

**Tax Collection at Source [TCS] u/s 206C(1H) of the  
Income Tax Act, 1961 – w.e.f. 1<sup>st</sup> October, 2020**

Is the new TCS @ 0.075% (w.e.f. 1<sup>st</sup> October, 2020) to be collected on sale of goods, applicable to your business?

## **Tax Collection at Source [TCS] u/s 206C(1H) of the Income Tax Act, 1961 – w.e.f. 1<sup>st</sup> October, 2020**

Is the new TCS @ 0.075% (w.e.f. 1<sup>st</sup> October, 2020) to be collected on sale of goods, applicable to your business?

### **Contents**

Introduction .....	2
Newly introduced Section 206C(1H) to levy TCS @ 0.075% .....	3
Find out applicability of TCS u/s 206C(1H) for FY 2020-21.....	4
Find out applicability of TCS u/s 206C(1H) for FY 2021-22 onwards.....	5
FAQs on this new levy .....	6
What are the changes made by Budget 2020 i.e. Finance Act, 2020? .....	6
What is included in the term goods? .....	6
If Turnover in FY 2019-20 does not exceed INR 10 crores but sales to one customer exceeds INR 50 Lakhs after 30 <sup>th</sup> September, 2020, will TCS u/s 206C(1H) provisions apply to such sales?.....	7
What is the limit upto which there is no liability of TCS u/s 206C(1H) on seller of goods under section 206C(1H)? .....	7
Whether TCS u/s 206C(1H) is to be collected on the total invoice amount inclusive of GST or only on the value of goods excluding GST?.....	7
Whether TCS u/s 206C(1H) has to be collected at the time of receipt of sales consideration and not at the time of raising sales invoice?.....	7
What if the customer does not have a permanent account number?.....	8
If the customer is deducting TDS under the Income Tax Act, whether the seller will be liable to collect TCS u/s 206C(1H)? .....	8
Whether TCS u/s 206C(1H) has to be collected from all categories of customers?.....	8
Whether TCS u/s 206C(1H) has to be collected on export sales? .....	8
Examples .....	9
What are the due dates for payment and filing returns for the TCS so collected?.....	11





## Introduction

The Central Board of Direct Taxes has brought about changes in the TCS provisions with effect from 1<sup>st</sup> October, 2020 through the Budget 2020 i.e. Finance Act 2020.

These changes shall affect a wide range of businesses across various industries. Hitherto, TCS was applicable to a select few industry verticals, but the new changes are slated to affect a wide range of entities into the business of selling various kinds of goods.

This white paper explains the new changes and we hope that it will answer most of your questions regarding the new levy. Read more to find out whether the new changes are applicable to your business or not.

