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CERTIFICATE COURSE ON TDS

Today's Content – TDS u/s 194M, 194N, 194O, 194Q, 194P and 194R

I. Section 194M – TDS on Certain Payments by Individuals and HUFs

1. Introduction

Section **194M** of the Income Tax Act was introduced in **Finance Act 2019** and is applicable from **1st September 2019**. It ensures that **TDS (Tax Deducted at Source)** is deducted on payments made by **Individuals & Hindu Undivided Families (HUFs)** for **contract work, professional fees, and commission** if they are not required to deduct TDS under sections 194C, 194H, or 194J.

2. Applicability of Section 194M

☒ **Who is Required to Deduct TDS?**

- **Individuals and HUFs** who are NOT required to **audit their books of accounts** under **Section 44AB** but still make high-value payments for:
 - **Contract Work** (similar to Section 194C)
 - **Professional Fees** (similar to Section 194J)
 - **Brokerage/Commission** (similar to Section 194H)
- Example: A person constructing a house **pays ₹60 lakh to a contractor** – TDS must be deducted under **Section 194M**.

☒ **Who is NOT Required to Deduct TDS?**

- Individuals/HUFs whose payments are below the **threshold limit of ₹50 lakh per financial year**.
- Businesses already required to deduct TDS under **Section 194C, 194H, or 194J**.

3. TDS Rate Under Section 194M

Payment Type	TDS Rate
Payments to Resident Individuals/HUF	5%
If PAN is Not Provided	20%

 **Note:** No **Surcharge or Cess** is applicable on TDS under Section 194M.

4. Threshold Limit

- **TDS is applicable only if total payments exceed ₹50 lakh in a financial year.**
 - If the amount is below ₹50 lakh, **no TDS is required.**
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5. How to Deduct & Deposit TDS under Section 194M

1. **Obtain a TAN (Not Required)** – Unlike other TDS sections, **TAN (Tax Deduction Account Number)** is **NOT** required.
 2. **Deduct TDS @ 5% at the time of payment or credit (whichever is earlier).**
 3. **Deposit TDS using Challan (Form 26QD)** within **30 days** from the end of the month in which TDS is deducted.
 4. **Issue Form 16D** (TDS Certificate) to the payee within **15 days** from the TDS payment due date.
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6. Consequences of Non-Compliance

Interest on Late Deduction/Deposit

- **1% per month** for failure to deduct TDS.
- **1.5% per month** for failure to deposit TDS after deduction.

Penalty Under Section 271C

- Equal to the TDS amount not deducted or deposited.

Disallowance of Expenses Under Section 40(a)(ia)

- **30% of the payment may be disallowed** if TDS is not deducted.

7. Example Scenarios

Example 1: TDS Required

- ◇ Mr. A (an individual) hires a contractor to build a house and pays ₹55 lakh.
- ◇ Since the payment exceeds ₹50 lakh, **TDS @ 5% (₹2.75 lakh) must be deducted.**

Example 2: TDS Not Required

- ◇ Mr. B (another individual) pays ₹45 lakh for professional services.
- ◇ Since the total payment is below **₹50 lakh, no TDS is required.**

8. Key Differences Between 194M vs. 194C/194H/194J

Criteria	Section 194M	Section 194C/194H/194J
Who Deducts TDS?	Individuals/HUF (Non-Audit)	Businesses/Professionals
TAN Required?	✗ No	☑ Yes
Payment Threshold	₹50 lakh	₹30,000 (194C/J), ₹15,000 (194H)
TDS Rate	5%	1%-10%

II. Section 194N – TDS on Cash Withdrawals




1. Introduction

Section **194N** of the Income Tax Act was introduced in the **Finance Act, 2019** (effective from **1st September 2019**) to **discourage cash transactions** and promote digital payments. This section mandates **Tax Deducted at Source (TDS) on cash withdrawals** exceeding a specified limit from banks, cooperative banks, or post offices.

2. Applicability of Section 194N

☒ Who Needs to Deduct TDS?

Any of the following financial institutions must deduct TDS under **Section 194N**:

-  **Scheduled banks** (public & private)
-  **Cooperative banks**
-  **Post offices**

☒ Who is NOT Covered?

