

SECTION 194C-Deduction
of Tax at Source for
Payments to Contractor
Sub-Contractor

Who is responsible to deduct tax

Any person responsible for paying any sum to the resident contractor for carrying out any work (including the supply of labor), in pursuance of a contract between a specified person and the resident contractor is required to deduct tax at source. The following are specified person for this purpose :-

- a. The Central Government or any State Government
- b. Any local authority
- c. Any corporation established by or under a Central, State or Provisional Act
- d. Any company
- e. Any co-operative society
- f. Any authority constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the needs for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both
- g. Any society registered under the Society Registration Act, 1980 or under any such corresponding law to the Act in any Part of India
- h. Any trust
- i. Any University
- j. Any Firm.
- k. Etc

WHEN TAX HAS TO BE DEDUCTED AT SOURCE

If the Deductor is required to deduct TDS as per provisions of **section 194C of the Income Tax Act**, then, the Deductor is required to deduct TDS within earlier of the following dates –

- At the time of credit of sum to the account of the Contractor; or
- At the time of payment in cash or cheque or draft or any other mode.

What is the meaning of work

The expression, “work” in this section would include-

- a. Advertising
- b. Broadcasting and telecasting including production of programs for such broadcasting or telecasting
- c. Carriage of goods and passengers by any mode of transportation, other than railways
- d. Catering
- e. Manufacturing or supplying of a product according to the requirement or specification of a customer by using the materials purchased from such customer or its associate as defined in section 40A(2),

But does not include manufacturing or supplying of a product according to the requirements or specifications of a customer by using the materials purchased from a person, other than such a customer.

What is a Sub-Contractor as per Section 194C

A “sub-contractor” would mean any person:

- a. Who enters into a contract with the contractor for carrying out, or
- b. For the supply of labor for carrying out the whole or part of the work undertaken by the contractor under a contract with any of the authorities or
- c. For the supply of, whether wholly or partly, any labor which the contractor has undertaken to supply in terms of his contract with any of the authorities mentioned under this section.

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Rate of TDS Under Section 194C

Sr. No	Nature of Payment	TDS Rate if PAN available	TDS Rate if PAN not available
1	Payment / Credit to resident individual or HUF	1%	20%
2	Payment/Credit to any resident person other than individual / HUF	2%	20%
3	Payment/ credit to Transporters	NIL	20%

Due date of deposit of TDS u/s 194C

Particulars	Due dates
TDS payment for the months from April to February	Within 7 days from the end of the month in which TDS is deducted
TDS payment for the month of March	On or before 30 th April
TDS payment to be done by Government Deductor (without production of challan)	On the same day

The Deductor is required to issue TDS certificate in Form 16A within following due dates –

Months	Due date
April to June	15 th August
July to September	15 th November
October to December	15 th February
January to March	15 th June

Return filing requirements u/s 194C

Every Deductor deducting TDS in terms of section 194C is required to file a quarterly return in Form 26Q within following due dates –

Months	Due date
April to June	31 st July
July to September	31 st October
October to December	31 st January
January to March	31 st May

In the following circumstances deduction of TDS u/s 194C is not applicable .

- A. TDS exemption limit is INR 30,000 in case of a single contract and INR 1,00,000 in case of aggregate amount during the financial year.
- B. Individual or HUF not to deduct tax if the payment or amount credited to the contractor is for personal use:-
 - No individual or HUF shall be liable to deduct income-tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for the personal purpose of such individual or any member of HUF
 - ii. No deduction shall be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor during the course of business of plying, hiring or leasing goods carriages, on furnishing of his PAN, to the person paying or crediting such amount

TDS at a Lower Rate



According to Section 194C where the AO is satisfied that the total income of contractor or sub-contractor justifies the deduction of income-tax at any lower rate or no deduction of income-tax, as the case may be, the AO shall, on application made by the contractor or sub-contractor in this behalf give to him such certificate as may be appropriate. The contractor or sub-contractor can then furnish the lower rate or nil TDS certificate to the deductor.

