



UNION BUDGET – 2019-20 & TDS PROPOSALS

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Hon'ble Finance Minister while presenting the Union Budget for 2019-20 has proposed a slew of measures to widen the tax base by introducing new Provisions under the Chapter XVII of the Income Tax Act, 1961. The said Chapter extensively deals with 'Tax Deduct at Source – TDS' provisions such as collecting, recovery of tax and other matters connected therewith. Section 200 of the said Chapter rests a duty on every person who makes a certain payment to deduct the tax at a specified rate before making such payment or crediting to the recipient's account. Section 201, upon failure, imposes a penalty on deductor who bound to deduct the tax at source but defaulting to so deduct the tax or in the remitting the payment thereof to the Central Government within the specified period. Hon'ble Finance Minister vide Finance (No.2) Bill, 2019 has proposed to insert the following Clauses and amendments with effect from 1st Septmeber, 2019 suitably, they are –

1. TDS on payment by Individual / HUF to contractors and professionals – *To insert a Section after Section 194LD*

It has been proposed to insert a wholly new Section 194M to cover Individual or Hindu Undivided Family (HUF) to deduct the tax at source at the rate of five per cent on the sum, or the aggregate of sums exceed Rs. fifty lakhs in a year., paid to a resident contractor or professional even though payment made for personal use. Since the absence of this 'due provision', Individual or HUF who is carrying on such business or profession under no such obligation of deducting the tax at source which Revenue stares for a considerable amount of tax evasion. Hence to plug this loophole, this proposal has been made.

2. TDS at the time of purchase of immovable property - *An amendment by inserting Clause (aa) after Clause (a) of Explanation to Section 194-IA*

It has been proposed to include all charges such as club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to the transfer of the immovable property under the term of consideration for immovable property'. Generally, sale transactions include above-said payments where the buyer is bound to make such payments to the seller either under the same or under a different agreement. Hence this proposal has been made.

3. TDS on cash withdrawal to discourage cash transactions – *To insert new Sections 194M and Section 194N and to consequent amendments to Sections 269SS, Section 269ST and Section 269T*

To encourage cashless economy, it has been proposed to insert two new sections 194M and Section 194N to provide for levy of TDS on such cash payments. Section 194M to provide for levy of tax deduction at source on any sum or aggregate of sum exceeds Rs. fifty lakhs, paid by an individual or a Hindu undivided family (other than those persons covered under Section 194C / Section 194J of the Act) to a resident for carrying such works say the supply of labour, by way of professional fees at the time of credit to the account or in cash or any other modes whichever is earlier. Section 194N to enable banking company, co-operative society engaged in the banking business, post office, which is responsible for paying any sum or aggregate of sums exceeds of Rs. one crore in cash during the previous year to any person to deduct tax at source at the time making payment. Further, the said proposal does not apply to such payments made to the Government, banking company, co-operative society engaged in carrying on the banking business, post office, business correspondent of a banking company or co-operative society, operator of white label ATMs. Proposed TDS Rates are 5 per cent and 2 per cent respectively.

4. TDS on the non-exempt portion of life insurance pay-out on a net basis – *To amend the current tax rate and to allow deduct tax on net instead on the gross amount under Section 194DA*

The current provision mandates to deduct the tax amount at the rate of one per cent of such gross amount at the time of payment. To ease the burden on the taxpayer and tax administration, it has been proposed to increase the tax rate at five per cent by allowing levy on income component or on net income.

The aforesaid proposals are in the right direction which will curb the cash transactions at higher strata of the society.