

Section 194M: TDS @ 5% on payment to Resident Contractors & Professionals by an Individual / HUF [applicable w.e.f. 01.09.2019]

A New Section 194M is inserted in The Income Tax Act, 1961 [“The Act”] vide **Finance Act, 2019** to provide for levy of TDS at the rate of 5% on the sum paid or credited in a particular year on account of contractual work or professional fees by an individual or a Hindu undivided family (HUF), only if aggregate of such sums exceeds INR 50,00,000/- in that year.

The said Section does not apply to an Individual or HUF who are required to deduct TDS as per the provisions of Section 194C, 194H or 194J of The Act.

Such individuals or HUFs can deposit the tax deducted using their PAN and is not required to obtain TAN, in order to reduce the compliance burden.

There was no liability on an individual or HUF to deduct TDS on any payment made to a resident contractor or professional when it is for their personal use before 01.09.2019. Due to this, substantial amount of payments by an individuals or HUFs in the nature of contractual work or professional service was escaping the levy of TDS, leaving a loophole for possible tax evasion.

Earlier, similar kinds of provisions were introduced like Section 194IA and Section 194IB. The Section 194IA requires transferee to deduct and pay TDS to the government at the rate of 1% on the amount of consideration [> INR 50,00,000/-] for transfer of any immovable property other than agricultural land. The tax deducted is required to be paid challan-cum-statement in Form No. 26QB. The Section 194IB requires an Individual or HUF to deduct and pay TDS at the rate of 5% on monthly Rent payment of more than INR 50,000/- in challan-cum-statement in Form No. 26QC.

Similarly, the CBDT has notified Form No. 26QD (challan-cum-statement) on 18.11.2019 vide Gazette [Notification No. 98/2019](#) for deposit of tax deducted at source as per the provisions of Section 194M of The Act.

The TDS shall be paid within a period of 30 days from the end of the month in which the deduction is made. Also, TDS Certificate in Form No. 16D is to be issued within 15 days from the due date for furnishing the Form No. 26QD under Rule 31A.

However, the utility for the payment of TDS was deployed on 17.12.2019. Considering this practical issue, the CBDT, in exercise of the powers conferred under Section 119 of The Act, extends the Due date for payment of tax deducted at source as per the provisions of Section 194M of The Act as mentioned below vide [Circular No. 31/2019 dated 19.12.2019](#).

September 2019: Due date Extended to 31.12.2019 from 31.10.2019.

October 2019: Due date Extended to 31.12.2019 from 30.11.2019.

Due to extension of due date for submission of challan-cum-statement in Form No. 26QD, the due date for furnishing TDS Certificate in Form No. 16D is also extended to 15.01.2020 for the Month of September 2019 and October 2019.

The said Section is introduced to widen and deepen the tax base and to pluck the loophole for possible tax evasion. It is pertinent to note that Section 194M is irrespective of whether an Individual or HUF is liable for tax audit or not and irrespective of purpose of making payment i.e. for business or personal purposes.

What Is Section 194N? TDS Rate Under Cash Withdrawals

Article explain What Is Section 194N of Income Tax Act, 1961, Who Will Deduct TDS Under Section 194N, Importance Of TDS Under Section 194N, Rate of TDS Under Section 194N and Threshold limit, From which date Section 194N and Section 194N applies to cash withdrawal by whom.

What Is Section 194N?

Section 194N is applicable in case of cash withdrawals of more than Rs 1 crore during a financial year. This section will apply to all the sum of money or an aggregate of sums withdrawn from a particular payer in a financial year.

The section will apply to withdrawals made by any taxpayer including:

- An Individual
 - A Hindu Undivided Family (HUF)
 - A Company
 - A partnership firm or an LLP
 - A local authority
 - An Association of Person (AOPs) or Body of Individuals (BOIs)
- The following payers are covered under this section:

- Any bank (private or public sector)
- A co-operative bank
- A post office

The tax will be deducted by the payer while making payment to any individual in cash from a taxpayer's bank account on the amount in excess of Rs 1 crore.

The limit of Rs 1 crore will be applicable to the cash payments/withdrawals made during the FY 2019-20. The provisions of Section 194N will be applied to the payments made on or after 1 September 2019.

Who Will Deduct TDS Under Section 194N?

The person (payer) making the cash payment will have to deduct TDS under Section 194N. Here is the list of such persons:

- Any bank (private or public sector)
- A co-operative bank
- A post office

There are certain categories of person (payee) to whom the provision of this section will not apply. They are listed below:

- Any government body
- Any bank including co-operative banks
- Any business correspondent of a banking company
- Any white label ATM operator of any bank

Importance Of TDS Under Section 194N?

TDS will be deducted by the payer while making the cash payment over and above Rs 1 crore in a financial year to the payee. If the payee withdraws a sum of money on regular intervals, the payer will have to deduct TDS from the amount, once the total sum withdrawn exceeds Rs 1 crore in a financial year. Further, the TDS will be done on the amount exceeding Rs 1 crore. For example, if a person withdraws Rs 99 lakh in the aggregate in the financial year and in the next withdrawal, an amount of Rs 1,50,000 is withdrawn, the TDS liability is only on the excess amount of Rs 50,000.

Rate Of TDS Under Section 194N

The payer will have to deduct TDS at the rate of 2% on the cash payments/withdrawals of more than Rs 1 crore in a financial year under Section 194N. Thus, in the above example, TDS would be on Rs 50,000 at 2% i.e. Rs 1,000.

Source courtesy: Taxguru