- **Government entities**
- **Banking companies, cooperative societies engaged in banking, and post offices**
- **Business correspondents of banking companies**
- **White-label ATM operators (cash handlers for ATMs)**

3. TDS Rate Under Section 194N

The rate of TDS depends on whether the taxpayer has **filed income tax returns (ITR) in the last three years**.

Cash Withdrawal (in a Financial Year)	If ITR Filed (Last 3 Years)	If ITR NOT Filed (Last 3 Years)
Up to ₹1 crore	<input checked="" type="checkbox"/> No TDS	2% on amount exceeding ₹20 lakh
Above ₹1 crore	2% on amount exceeding ₹1 crore	5% on amount exceeding ₹1 crore

Example 1 (ITR filed in the last 3 years)

- ◇ Mr. A withdraws ₹1.2 crore in a year.
- ◇ TDS will be **2% on ₹20 lakh (₹40,000 deducted)**.

Example 2 (ITR NOT filed in the last 3 years)

- ◇ Mr. B withdraws ₹80 lakh.
- ◇ TDS will be **2% on ₹60 lakh (₹1,20,000 deducted)**.

4. Exemptions from TDS under Section 194N




The following entities are **exempt from TDS deduction on cash withdrawals**:

- ☒ **Government Bodies**
 - ☒ **Banking Companies & Post Offices**
 - ☒ **Co-operative Societies (Engaged in Banking)**
 - ☒ **Authorized Dealers & Foreign Exchange Dealers**
 - ☒ **Cash Replenishment Agencies & White-Label ATM Operators**
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5. How is TDS Deducted & Deposited?

- 1 The bank/post office deducts **TDS at the time of cash withdrawal**.
 - 2 TDS is **deposited with the Income Tax Department**.
 - 3 The amount deducted is **reflected in the taxpayer's Form 26AS/AIS (Annual Information Statement)**.
 - 4 The deducted TDS **can be claimed as a credit while filing ITR**.
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6. Impact of Section 194N

-  **Discourages high cash transactions** – Encourages digital banking.
 -  **Affects cash-intensive businesses** – Traders, builders, and rural businesses dealing in cash need to plan accordingly.
 -  **Increases tax compliance** – Ensures that only tax-compliant individuals/businesses enjoy higher withdrawal limits.
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7. Conclusion

- ☒ **Section 194N applies to high-value cash withdrawals from banks/post offices.**
- ☒ **TDS @ 2% or 5% is deducted based on ITR filing history.**
- ☒ **Exemptions apply to government bodies, banks, and specific businesses.**
- ☒ **Encourages digital transactions and reduces unaccounted cash dealings.**

III. Section 1940 – TDS on Payments by E-Commerce Operators

1. Introduction

Section **1940** of the Income Tax Act was introduced in the **Finance Act, 2020** and became effective from **1st October 2020**. It mandates **Tax Deducted at Source (TDS) on payments made by e-commerce operators to e-commerce participants** for the sale of goods or services facilitated through an online platform.

2. Applicability of Section 1940

☒ Who Needs to Deduct TDS?

- **E-Commerce Operators:** Any company or entity that **owns, manages, or operates a digital or electronic platform** for buying and selling goods or services.
- Examples: **Amazon, Flipkart, Zomato, Swiggy, Uber, Ola, Paytm, etc.**

☒ Who is Subject to TDS Deduction?

- **E-Commerce Participants:**
 - Any **resident seller/service provider** using an e-commerce platform to sell goods or provide services.
 - This includes **individuals, firms, HUFs, LLPs, and companies.**

☒ Who is Exempt from TDS under 1940?

