



May 26th, 2021

Dear All,

The Finance Act, 2021, has introduced new TDS provision under section 194Q of the Income Tax Act, 1961, effective from **July 1st, 2021** which requires the specified buyer to deduct TDS on the purchase of goods from the resident seller. We have summarised the provisions of the section as under:

Applicability of Provisions relating to deduction

TDS is deductible if following conditions are satisfied:

- The buyer is a person whose total sales/ gross receipts/ **turnover exceeds Rs. 10 Cr. in the immediately preceding FY**
- The **purchase value of the goods** or the aggregate of such value **Rs. 50 Lakh**
- Payment is to be made to a **resident seller**

Rate of TDS

- **0.1%** of the purchase value above INR 50 lakhs (In case, the PAN of seller is not available, rate would be 5%)

Time of tax deduction

TDS on purchase of goods is to be deducted by the buyer within **earlier** of the following dates:

- At the **time of credit** of the sum into the account of the seller; **or**
- At the **time of payment** of the sum thereof

Applicability of TDS vis-à-vis TCS provisions under section 206C(1H)

- In case of transactions where deduction under both 194Q and 206C(1H) is required, TDS would be deductible only under section 194Q. In other words, **the liability of the buyer to deduct TDS is primary**. A comparative analysis is summarised as under:

Particulars	TDS – [194Q]	TCS – [206C(1H)]
Purpose	Tax to be deducted	Tax to be collected
Applicable to	Buyer/Purchaser	Seller
With effect from	July 1, 2021	October 1, 2020
When Deducted or collected	Payment or credit, whichever is earlier	At the time of receipt
Advances	TDS shall be deducted on	TCS shall be collected on

	advance payments made	advance receipts
Rate	0.1%	0.1% (0.075% upto 31.3.21)
Rate – if PAN not available	5%	1%
Triggering point	<ul style="list-style-type: none"> • Turnover/Gross Receipts/Sales from the business of buyer should exceed Rs.10 Cr during previous financial Year (excluding GST) and • Purchase of goods of aggregate value exceeding Rs.50 Lakhs in P.Y. (The value of goods includes GST) 	<ul style="list-style-type: none"> • Turnover/Gross Receipts/Sales from the business of seller should exceed Rs.10 Cr during previous financial year (excluding GST) and • Sale consideration received exceeds Rs.50 Lakhs in P.Y. (The value of goods includes GST)
When to deposit/collect	Tax so deducted shall be deposited with government by 7th day of subsequent month	Tax so collected shall be deposited with government by 7th day of subsequent month
Quarterly statement to be filed	26Q	27EQ

Penalty for non-compliance

- If the buyer fails to deduct and deposit TDS as applicable then **dis-allowance of 30% of the amount of expenditure** on which TDS is not deducted and deposited.

Other points

- TDS is also deductible against any amount credited to ‘suspense account’ or any other account under the books of accounts of the person liable to make payment of such income.
- Provisions of section 194Q apply to the purchase of both the types of goods i.e. capital as well as revenue.

In case of any questions, feel free to reach out to us.