

As you may be aware that the Union Budget 2020 announced by the Government earlier this year had introduced various new provisions to bring greater control in tax transparency and to parallelly widen its tax ambit, one of such provisions related to collection of income tax at source by certain specified sellers from their high value customers or buyers. The said amendment was introduced vide the provisions of section 206C(1H) of the Income-tax Act, 1961 and given that the same shall be effective from 1 October 2020, we have prepared a brief summary of the amendment for your kind perusal and ready reference:

Brief summary

- As per the provisions of section 206C(1H) of the Act, every seller whose gross turnover for the preceding year exceeds INR 10 crores, shall be under an obligation to collect tax at source (TCS) if the aggregate consideration received during any financial year from any buyer exceeds INR 50 lacs.
- The TCS shall be collected at the rate of 0.1% of the consideration exceeding INR 50 lacs. Further, in case if the buyer does not furnish his PAN/Aadhaar, the said TCS is required to be collected a 1%. However, as the CBDT vide press release dated 13 May 2020 has reduced the rates of TCS and TDS by 25% for the period from 14.05.2020 to 31.03.2021, the effective rate shall be 0.075% (.75% in case if buyer does not provide PAN or Aadhaar) for the period 1 October 2020 to 31 March 2021.
- It is pertinent to note here that the liability to collect TCS shall arise only at the time of receipt of consideration and not at the time of accrual of such sale. However, given that collection of TCS at the time of receipt of payment from buyer may be a challenge for the seller, therefore in order to avoid this problem, charging TCS on invoice may seem to be an alternative. However, in case of payments (to be received on or after 01.10.2020) for which invoice has already been issued, the seller should issue a debit note to the buyer in order to charge TCS separately.
- The provisions relating to collection of TCS shall not be applicable on the following transactions:
 - if the seller is liable to collect TCS under other provision of section 206C; or
 - the buyer is liable to deduct tax at source ('TDS') under any provision of the Act and has deducted such amount; or
 - in respect of export of goods; or
 - where the Buyer is:
 - the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
 - a local authority as defined in the Explanation to clause (20) of section 10; or
 - a person importing goods into India;

- Few additional parameters that may be considered are as under:
 - The section is applicable in case of “sale of goods” and not “sale of services”.
 - Tax is to be collected on the consideration received on or after 1 October 2020 (even if pertaining to the period before 1 October 2020), however the threshold limit of INR 50 lakh will be based on the overall consideration received during the whole F. Y.
 - The payment of TCS is to be made within 7 days from the last day of the month in which the tax was collected and a statement is required to be furnished on a quarterly basis.
 - Below are some illustrations to simplify the understanding of the provisions of Section 206C(1H).

	Total Turnover of Seller		Sales made to a particular Buyer		TCS u/s 206C(1H)	Remarks
S. No.	2019-20 (preceding year)	2020-21 (Current year)	Sales made till 30th Sep	Sales made from 1st October and onwards		
1.	130,000,000	80,000,000	2,000,000 (received after 30 Sep 2020)	6,000,000	2,250	0.075% on 30 lakh (being excess of INR 50 Lakh)
2.	80,000,000	130,000,000	2,000,000	6,000,000	NA	As turnover in the FY 2019-20 does not exceed INR 10 Crore
3.	130,000,000	80,000,000	6,000,000 (received before 30 Sep 2020)	600,000	450	.075% on INR 6 Lakh (being Excess of INR 50 Lakh and received on or after 01.10.2020)
4.	130,000,000	80,000,000	7,000,000 (out of this 10 lakh received after 30 Sep 2020)	600,000	1,200	.075% on INR 16 Lakh (10+6) (being Excess of INR 50 Lakh and received on or after 01.10.2020)

Considering that the aforesaid provision shall become applicable with effect from 1st October, 2020, we recommend that entity must evaluate its applicability and implement the same accordingly.

Further, in case you need to discuss any aspect, we shall be glad to be of your assistance.