- **If the seller is an Individual/HUF and total sales in a financial year do not exceed ₹5 lakh, then TDS is NOT deducted.**
 - **Non-resident e-commerce participants** are NOT covered under **Section 1940** but may be subject to TDS under **Section 195.**
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3. TDS Rate Under Section 1940

Category	TDS Rate
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If PAN is Provided	1% on gross sales amount
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If PAN is NOT Provided	5% on gross sales amount (as per Section 206AA)
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- **TDS is deducted at the time of credit or payment, whichever is earlier.**

4. How is TDS Deducted & Deposited?

- 1 E-commerce operator deducts TDS @ 1% before making payments to sellers.**
 - 2 TDS is deposited with the Income Tax Department.**
 - 3 The seller sees the deducted amount in Form 26AS/AIS.**
 - 4 The seller can claim credit for the deducted TDS while filing ITR.**
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5. Example Scenarios

Example 1: TDS is Deducted

- ◇ **Seller A sells products worth ₹10 lakh on Flipkart.**
- ◇ **Flipkart deducts ₹10,000 (1% of ₹10 lakh) as TDS before transferring payment.**
- ◇ **Seller A gets ₹9,90,000 in hand.**

Example 2: Exemption Applies

- ◇ **Seller B (Individual) sells services worth ₹4 lakh on UrbanClap.**
 - ◇ **Since sales do not exceed ₹5 lakh, NO TDS is deducted.**
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6. Key Provisions & Compliance

- ◇ **E-commerce platforms must deduct TDS even if payment is made directly by the buyer to the seller (e.g., cash-on-delivery).**
 - ◇ **TDS deduction is applicable on the full invoice amount, including GST.**
 - ◇ **TDS must be deposited by the 7th of the following month.**
 - ◇ **E-commerce operators must file TDS returns (Form 26Q) and issue TDS certificates (Form 16A).**
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7. Impact of Section 194O

- ☒ **Prevents tax evasion by e-commerce sellers.**
 - ☒ **Ensures smooth tax collection from online businesses.**
 - ☒ **Encourages sellers to comply with income tax regulations.**
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8. Conclusion

- ✓ **Section 1940 ensures TDS deduction on payments made by e-commerce operators to sellers/service providers.**
- ✓ **TDS @ 1% is deducted if annual sales exceed ₹5 lakh (for Individuals/HUFs).**
- ✓ **E-commerce operators are responsible for TDS compliance.**
- ✓ **Sellers can claim credit for the deducted TDS when filing their ITR.**

IV. Section 194P – TDS Exemption for Senior Citizens (75+ Years)

1. Introduction

Section **194P** was introduced in the **Finance Act, 2021**, effective from **1st April 2021**. It provides **TDS (Tax Deducted at Source)** relief to **senior citizens aged 75 years or above**, who have only pension and interest income.

2. Applicability of Section 194P

☒ Who Can Benefit?

- **Resident Senior Citizens aged 75 years or more.**
- **Having only pension income & interest income from the same bank.**
- **The senior citizen must submit a declaration to the bank.**

☒ Who is Responsible for Deducting TDS?

- **The specified bank where the senior citizen holds an account.**

☒ Who is NOT Eligible?

- **Senior citizens with other sources of income** (e.g., rental, capital gains, business income).
- **Those having interest income from multiple banks.**
- **Non-resident senior citizens.**

3. How Does Section 194P Work?

- 1 **Senior Citizen submits a declaration** to their bank stating their total income and deductions (like 80C, 80D).
- 2 **Bank calculates the taxable income** based on this information.
- 3 **Bank deducts TDS as per applicable tax slabs.**
- 4 **No need to file ITR** – The TDS deduction by the bank is considered as final tax compliance.

Example:

- ◇ Mr. Sharma (aged 76) receives **₹6 lakh pension & ₹2 lakh interest** from SBI.
- ◇ He submits a declaration to SBI regarding deductions (₹1.5 lakh under 80C).
- ◇ SBI calculates taxable income = ₹6L + ₹2L - ₹1.5L = ₹6.5L.
- ◇ SBI deducts **TDS as per tax slabs** & deposits it to the government.
- ◇ **Mr. Sharma does not need to file an ITR.**

4. Key Benefits of Section 194P

- ✓ **No Need to File ITR** – Reduces compliance burden for senior citizens.
- ✓ **Simplifies Tax Deduction** – Bank directly deducts TDS as per slab rates.
- ✓ **Ensures Hassle-Free Tax Compliance** – Helps elderly individuals manage their taxes easily.

5. Conclusion

- ✓ **Section 194P benefits senior citizens (75+ years) with only pension & interest income.**
- ✓ **Specified banks deduct TDS as per applicable tax slabs.**
- ✓ **No need to file an Income Tax Return (ITR)** if TDS is deducted correctly.

