

TAX Deducted on Source- Provisions for TDS on Purchase of Goods

TDS- Tax Deducted at Source, is deducted for the payment that exceeds a specified due limit. However, this was the case earlier. But now, from 1st July 2021, apart from the current scope of TDS deduction applicable on the notified nature of payment of expenses, businesses are required to deduct TDS on purchase of goods as well. This change was introduced in the Budget 2021 by insertion of a new section 194Q in the Finance Act 2020. Read this article till the end to know everything about the new provisions of TDS on Purchase of goods as per the section 194Q of **Finance Act, 2020**.

What is TDS (Tax Deducted at Source)?

The TDS stands for the Tax Deducted at Source. As per the Income Tax Act, any company or person making a payment is required to deduct TDS (Tax Deducted at Source) if the payment exceeds certain threshold limits. TDS needs to be deducted at the rates prescribed by the tax department.

Provisions for TDS on Purchase of Goods Under Section 194Q

In the Budget 2021-22, the finance minister introduced a new section in the Finance Act, 2020 namely Section 194Q according to which now TDS shall have to be deducted on Purchase of Goods as well.

Section 194Q says: 'Any person, being a buyer who is responsible for paying any sum to any resident (hereafter in this section referred to as the seller) for purchase of any goods of the value or aggregate of such value exceeding 50 lakh rupees in any previous year, shall, at the time of credit of such sum to the account of the seller or at the time of payment thereof by any mode, whichever is earlier, deduct an amount equal to 0.1% of such sum exceeding fifty lakh rupees as income-tax.'

Applicability of Section 194Q for TDS

Under Section 194Q TDS shall be deducted when:

- The goods have been purchased from a resident seller.
- Goods purchased for a value or aggregate of value exceeding Rs. 50 lakhs in any previous year.
- The turnover of the purchaser shall be more than INR 10 crores in the previous financial year. For e.g. If you wish to check the applicability of new provisions of TDS under Section 194Q for FY 2021-22, turnover for the purchaser during Financial Year 2020-21 shall be more than INR 10 Crores.
- Also, TDS should not have been deducted under any other provisions of the IT Act, 1961.

Timeline for deduction of Tax

- Tax is required to be deducted under section 194Q at the time of credit of such amount to the seller's account or at the time of payment thereof by any mode, whichever is earlier.
- The tax shall be deducted even if the sum is credited to the 'Suspense Account' of the seller.

The new provisions of Section 194Q are applicable only on purchase of goods and not services. The new provisions of TDS have pros and cons of its own. We may conclude that in spite of the tax rate is fixed at 0.1%, the Government will get income tax in advance every month or the said amount of the tax shall be available to the Government on 15th of the last month of every quarter. However, the companies / person will have to comply with another compliance burden.

Source : Taxguru