When to Deduct TDS:

TDS is to be deducted at the time of credit to the Seller or payment made to him, whichever is earlier.

2. Section 206C(1H) - TCS on Sale of Goods:

- Vide Finance Act, 2020, a new TCS provision was introduced with the insertion of sub-section (1H) to section 206C of the Income Tax Act, 1961. The said provision deals with TCS collection on the sale of goods.

- Applicability:

This Section applies to a seller in the following cases:

- Seller is engaged in the sale of any goods other than export goods; alcoholic liquor; tendu leaves; timber; scrap; motor vehicles; foreign remittance; etc

AND

- Total sales/ gross receipts/ turnover from the business of the seller should exceed Rs. 10 Crores in the immediately preceding Financial Year

AND

- Value/ aggregate value of sale consideration for goods received from the buyer is more than INR 50 Lakhs.

- Rate of TCS:

Tax is to be collected at source at the rate of 0.1% of the sale consideration exceeding Rs. 50 Lakhs. In cases where the Buyer fails to furnish PAN, TCS would be collected at 1%.

- When to Collect TCS:

TCS is to be collected at the time of receipt of the amount from the buyer.

3. Interplay between Sec. 194Q and Sec. 206C(1H):

- TDS on Purchase of Goods u/s. 194Q was introduced in the Finance Act 2021 to cover those transactions that were left uncovered by TCS u/s. 206C(1H) which was introduced earlier in Finance Act 2020.
- These amendments have increased the compliance burden for the taxpayer as they impact the most basic transactions of the sale and purchase of goods.
- An interplay of the above Sections has added to the practical difficulties faced by the taxpayers entering into the above transactions, especially with the overlap between the TDS and the TCS provisions.
- Hence it is important to understand the Sections individually first before diving into the Interplay.
- The interplay comes into the picture when both the buyer and the seller have turnover exceeding Rs. 10 crores in the previous financial year and the transactions between these parties exceed Rs. 50 Lakhs in a financial year. In such cases both the Sections i.e. Sec 194Q and Sec 206C(1H) become applicable. It is not possible for the buyer to deduct TDS and the Seller to collect TCS on the same transaction at the same time.
- Circular No. 13 of 2021 provides clarification of this issue. The Circular explicitly mentions that when a transaction is within the purview of both Sections, the tax is required to be deducted under Section 194Q of the Act. The transaction will come out of the purview of Section 206C(1H) after the buyer has deducted the tax on that transaction.
- However, if for any reason tax has been collected by the seller under Sec 206C(1H) before the buyer could deduct any tax under Section 194Q, such transaction would not be subjected to tax deduction again by the buyer.
- The circular can be accessed and read at:
https://incometaxindia.gov.in/communications/circular/circular_13_2021.pdf
- Let us understand the Individual Sections and their interplay with the following example:

<u>Particulars</u>	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
T/o of Seller (In Rs. Crores)	12	9	15
T/o of Buyer (In Rs. Crores)	8	17	18
Sale/Purchase of Goods (In Rs. Crores)	3	4	1
Sales Consideration received/paid (In Rs. Crores)	2	1.50	0.75

Answer the following for all three Scenarios:

- Who is liable to deduct TDS or Collect TCS?
- Amount on which the tax needs to be deducted or collected
- Amount of tax deducted or collected

(Assume PAN of the buyer and seller is available and these are the first transactions for the year between the parties)

Solution:

Scenario 1:

- Seller's turnover in the previous financial year exceeds Rs. 10 crores whereas the buyer's turnover doesn't. Therefore, the seller is liable to collect TCS u/s. 206C(1H).
- Seller has to collect tax on the amount of sales consideration received in excess of Rs. 50 Lakhs in a financial year. This being the first transaction of the year, seller will have to collect tax on the following amount:

Consideration received	Rs. 2 crores
Less: Basic limit	Rs. 50 Lakhs
Amount on which tax will be collected	Rs. 1.50 crores

- PAN of the buyer is available and hence the rate of TCS applicable is 0.10%. Therefore, tax collected = Rs. 1.50 crores * 0.10% = Rs. 15,000

Scenario 2:

- Buyer's turnover in the previous financial year exceeds Rs. 10 crores whereas the seller's turnover doesn't. Therefore, the buyer is liable to deduct TDS u/s. 194Q.

- ii. Buyer has to deduct tax on the amount of Purchase of goods in excess of Rs. 50 Lakhs in a financial year. This being the first transaction of the year, buyer will have to deduct tax on the following amount:

Amount of Purchase	Rs. 4 crores
Less: Basic limit	Rs. 50 Lakhs
Amount on which tax will be deducted	Rs. 3.50 crores

- iii. PAN of the seller is available and hence the rate of TDS applicable is 0.10%. Therefore, tax deducted = Rs. 3.50 crores * 0.10% = Rs. 35,000

Scenario 3:

- i. Buyer as well as the seller has turnover exceeding Rs. 10 crores in the previous financial year. This leads to provisions of Sec 194Q and Sec 206C(1H) both becoming applicable. But as per Circular 13 of 2021, when a transaction is within the purview of both Sections, the tax is required to be deducted under Section 194Q of the Act. Therefore, the buyer is liable to deduct TDS u/s. 194Q.
- ii. Buyer has to deduct tax on the amount of Purchase of goods in excess of Rs. 50 Lakhs in a financial year. This being the first transaction of the year, buyer will have to deduct tax on the following amount:

Amount of Purchase	Rs. 1 crore
Less: Basic limit	Rs. 50 Lakhs
Amount on which tax will be deducted	Rs. 50 Lakhs

- iii. PAN of the seller is available and hence the rate of TDS applicable is 0.10%. Therefore, tax deducted = Rs. 50 Lakhs * 0.10% = Rs. 5,000