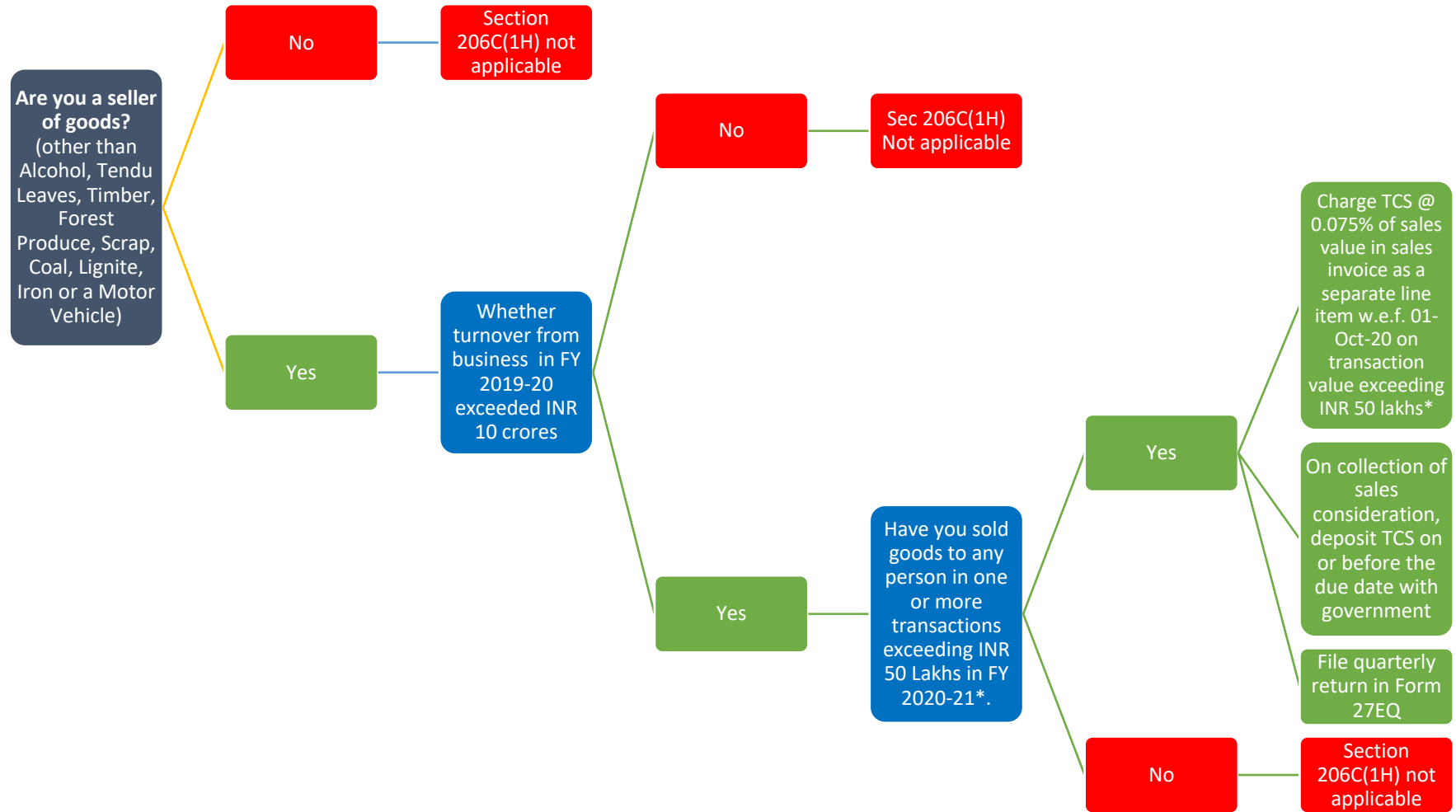


**Newly introduced Section 206C(1H) to levy TCS @ 0.075%**

Section	Nature of Receipts	Reduced rate from 1 <sup>st</sup> October 2020 to 31 <sup>st</sup> March 2021*	Rate of TCS from 1 <sup>st</sup> April 2021 onwards
206C(1H)	Sale of goods (other than Alcohol, Tendu Leaves, Timber, Forest Produce, Scrap, Coal, Lignite, Iron or a Motor Vehicle)	0.075%*	0.1%