V. Section 194Q – TDS on Purchase of Goods

1. Introduction

Section **194Q** of the **Income Tax Act** was introduced in the **Finance Act, 2021** and became effective from **1st July 2021**. It mandates **Tax Deducted at Source (TDS) on the purchase of goods** if the total purchase value from a seller exceeds **₹50 lakh in a financial year**.

2. Applicability of Section 194Q

☒ Who Needs to Deduct TDS?

- Any **buyer (business entity)** with turnover exceeding **₹10 crore in the previous financial year**.

☒ When is TDS Deducted?

- When the total purchase of goods from a **single seller** exceeds **₹50 lakh in a financial year**.
- TDS applies on the amount **exceeding ₹50 lakh** (not on the total purchase).

☒ Who is NOT Required to Deduct TDS?

- Buyers whose **turnover is below ₹10 crore**.
- Transactions where **TDS or TCS is already applicable under another section** (except **Section 206C(1H)**, where 194Q takes priority).




3. TDS Rate Under Section 194Q

Scenario	TDS Rate
If Seller Provides PAN	0.1% on amount exceeding ₹50 lakh
If Seller Does NOT Provide PAN	5% on amount exceeding ₹50 lakh





Example:

- ◇ A company's turnover in **FY 2023-24** is **₹12 crore**.
 - ◇ It purchases goods worth **₹70 lakh** from a seller in FY 2024-25.
 - ◇ TDS is applicable on ₹20 lakh (₹70L - ₹50L) @ **0.1% = ₹2,000**.
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4. Exemptions from TDS Under Section 194Q

-  **Not applicable when TDS is already deducted under another section (e.g., 194C, 194H, 194J).**
 -  **Not applicable on imports or purchases from non-residents.**
 -  **Not applicable on transactions covered under securities and commodities exchanges.**
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5. How to Deduct & Deposit TDS Under Section 194Q?

-  **TDS is deducted at the time of payment or credit, whichever is earlier.**
 -  **Deposit TDS with the government by the 7th of the following month.**
 -  **Report TDS in quarterly TDS returns (Form 26Q).**
 -  **Issue a TDS certificate (Form 16A) to the seller.**
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6. Difference Between Section 194Q and Section 206C(1H)

Criteria	Section 194Q (TDS on Purchase)	Section 206C(1H) (TCS on Sale)
Who Deducts?	Buyer	Seller
Threshold	₹50 lakh per seller	₹50 lakh per buyer
Applicability	Buyer's turnover > ₹10 crore	Seller's turnover > ₹10 crore
Deduction/Collection Rate	0.1%	0.1%
Priority	TDS under 194Q applies first	Applies only if 194Q is not deducted

7. Impact of Section 194Q

-  **Reduces tax evasion in high-value transactions.**
 -  **Affects businesses with large purchases from single sellers.**
 -  **Encourages tax compliance in B2B transactions.**
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8. Conclusion

- ✓ **Section 194Q mandates TDS on purchases exceeding ₹50 lakh from a single seller.**
- ✓ **Applicable if the buyer's turnover exceeds ₹10 crore in the previous year.**
- ✓ **TDS is deducted @ 0.1% and must be deposited with the government.**

Recent Changes proposed in Budget 2025

Section 206C(1H) provides for collection of tax at source by a seller at the rate of 0.1% of the sale consideration exceeding Rs 50 lakhs, subject to certain conditions.

Subsequently, section 194Q was introduced on 1 July 2021 which requires deduction of tax at source by a buyer at the rate of 0.1% of any goods of the value exceeding Rs. 50 lakhs, subject to certain conditions.

Further, it is provided in sub-section (1H) of section 206C of the Act that the provision will not apply, if the buyer is liable to deduct TDS under any other provision of this Act. However, to avoid non-compliance of withholding tax provisions, the seller as well as the buyer would withhold taxes on sale/ purchase of the same goods.

It is now proposed to omit the provisions of section 206C(1H) from 1 April 2025 to avoid deduction of TDS as well as TCS on the same transaction.

This is a welcome move considering that the ambiguity on whether tax is to be withheld by the buyer or the seller has been removed and it provides tax certainty, which, in turn, would facilitate ease of doing business.

Discussion on any questions

