

TAX COLLECTION AT SOURCE

As amended by Finance Act,
2020

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Tax Collection at Source

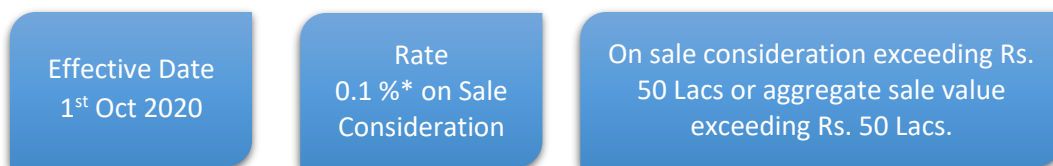
Concept

Tax collected at source (TCS) is the tax payable by a seller which is collected from the buyer at the time of sale. Section 206C of the Income-tax act governs the goods on which the seller has to collect tax from the purchasers.

Amendment

The Finance Act, 2020, inserted sub-section (1 H) in section 206C in the Income Tax Act which mandates that with effect from October 1, 2020, a seller will collect 0.1 per cent tax from the buyer if sale consideration exceeds Rs. 50 lakh or if aggregate sale value exceeded Rs. 50 lakh in any previous year.

Summary of Amendment



* 1% if the Buyer does not furnish PAN.

(CBDT has notified that the effective rate of tax has been reduced by 25% due to Covid-19 Pandemic up to 31-Mar-2021 & hence the rates are substituted as 0.075% or 0.75% as the case maybe up to the end of current FY)

Applicability - Seller

Provisions apply in case of a seller whose total sales, gross receipts or turnover from the business exceeds Rs. 10 Crore in the immediately preceding financial year.

Applicability – Buyer

Buyer means a person from whom sale consideration received during FY exceeds Rs. 50 Lacs. The provision is applicable in case of buyer buying goods only (not applicable in case of services).

Point of Collection

TCS shall be collected by the seller at the time of receipt of sale consideration.

Clarification on threshold

- It may be noted that this TCS shall be applicable only on the amount received on or after 1st October, 2020. For example, a seller who has received Rs. 1 crore before 1st October, 2020 from a particular buyer and receives Rs. 5 lakh after 1st October, 2020 would be required to collect tax on Rs. 5 lakh only and not on Rs. 55 lakh [i.e. Rs.1.05 crore - Rs. 50 lakh (threshold)] by including the amount received before 1st October, 2020.
- It may be noted that this TCS applies only in cases where receipt of sale consideration exceeds Rs. 50 lakh in a financial year. As the threshold is based on the yearly receipt, it may be noted that only for the purpose of calculation of this threshold of Rs. 50 lakh, the receipt from the beginning of the financial year i.e. from 1st April, 2020 shall be taken into account. For example, in the above illustration, the seller has to collect tax on receipt of Rs. 5 lakh after 1st October, 2020 because the receipts from 1st April, 2020 i.e. Rs. 1.05 crore exceeded the specified threshold of Rs. 50 lakh.
- It may be noted that this TCS provision shall be applicable on the amount of all sale consideration received on or after 1st October, 2020 without making any adjustment for the amount received in respect of sales made before 1st October, 2020.
- TCS shall be collected on amount received after 01-Oct-2020.

Non-Applicability

- Transactions on which buyer is required to levy TDS.
- Transactions on Export of goods.
- Transactions for goods on which other clauses of section 206C applies.
- Transactions of sale made to Central / State Govt. or Embassy / High-Commission, Consulate or Trade Representative / Local Authority.
- Transactions on sale made to a person who is an importer.

Value

No specific clarification is available for the base amount on which TCS is to be levied in case of sale of goods. Thus, a conservative view can be taken that TCS should be collected on amount inclusive of GST.

Legal Provision

Section 206C (1H) states,

Every person, being a seller, who receives any amount as consideration for sale of any goods of the value or aggregate of such value exceeding fifty lakh rupees in any previous year, other than the goods being exported out of India or goods covered in sub-section (1) or sub-section (1F) or sub-section (1G) shall, at the time of receipt of such amount, collect from the buyer, a sum equal to 0.1 per cent of the sale consideration exceeding fifty lakh rupees as income-tax

Provided that if the buyer has not provided the Permanent Account Number or the Aadhaar number to the seller, then the provisions of clause (ii) of sub-section (1) of section 206CC shall be read as if for the words "five per cent", the words "one per cent" had been substituted

Provided further that the provisions of this sub-section shall not apply, if the buyer is liable to deduct tax at source under any other provision of this Act on the goods purchased by him from the seller and has deducted such amount

Explanation - For the purposes of this sub-section,

(a) "Buyer" means a person who purchases any goods, but does not include,—

(A) the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or

(B) A local authority as defined in the Explanation to clause (20) of section 10; or

(C) a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein;

(b) "seller" means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ten crore rupees during the financial year immediately preceding the financial year in which the sale of goods is carried out, not being a person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to such conditions as may be specified therein.

Clarification Circular

Circular No. 17 Dated 29-Sep-2020 by CBDT for Guidelines on section 206C (1-H) of The Income Tax Act, 1961.

Attached at the end of this document.