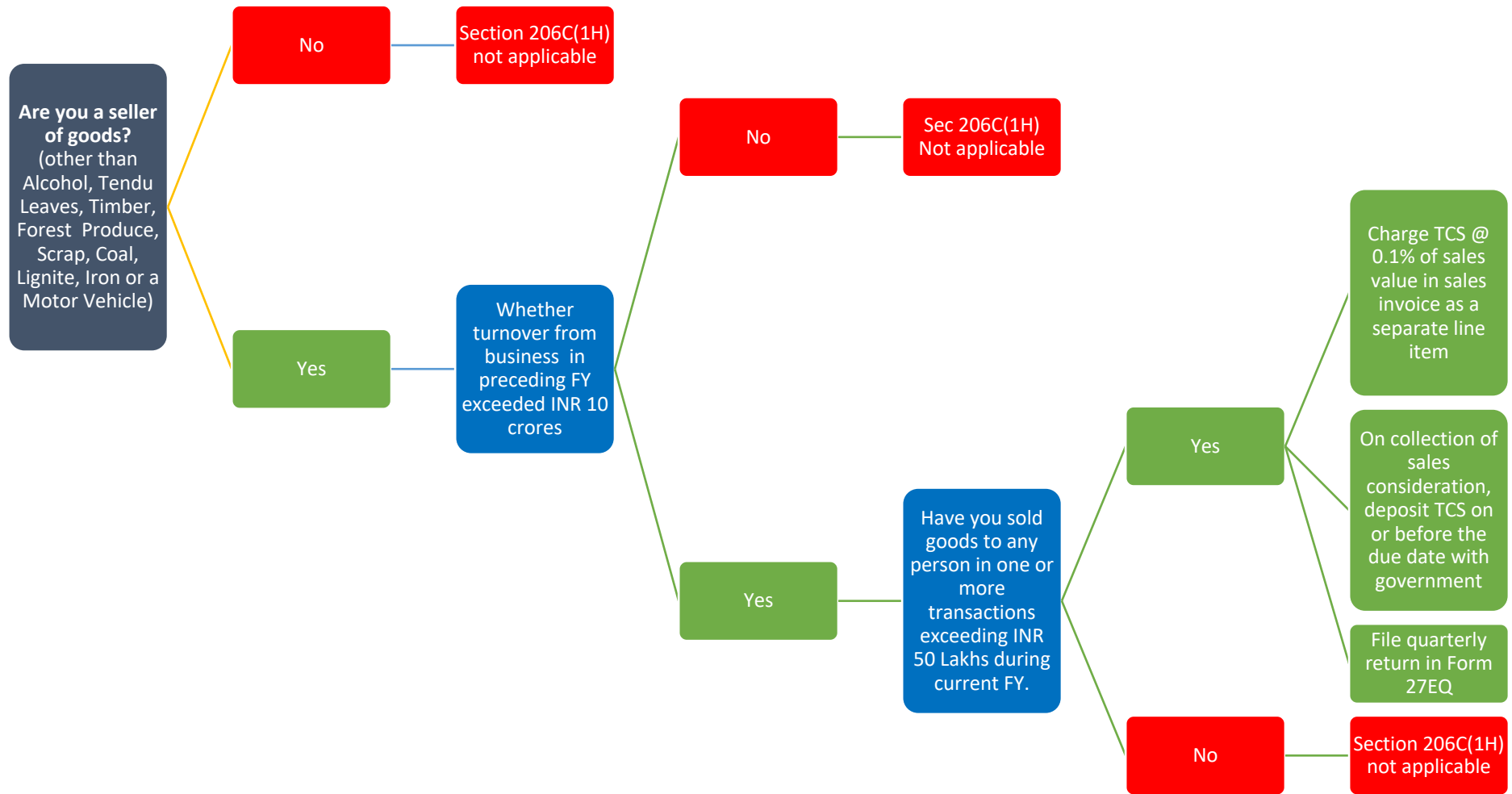
\*The prescribed rate of TCS u/s 206C(1H) is 0.1%. However, since the rates of TDS and TCS have been slashed by 25% due to the measures announced by the Finance Ministry in the wake of COVID-19, the rate u/s 206C(1H) stands reduced by 25% too.

**Find out applicability of TCS u/s 206C(1H) for FY 2020-21**



\*See FAQs for exceptions with respect to categories of customers, higher rate of TCS for non-furnishing PAN, practical examples on threshold limit of INR 50 lakhs and other issues etc.

**Find out applicability of TCS u/s 206C(1H) for FY 2021-22 onwards**



\*See FAQs for exceptions with respect to categories of customers, higher rate of TCS for non-furnishing PAN, practical examples on threshold limit of INR 50 lakhs and other issues etc.





### FAQs on this new levy

#### **What are the changes made by Budget 2020 i.e. Finance Act, 2020?**

As per the provisions of Budget 2020 i.e. Finance Act, 2020, every seller of goods (other than Alcohol, Tendu Leaves, Timber, Forest Produce, Scrap, Coal, Lignite, Iron or a Motor Vehicle), whose turnover from sale of goods exceeds INR 10 crores in the preceding financial year, shall be required to collect TCS at the rate of 0.1% (0.075% for FY 2020-21) from customers to whom sales after 30<sup>th</sup> September, 2020 exceeds INR 50 lakhs (E.g. For applicability of liability of TCS for sales in FY 2020-21, the sales of FY 2019-20 should exceed INR 10 crores). **This provision is applicable from 1<sup>st</sup> October, 2020. It may be noted that these provisions are not applicable to service providers since it is applicable only to seller of certain kinds of goods.**

#### **What is included in the term goods?**

The term "Goods" has not been defined in the Income tax act and hence reference is made to Section 2(7) of the Sale of Goods Act, 1930 which defines goods to "*mean every kind of movable property other than actionable claims and money; and includes stock and shares, growing crops, grass, and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale*".

For the purpose of Section 206C(1H), goods shall mean to include all goods as per above definition, however, the below goods shall be excluded since there are separate provisions u/s 206C for taxing these goods:

- Alcoholic Liquor for human consumption
- Tendu leaves
- Timber obtained under a forest lease
- Timber obtained by any mode other than under a forest lease
- Any other forest produce not being timber or tendu leaves
- Scrap
- Minerals, being coal or lignite or iron ore
- Motor vehicle (if value exceeds INR 10 Lakhs)

Apart from the above, even goods exported out of India shall be excluded.

