



## CERTIFICATE COURSE ON TDS

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

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

##### ***1. Introduction***

In general, TDS/TCS provisions are to be complied with by individuals or HUFs only if they are doing business or profession and gross receipts exceed Rs.1 crore or Rs.50 lakhs, respectively. However, a few sections require compliance with their provisions even if the above conditions are not satisfied, and section 194M is also one among them.

It applies when the total amount paid to a resident individual for carrying out any contractual work or commission/brokerage paid (not being insurance commission) or providing any professional service in a financial year exceeds Rs 50,00,000.

If such individuals or HUFs have gross receipts from business or profession in excess of Rs. 1 crore or Rs. 50 lakhs respectively, TDS deduction is applicable as per Sections 194C, 194H and 194J. The individual and/or HUF who have to deduct TDS under Section 194C (TDS on payment to a contractor), 194H (Commission or brokerage) and 194J (TDS on payment on professional fees) do not have to deduct tax at source under Section 194M.

Individuals or HUFs who have to deduct tax can pay the tax to the government by quoting their PAN only. They are not required to get a tax deduction account number (TAN) for TDS deduction.

Payments to non-residents are not covered under this section.

## 2. Reason for Introduction of Section 194M

The finance bill of 2019 introduced Section 194M, which provides for tax deduction at source from any money paid by an individual or HUF to a resident contractor when the services are provided for personal use. Therefore, this section applies to personal as well as business related payments.

Before the introduction of this section, there was no liability on an individual or HUF to deduct tax at source in the situation mentioned above.

Also, individuals or HUFs carrying business or profession (not breaching the turnover threshold) were also not deducting any tax at source, even when the payment was made for the purpose of business or profession.

A major amount of payment made for contractual works, commission/brokerage (other than insurance commission\_ and professional fees was escaping the levy of TDS because of this exemption, creating a scope for tax evasion.

### Key points to note:

- This section is not applicable to non-residents.
- Lower TDS certificates can be submitted under this section.
- Quote PAN in place of TAN: The government has given relaxation under this section, individual or HUF can deposit TDS to the government using PAN in place of TAN and TAN is not required to be obtained.
- This section is applicable from 01 September 2019.

What Is Meaning Of 'Work', 'Contract', And 'Professional Services' In Section 194M?

**Work:** The expression "work" in this section would include:

- Advertising
- Broadcasting and telecasting, including the production of programs for such broadcasting or telecasting.

- Carriage of goods and passengers by any mode of transportation other than railways.
- Catering.
- Manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer. But does not include manufacturing or supplying a product according to the requirements or specifications of a customer by using material purchased from a person, other than such a customer.

**Professional Services:** The phrase, professional services in this section would include:

- Legal
- Medical
- Engineering
- Architectural
- Accountancy
- Technical consultancy
- Interior decoration
- Any other professional service as notified by the government

**Contract:** This expression includes a sub-contract.

### **Time Of Deduction Section 194M**

TDS amount will be deducted on the earlier of the following dates:

- At the time of credit of the amount.
- At the time of payment by cash or by the issue of a cheque or draft.

### **Rate of TDS Section 194M**

TDS at 5% will be deducted under 194M if the total amount paid to a resident exceeds Rs 50,00,000 in a particular financial year.

In case the PAN of the deductee is not available, then TDS will be deducted at 20%.

### **Due Date For Depositing TDS Under Section 194M**

The person responsible for deducting tax under section 194M shall file Form 26QD. The due date to file Form 26QD is **within 30 days** from the end of the month in which you made the payment. For example, if you paid on 1<sup>st</sup> December 2023, the due date for TDS payment is on or before 30<sup>th</sup> January 2024.

### **Certificate of Tax Deducted Under Section 194M**

The person who deducts tax under section 194M shall furnish a certificate under Form No.16D to the payee within 15 days of the due date of furnishing the challan cum statement in Form 26QD.

### **No Requirement To Obtain TAN**

The provisions of section 203A, which require obtaining a Tax Deduction Account Number (TAN), shall not apply to the person required to deduct tax in accordance with the provisions of section 194M.

### **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.**



## 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

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	✗ 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**

5. How is TDS Deducted & Deposited?

- 1The bank/post office deducts **TDS at the time of cash withdrawal**.
- 2 TDS is **deposited with the Income Tax Department**.
- 3The 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**.

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.

### **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**

- **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.**

#### **3. TDS Rate Under Section 1940**

<b>Category</b>	<b>TDS Rate</b>
If PAN is Provided	<b>1% on gross sales amount</b>
If PAN is NOT Provided	<b>5% on gross sales amount (as per Section 206AA)</b>

- **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.**

#### 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.**

#### 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).**

#### 7. Impact of Section 1940

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

## 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.

## 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**.

### 3. TDS Rate Under Section 194Q

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

#### 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**.

#### 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.**

#### 5. How to Deduct & Deposit TDS Under Section 194Q?

- 1 TDS is deducted at the time of payment or credit, whichever is earlier.**
- 2 Deposit TDS with the government by the 7th of the following month.**
- 3 Report TDS in quarterly TDS returns (Form 26Q).**
- 4 Issue a TDS certificate (Form 16A) to the seller.**

#### 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.**

## **Recent Changes Budget 2025**

Section 206C(1H) provided 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 omitted 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**

