



Dear Sir / Madam,

Dated: 24-06-2021

We have almost reached the end of Q1 of FY 21-22 It is a testing time for all businesses across the world on account of the Coronavirus. We are all working and available to support our clients.

“We also request you to stay home and be safe”.

As you are aware that from 01.10.2020 TCS 206C(1H) was made effective and from 01.07.2021 TDS 194Q shall be applicable, we have summarised both the sections below along with vis-a-vis comparison & illustrations.

TCS SECTION 206C(1H)

New TCS Section 206C(1H) is made effective from 01.10.2020 vide Finance Act, 2020 and it mandates that:

- A seller of goods is liable to collect TCS on sale of any goods from buyer.
- TCS to be collected if the Aggregate value of goods is more than 50 lakhs.
- TCS to be collected on Total sale value.
- TCS @0.1% is to be collected on amount exceeding Rs. 50 lakhs if PAN of buyer is available.
- If the buyer does not furnish their PAN/AADHAR number to the seller, then seller collect from the buyer, a sum equal of 1% in place of 0.1%

Seller- A person whose turnover exceeds Rs. 10 Crores in during the financial year immediately preceding, the financial year in which the sale of good is carried out.

Buyer- Any person who purchase any goods, except importer of goods Central/State Government, Local Authority An embassy, High Commission, legation, commission, consulate, and trade representation of a foreign state.

ACCOUNTING JOURNAL ENTRIES

SI	Particulars		Amount	Amount
Seller's Point of view				
1	ABC Pvt Ltd. (Sundry Debtor) A/c	Dr	590590	
	To Sales			500000
	To Output GST A/c			90000
	To TCS Payable @0.1% A/c			590
<i>[Being Sales Made to ABC Pvt Ltd with Output GST & TCS Payable]</i>				
Buyer's Point of view				
2	Purchase A/c	Dr	500000	
	Input GST A/c	Dr	90000	
	TCS Receivable @0.1% A/c	Dr	590	
	To XYZ Pvt Ltd. (Sundry Creditor) A/c			590590
<i>[Being Purchase Made from XYZ Pvt Ltd with Input GST & TCS Receivable]</i>				

EXPLANATION

A seller who receives any amount as consideration for sale of any goods. Then the Aggregate value of sale exceeding 50 lakh rupees in any previous year shall collect a sum equal to 0.1% of the sale consideration exceeding 50 lakh rupees from the buyer at the time of receipt as Income Tax. This section becomes operative from 1st October 2020.

IMPACT OF CREDIT NOTE/DEBIT NOTE

If sales return/credit note/debit note is before receipt of any consideration, then the impact will be included in the amount of consideration. TCS will be applicable on the revised consideration. If the amount of consideration is already received and TCS is collected and paid, no impact will be made at the time of passing entry for sales return/credit note/debit note.

DUE DATE FOR RETURN

The person responsible for collecting tax shall deposit the TCS amount within 7 days from the last day of the month in which the tax was collected. Every tax collector shall submit quarterly TCS return i.e., Form 27EQ in respect of the tax collected by him in a particular quarter.

PRACTICAL ISSUES

- Issues shall arise at the end of each quarter is reconciliation. There would be some vendors who might not deposit TCS to the government and hence the purchaser might lose the credit of such TCS.
- Charging TCS becomes an issue where advances are received from customers. Since the liability of depositing TCS is on receipt of amount, TCS must be paid on such advance.
- If the dates of sales and payment receipt of goods are different than TCS is applicable on receipt of sale of goods.
- TCS is not applicable on Inter-Branch Stock Transfers, as PAN of both the customer and supplier is same.

FEW EXAMPLES

- **Case** - Mr. A sales goods of Rs 6000000 to Mr. B (with PAN and Aadhar detail).
- ✓ **Solution** – In case it is cover under this section and we must pay tax on 10 lakh (60 lakh - 50 lakh) and rate of tax is 0.1%.

- **Case** – Mr. A sales goods of Rs 60 lakh to Mr. B (without PAN and Aadhar detail).
- ✓ **Solution** – It is also cover under this section and taxable amount is 10 lakhs, but rate of tax is 1% because here PAN and Aadhar details are not furnished.

- **Case** – Mr. X sales goods of Rs 60 lakh to Mr. Y. But Mr. X`s turnover during the FY is 2 crores.
- ✓ **Solution** – It is not cover under this section because Mr. X`s turnover during FY is less than 10 crore which don`t fulfil the definition of seller in this section.

- **Case** – Y sales goods to Z of Rs 60 lakh. Z is liable to deduct TDS.
- ✓ **Solution** – It is not covered under this section because according to section 206C (1H) the provision of this sub-section shall not apply if the buyer is liable to deduct tax at source under any other provision of this act has deducted such amount.

- **Case** – Mr. X sales goods to Mr. Y and takes advance on 29.9.2020 but sale is made on or after 1.10.2020.
- ✓ **Solution** – Receipt is before 1.10.2020, but sale is taking place after 1.10.2020, TCS should be applicable.

TDS SECTION 194Q

New TDS Section 194Q is made effective from 01.07.2021 vide Finance Act, 2021 and it mandates that:

- Any person, being a buyer who is responsible for paying any sum to any seller for purchase of any goods.
- The value or aggregate of such value exceeding fifty lakh rupees in any previous year.
- Shall, at the time of credit of such sum to the account of the seller or
- At the time of payment thereof by any mode, whichever is earlier,
- Deduct an amount equal to 0.1 per cent. of such sum exceeding fifty lakh rupees as income-tax.