**If Turnover in FY 2019-20 does not exceed INR 10 crores but sales to one customer exceeds INR 50 Lakhs after 30<sup>th</sup> September, 2020, will TCS u/s 206C(1H) provisions apply to such sales?**

No. The first condition for applicability of Section 206C(1H) is that the sales turnover of the preceding financial year should exceed INR 10 crores. Since the turnover in FY 2019-20 does not exceed INR 10 crores, there is no requirement of TCS even though sales to one party has exceeded INR 50 Lakhs after 30<sup>th</sup> September, 2020.

**What is the limit upto which there is no liability of TCS u/s 206C(1H) on seller of goods under section 206C(1H)?**

If the sales consideration during the year for sales to any single customer is below INR 50 Lakhs then the seller of goods will not be liable for TCS. Only when the sales consideration for sales to any single customer during the year exceeds INR 50 Lakhs, the seller will be liable for collecting TCS on the sales exceeding INR 50 lakhs made to such a customer. The seller's liability for TCS will be only for those customers from whom sales consideration received is more than INR 50 Lakhs in the financial year or period from each one respectively.

**Whether TCS u/s 206C(1H) is to be collected on the total invoice amount inclusive of GST or only on the value of goods excluding GST?**

In our opinion, TCS is to be collected on amount excluding GST since the words used are 'sales consideration'.

**Whether TCS u/s 206C(1H) has to be collected at the time of receipt of sales consideration and not at the time of raising sales invoice?**

As per Section 206C(1H), TCS is required to be collected at the time of receipt of sales consideration, however, TCS should be mentioned in sales invoice so that the seller is able to quantify the amount of TCS to the buyer.



**What if the customer does not have a permanent account number?**

In that case, the rate of TCS u/s 206C(1H) to be collected shall be 1% of the sales consideration.

**If the customer is deducting TDS under the Income Tax Act, whether the seller will be liable to collect TCS u/s 206C(1H)?**

No. If the customer is deducting TDS under the Income Tax Act on the transaction, the seller will not be liable to collect TCS u/s 206C(1H).

**Whether TCS u/s 206C(1H) has to be collected from all categories of customers?**

The seller shall not be liable to collect TCS u/s 206C(1H) from the below category of customers:

- 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 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;

**Whether TCS u/s 206C(1H) has to be collected on export sales?**

No. These provisions do not apply to goods exported out of India.

## Examples

See the below examples for clarity.

**E.g. If Sales consideration is INR 70 lakhs, and since the threshold limit for applicability of TCS u/s 206C(1H) is INR 50 lakhs per customer, whether TCS u/s 206C(1H) has to be collected on INR 70 lakhs or on INR 20 lakhs?**

In our opinion TCS must be collected on INR 20 lakhs.



**E.g. Goods are sold to a customer viz. M/s PQR for INR 55 Lakhs in September 2020 and sales consideration received upto 30<sup>th</sup> September, 2020 is INR 45 Lakhs. For the period beginning from 1<sup>st</sup> October, 2020, the receipt of outstanding consideration is INR 10 lakhs. Whether the seller is liable for collecting TCS u/s 206C(1H)?**

The provisions of section 206C(1H) came into effect on and from 1<sup>st</sup> October, 2020. Hence, for sales in September 2020, there will be no liability to collect TCS even if the sales consideration is received on or after 1<sup>st</sup> October, 2020.

**E.g. If goods are sold to a customer viz. M/s PQR for INR 55 Lakhs in September 2020 and sales consideration received on 5<sup>th</sup> October, 2020 is INR 55 lakhs, whether the seller is liable for collecting TCS u/s 206C(1H)?**

The provisions of section 206C(1H) came into effect on and from 1<sup>st</sup> October, 2020. Hence, for sales in September 2020, there will be no liability to collect TCS even if the entire sales consideration of INR 55 lakhs is received on or after 1<sup>st</sup> October, 2020.

**E.g. If goods are sold to a customer viz. M/s XYZ for INR 80 lakhs in September 2020 and for INR 35 lakhs in October 2020, on what amount is the seller liable to collect TCS u/s 206C(1H)?**

The applicability of Section 206C(1H) is triggered when sales to a customer exceeds INR 50 lakhs in aggregate during a financial year. In our opinion, for this purpose, the sale of goods for the period before 1<sup>st</sup> October, 2020 has also to be considered. In the given example, sales up to 30<sup>th</sup> September, 2020 is INR 80 lakhs which is above INR 50 lakhs, hence the applicability of Section 206C(1H) is triggered. The seller will be liable to collect TCS on INR 35 Lakhs only (as and when the amount is received from the customer) which is the sales in the period from which the provisions of section 206C(1H) have become applicable i.e. from 1<sup>st</sup> October, 2020.

