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TDS ON PURCHASE OF GOODS – SECTION 194Q

Finance Act 2021 has introduced a new Section in TDS – Section 194Q TDS on Purchase of Goods, which will be coming into effect from 1st July 2021.

Provision – Section 194Q of Income-Tax Act

A person (Purchaser) will be liable to deduct TDS if-

1. His Turnover during last year exceeds Rs.10 crores. AND
2. His purchase of goods (Not Services) of Value exceeding Rs.50 Lakhs (Including GST) in the current year from a Seller (PAN-Wise). AND
3. Purchase is made from a Resident Supplier.

Rate of TDS: - 0.1% of the value of transactions exceeding Rs. 50 Lakhs. If PAN of Seller is not provided to Buyer, TDS @ 5% is to be deducted (section 206AA).

Time Limit for deduction of TDS: - Earlier of payment made or purchase booked by Credit to Account of Seller. Proviso to the said section clarifies that even if the amount is credited to any account whether it be Suspense or any other, such credit shall be deemed to be credited to Account of Seller and TDS shall apply accordingly.

Non-compliance of section 194Q:- As per section 40a (ia) of Income Tax Act 1961, if the Buyer fails to deduct TDS, 30% of the expenditure will be disallowed.

Example - Mr. XYZ purchases goods worth Rs 1 Crore from a seller, TDS will be deducted @ 0.10% on Rs. 50 Lacs i.e. Rs 5000; if not deducted, huge disallowance from expense of Rs 15, 00,000/- (30% of Rs. 50 Lakhs) will have to be borne by XYZ.

Cases when TDS is not deductible:-

1. If TDS is deductible under any other provision on the same transaction or
2. TCS is collectible under section 206C (Sale of Scrap) [excluding 206C (1H), i.e. TCS on Sale of Goods] i.e. even if the seller collects TCS u/s 206C (1H), the buyer is liable to deduct TDS u/s 194Q, if eligible.

Where a transaction is covered by both the provisions – TDS under Section 194Q and TCS under Section 206C (1H), who shall be liable for deduction/collection of tax?

Please recall section 206C (1H) introduced w.e.f. 01.10.2020, where seller is required to collect TCS @ .1% on payments received from each resident buyer (without Pan 1%), provided the turnover of the seller is more than Rs. 10.0 Crores in the preceding financial year. Although both section 194Q & 206C (1H) have common taxability, **TDS will have precedence over TCS** in transactions of sale/purchase of goods as per following provisions -

Second Proviso to Section 206C (1H) provides that if the buyer is liable to deduct tax under any other provision on the goods purchased by him from the seller and has deducted such amount, no tax shall be collected on the same transaction. Section 194Q (5) provides that no tax is required to be deducted by a person under this provision if tax is deductible under any other provision or tax is collectable under

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section 206C [other than a transaction on which tax is collectable under Section 206C(1H)].

Though Section 206C(1H) excludes a transaction on which tax is actually deducted under any other provision (which will cover Section 194Q as well), but Section 194Q(5) does not create a similar exception for a transaction on which tax is collectable under Section 206C(1H). Thus, the buyer shall have the primary and foremost obligation to deduct the tax and no tax shall be collected on such transaction under Section 206C(1H). However, if the buyer makes a default, the liability to collect the tax gets shifted to the seller.

Examples 1 – Turnover of buyer in preceding financial year was more than Rs. 10.0 Crores, turnover of seller was also more than Rs. 10.0 Crores, and transaction of sale/purchase of the goods between the two exceeds Rs. 50.0 lakhs - Buyer will deduct TDS, Seller will not collect TCS

Examples 2 – Turnover of buyer in preceding financial year was Rs. 9.0 Crores, turnover of seller was more than Rs. 10.0 Crores, and transaction of sale/purchase of the goods between the two exceeds Rs. 50.0 lakhs - Buyer will not deduct TDS, Seller will collect TCS

Examples 3 – Turnover of buyer in preceding financial year was less than Rs. 10.0 Crores, turnover of seller was also less Rs. 10.0 Crores, and transaction of sale/purchase of the goods between the two exceeds Rs. 50.0 lakhs – No TDS or TCS will be applicable

From which date the threshold limit of Rs. 50 lakhs will be computed?

The threshold of Rs. 50 lakhs shall be computed from 01-04-2021. Thus, if a buyer has already purchased goods of value Rs. 50 lakhs or more up to 30-06-2021 from a seller, TDS under this provision shall apply on all purchases on or after 01-07-2021.

Whether TDS is to be deducted on the total invoice value including the GST?

Till, there is a clarification from CBDT, it is advisable to deduct TDS on the total invoice amount including GST, to avoid non - compliance.

Hope you will find this article useful!

Team Taxation