Important points –

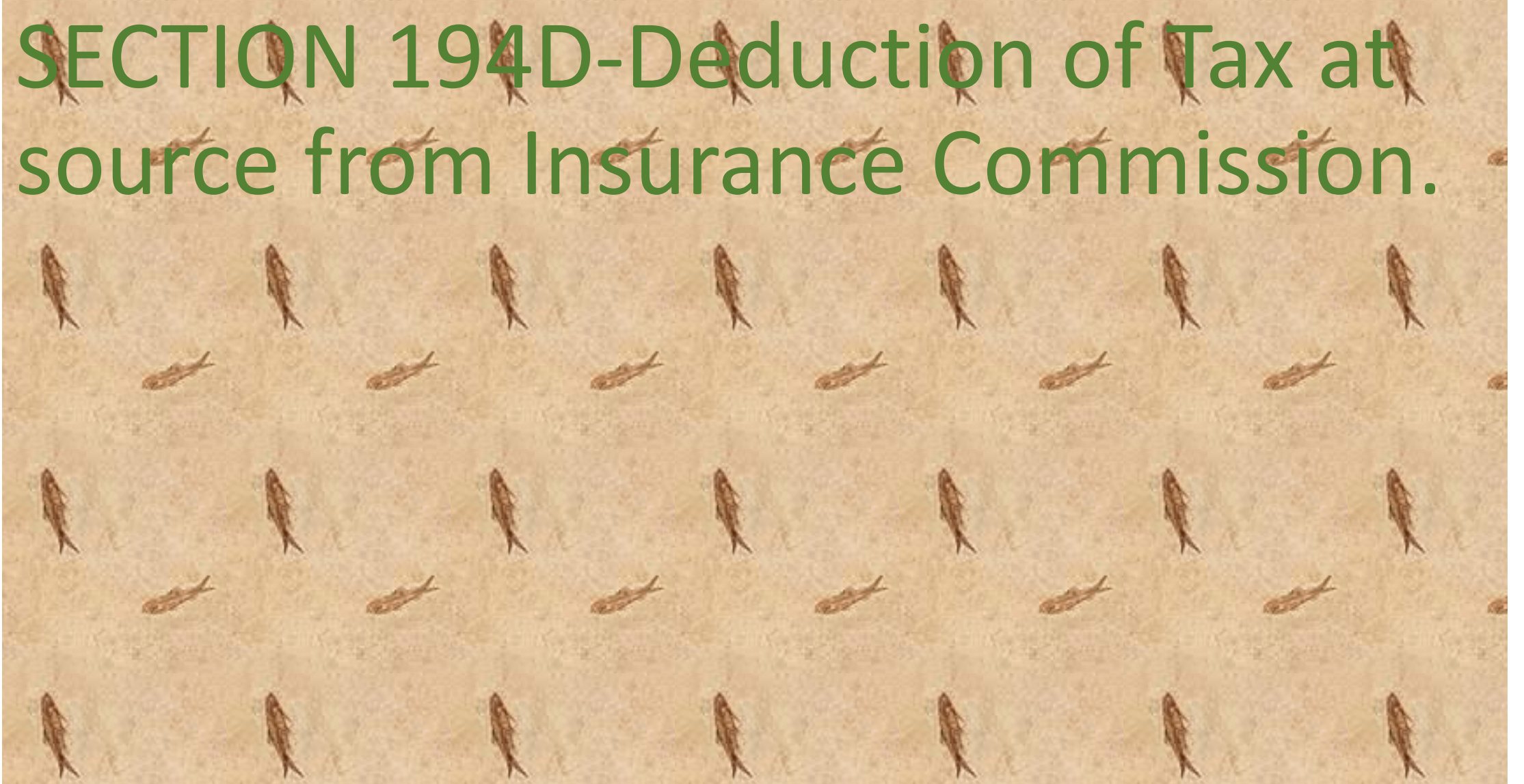
- Value to be considered for TDS deduction in the case where work includes manufacturing / supply of product as per the specification of the customer by using the material purchased from the customer.
- In such case, the TDS would be deducted on –

Particulars	Value for TDS deduction
Price of the material indicated separately in the invoice	Invoice value excluding the value of material
Price of the material not indicated separately in the invoice	Total invoice value

Certain important clarification done by CBDT –

- FD Commission and brokerage are not covered under section 194C.
- Payment made to an electrician or payment made to a contractor for providing electrician service is covered under section 194C.
- Payment made to courier covered under section 194C.
- Payment made to travel agent or an airline for purchase of a ticket is not subjected to TDS under section 194C. However, if the plane, bus or any other mode is chartered, then TDS is liable to be deducted under section 194C.
- Payment made to clearing and forwarding agents for the carriage of goods is liable to TDS under section 194C.

SECTION 194D-Deduction of Tax at source from Insurance Commission.



who is responsible to deduct tax

The tax must be deducted by the entity who makes the payment to the resident person, as remuneration/ rewards, by the way of commission or for the following purposes :-

- Soliciting or obtaining insurance business
- Continuance, renewal or revival of policies of insurance.

When is TDS deducted under Section 194D

The deduction of tax on insurance commission under Section 194D based on which of the following comes earlier:

- at the time of credit of commission in the account of the payee, or
- the payment in cash or cheque or in kind.

Rate of TDS Under Section 194D

	TDS Rate if PAN available	TDS rate w.e.f. 14/05/2020 to 31/03/2021	TDS Rate if PAN not available
Persons other than a company	5%	3.75%	20%
Domestic Company	10%	10%	20%

When is TDS not liable to be deducted under 194D

There are 2 instances when TDS is not deducted under Section 194D:

- A. Commission paid does not exceed Rs 15,000
- B. Self-declaration under Form 15G/ 15H

TDS at a Lower Rate

An individual who receives a commission can make an application in Form 13 to the Assessing Officer for a certificate authorizing the payer not to deduct tax or to deduct tax at a lower rate. In accordance with section 206AA(4), no certificate under Section 197 for non-deduction or lowered rate of deduction will not be given unless the application also provides the PAN of the applicant.

SECTION 194DA: TAX DEDUCTION ON SOURCE ON PAYMENT IN RESPECT OF LIFE INSURANCE POLICY

WHO IS RESPONSIBLE TO DEDUCT TAX U/S 194 DA

Any person responsible for paying to a resident any sum under a life insurance policy, including the sum allocated by way of bonus on such policy, other than the amount not includible in the total income under section 10(10D), shall deduct income tax thereon.

WHEN TO DEDUCT TDS UNDER SECTION 194DA?

Tax shall be deducted at the time of **payment** thereof.

RATE OF TDS UNDER SECTION 194DA

- If the deductee furnishes PAN : 5%
- If the deductee does not furnish PAN: 20%

VALUE FOR DEDUCTION

TDS shall be deducted on the INCOME PART only.

This means

Total sum received from insurance company - Amount of insurance premium paid by the insured person

THRESHOLD LIMIT

No deduction under this section shall be made where the amount of such payment or, as the case may be, the aggregate amount of such payments to the payee during the financial year is less than Rs. 100000.

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