Sales up to September 2020	INR 80 Lakhs
Sales in October 2020	INR 35 Lakhs
<b>Total Sales in FY 2020-21</b>	<b>INR 115 Lakhs</b>
<b>Amount liable to TCS u/s 206C(1H)</b>	<b>INR 35 Lakhs</b> <b>[which is the sales in the period from which the provisions of section 206C(1H) have become applicable]</b>

**E.g. If goods are sold to a customer viz. M/s XYZ for INR 25 lakhs in September 2020 and for INR 35 lakhs in October 2020, on what amount is the seller liable to collect TCS u/s 206C(1H)?**

The seller will be liable to collect TCS on INR 10 Lakhs (as and when the amount is received from the customer) which is the sales in the period from which the provisions of section 206C(1H) have become applicable i.e. from 1<sup>st</sup> October, 2020.

Sales upto September 2020	INR 25 Lakhs
Sales in October 2020	INR 35 Lakhs
<b>Total Sales in FY 2020-21</b>	<b>INR 60 Lakhs</b>
Less: Threshold Limit u/s 206C(1H)	INR 50 Lakhs
<b>Amount liable to TCS u/s 206C(1H)</b>	<b>INR 10 Lakhs [INR 60 Lakhs-50 Lakhs]</b>

**What are the due dates for payment and filing returns for the TCS so collected?**

Month in which TCS collected	Due date for payment of tax	Due date for filing return
April	7 <sup>th</sup> May	15 <sup>th</sup> July
May	7 <sup>th</sup> June	
June	7 <sup>th</sup> July	
July	7 <sup>th</sup> August	15 <sup>th</sup> October
August	7 <sup>th</sup> September	
September	7 <sup>th</sup> October	
October	7 <sup>th</sup> November	15 <sup>th</sup> January
November	7 <sup>th</sup> December	
December	7 <sup>th</sup> January	
January	7 <sup>th</sup> February	15 <sup>th</sup> May
February	7 <sup>th</sup> March	
March	7 <sup>th</sup> April	

**Questions?**

For more information on India's new Tax Collection at Source as well as other investment incentives and opportunities for doing business in India, please contact MGI Worldwide's Tax Experts at **C.R. Sharedalal & Co.** in Gujarat, India:

**Anuj Jayesh Sharedalal**

Partner

E: [ajs@crsharedalalco.com](mailto:ajs@crsharedalalco.com)



**Jayesh C. Sharedalal**

Partner

E: [jcs@crsharedalalco.com](mailto:jcs@crsharedalalco.com)



*For circulation amongst MGI Worldwide with CPAAI members and their clients only*



**About MGI Worldwide with CPAAI**

MGI Worldwide with CPAAI is a leading top-20 international network and association of over 10,000 audit, accounting, tax and consulting professionals in some 460 locations around the world.

[www.mgiworld.com](http://www.mgiworld.com)

MGI Worldwide is a leading international network of separate and independent accounting, legal and consulting firms that are licensed to use "MGI" or "member of MGI Worldwide" in connection with the provision of professional services to their clients. MGI Worldwide is the brand name referring to a group of members of MGI-CPAAI, a company limited by guarantee and registered in the Isle of Man with registration number 013238V, who choose to associate as a network as defined in IFAC (IESBA) and EU rules. MGI Worldwide itself is a non-practising entity and does not provide professional services to clients. Services are provided by the member firms of MGI Worldwide. MGI Worldwide and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**Follow us**

LinkedIn: [linkedin.com/company/mgiworld.com](https://www.linkedin.com/company/mgiworld.com)

Twitter: [twitter.com/mgiworldwide](https://twitter.com/mgiworldwide)

Facebook: [www.facebook.com/mgiworldwide](https://www.facebook.com/mgiworldwide)

YouTube: [Subscribe to MGI Worldwide](#)

Vimeo: [vimeo.com/mgiworldwide](https://vimeo.com/mgiworldwide)

Flickr: [flickr.com/photos/mgiworldwide/albums](https://www.flickr.com/photos/mgiworldwide/albums)