Buyer- A person whose total sales, gross receipts or turnover from the business carried on by him exceed Rs. 10 crores during the financial year immediately preceding the financial year in which the purchase of goods is carried out.

RATE OF TDS U/S 194Q

- Buyer of all goods will be liable to deduct tax at source @ 0.1% of sale consideration, exceeding INR 50 Lakhs in a Financial Year.
- Tax to be deducted @ 5% if the seller does not provide PAN/Aadhar.

TURNOVER FOR APPLICABILITY OF SECTION 194Q

TDS obligation will be on buyers, whose gross receipts/turnover exceeds INR 10 Crores in preceding financial year.

ACCOUNTING JOURNAL ENTRIES

SI	Particulars		Amount	Amount
Seller's Point of view				
1	ABC Pvt Ltd. (Sundry Debtor) A/c	Dr	589410	
	TDS Receivable @ 0.1% A/c	Dr	590	
	To Sales A/c			500000
	To Output GST A/c			90000
<i>[Being Sales Made to ABC Pvt Ltd with Output GST and TDS Receivable]</i>				
Buyer's Point of view				
2	Purchase A/c	Dr	500000	
	Input GST A/c	Dr	90000	
	To XYZ Pvt Ltd. (Sundry Creditor) A/c			589410
	To TDS Payable @ 0.1% A/c			590
<i>[Being Purchase Made from XYZ Pvt Ltd with Input GST and TDS Payable]</i>				

CONDITIONS FOR APPLICABILITY OF SECTION 194Q

No requirement of TDS u/s 194Q on a transaction, if TDS is deductible under any other provision or TCS is collectible under section 206C excluding 206C(1H) on a given transaction.

- Either TDS u/s 194Q will apply or TCS u/s 206C(1H) will apply, Both TDS u/s 194Q and TCS u/s 206C(1H) will not apply on the same transaction.
- In case of potential overlap between the two provisions TDS u/s 194Q will apply and TCS u/s 206C(1H) will not apply.

HENCE SECTION 194Q SHALL OVERRIDE SEC 206C(1H)

DATE OF APPLICABILITY

This provision will be applicable with effect from 1st July 2021.

Time Limit for deduction of TDS under section 194Q Tax to be deducted at the earliest of the following dates:

- Time of credit of such sum to the account of the seller or
- Time of payment.

FEW EXAMPLES

- **Case** - Mr. C purchase goods of Rs 8000000 from Mr. D (with PAN detail).
- ✓ **Solution** – In case it is cover under this section and we have to deduct tax on 30 lakh (80 lakh - 50 lakh) and rate of tax is 0.1%.

- **Case** – Mr. C purchase goods of Rs 80 lakh from Mr. D (without PAN detail).
- ✓ **Solution** – It is also cover under this section and taxable amount is 30 lakh but rate of tax is 5% because here PAN details are not furnished.

- **Case** – Mr. Y purchase goods of Rs 80 lakh from Mr. Z, But Mr. Y's turnover during the Preceding FY is 5 crore.
- ✓ **Solution** – It is not cover under this section because Mr. Y's turnover during FY is less than 10 crore which don't fulfil the definition of buyer in this section.

- **Case** – Y purchase goods from G of Rs 70 lakh. G is liable to deduct TCS u/s 206C(1H).
- ✓ **Solution** – It will be covered under section 194Q because according to Memorandum Sec 194Q shall override Sec 206C(1H). Section 206C (1H) shall not be applicable if the buyer is liable to deduct tax at source under Sec 194Q.

Comparison of Sec 194Q and 206C(1H) of Income Tax Act, 1961

BASIS OF COMPARISON	194Q	206 (1H)
Purpose	Tax to be Deducted	Tax to be Collected
Applicable to	Buyer / Purchaser	Seller
Date of Applicability	01-07-2021	01-10-2020
When Deducted or Collected	Payment or Credit, whichever is Earlier.	At the time of Receipt.
Advances	TDS shall be deducted on advance payments made.	TCS shall be collected on advance receipts.
Rate of TDS/TCS	0.1%	0.1%
Rate if PAN Not Available	5%	1%
Exceeding Limit	Turnover/Gross Receipts/Sales from the business of buyer should exceed Rs.10 cr during previous year (excluding GST) purchase of goods of aggregate value exceeding Rs.50 lakhs in any previous year (the value of goods includes GST).	Turnover/Gross Receipts/Sales from the business of seller should exceed Rs.10 cr during previous year (excluding GST) Sale consideration received exceeds Rs.50 lakhs in any previous year. (the value of goods includes GST)
Exceptions	To be Notified by Government	If buyer is importer of goods Central/State Government, Local Authority an Embassy, High Commission, Legation, Commission, Consulate and Trade representation of a Foreign State.
When to Collect / Deposit	Tax so deducted shall be deposited with government by 7th day of subsequent month.	Tax so collected shall be deposited with government by 7th day of subsequent month.
Quarterly Statement of Returns in	Form 26Q	Form 27EQ
Certificate to be Issued in	Form 16A	Form 27D

ILLUSTRATIONS

Sr No.	Buyers Turnover	Sellers Turnover	Transaction Value	Section Applicable
1	5Cr	11Cr	55 Lakhs	TCS - 206C(1H)
2	15Cr	7Cr	58 Lakhs	TDS - 194Q
3	12Cr	13Cr	54 Lakhs	TDS - 194Q
4	7Cr	5Cr	58 Lakhs	NA – Turnover Limit
5	12Cr	15Cr	48 Lakhs	NA – Transaction Value Limit

Hence, in case of any question or if you require any assistance, please reach out to us at the earliest.

#STAYHOME