

Tax collection at source on sale of goods w.e.f Oct 1, 2020

The Finance Act, 2020 has made an amendment by insertion of sub-section (1H) in section 206C of the Income Tax Act, 1961 (hereinafter referred to as “the Act”) which is effective from 01.10.2020. As a result of the said amendment, a seller who receives any amount as consideration for the sale of any goods of the value or aggregate of such value exceeding Rs. 50 Lakh in any previous year shall at the time of receipt of such amount collect from the buyer, a sum equal to 0.10% (0.075% up to 31.03.2021) of the sale consideration exceeding fifty lakhs as income tax.

Salient features of section 206C(1H)

- 1. A seller of goods is liable to collect TCS at a rate of 0.1 per cent (0.075% up to 31.03.2021) on consideration received from a buyer in a previous year in excess of fifty lakh rupees. In non-PAN/ Aadhaar cases, the rate shall be one per cent.**
2. Only those sellers whose total sales, gross receipts or turnover from the business carried on by it exceed ten crore rupees during the financial year immediately preceding the financial year, shall be liable to collect such TCS.
3. Central Government may notify person, subject to conditions contained in such notification, who shall not be liable to collect such TCS.
4. No TCS is to be collected from the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to clause (20) of section 10 or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to conditions as prescribed in such notification.
- 5. No TCS is to be collected from the importer of any goods into India.**

Who shall collect tax under section 206C (1H)

Every **seller** of **goods** is liable to collect tax from the **buyer** under this provision in the following circumstances-

1. The term '**seller**' is defined in the provision itself to mean any person. Thus an individual, firm, HUF, company, trust, AoP, BoI, society, - all are covered, who sells goods to buyers whether in wholesale or retail.
2. Only sellers of goods are covered by this provision. Services are not covered. If a person sells goods as well as render services, then **tax shall be collected only on the sale of goods. No tax shall be collected on the sale of services.** If the seller is a registered supplier under GST laws, GST will be charged on both the invoices for sale and services.
3. The seller must be a person whose total sales, gross receipts or turnover from the business carried on by him exceed Rs. 10 crore during the financial year immediately preceding the financial year in which the sale of goods is carried out.

All the sellers are not covered under this provision. Only those sellers of goods whose turnover or gross receipts in the preceding financial year exceeds Rs. 10 crore are only liable to collect tax under this provision.

In computing the threshold limit of Rs. 10 crore, the sale of goods, as well as sale of services, will be counted and added.

Further, in computing the total sales/turnover/gross receipts, the amount of GST shall be included. This is by virtue of the specific provisions of section 145A.

Example 1: Rakesh Trading & Servicing Co. is a partnership firm and sells refrigerators. It also provides repairing, maintenance services of the refrigerators. During the FY 2019-20, its turnover from sale of a refrigerator is Rs. 8 crore and income from repairing and maintenance services is Rs 4 crore. The rate of GST is 18% in both cases. Determine whether the firm is liable to collect TCS in the FY 2020-21.

For the applicability of a provision of section 206C(1H) for the FY 2020-21, its turnover for the FY 2019-20, the immediately preceding financial year, is to be considered.

Computation of turnover of M/s Rakesh Trading & Servicing Co. for the FY 2019-20:

Particulars	Amount (in INR/Crore)
Sale of refrigerator	5.00
Sale of Services	4.00
Add: GST @ 18%	1.62
Turnover for the FY 2019-20	10.62

Since the turnover of M/s Rakesh Trading & Servicing Co. exceeds Rs. 10 crore including GST, it is liable for TCS u/s 206C(1H) from the sale of goods in the FY 2020-21.

Some general questions:

1. Whether limit of Rs. 50 Lakhs should be considered from April 1, 2020 for FY 20-21?

Yes, the limit of Rs. 50 Lakhs. However, TCS shall be collected on the receipts on or after Oct1, 2020.

2. What type of goods should be covered for calculating the limit of Rs. 50 Lakhs?

All types of goods sold should be considered for arriving at Rs. 50 lakhs threshold.

3. Does this TCS apply on service providers as well?

Obligation to collect TCS does not arise in case of sale of services.

Accounting Treatment

Many issues are arising regarding book treatment to be followed to keep track of TCS. It is to be noted that there is no methodology prescribed under the law. The seller has to work out a methodology so as to keep track of receiving TCS and payment thereof after its collection from the customer. The seller may consider raising the TCS amount in the invoice itself. In such a case, the seller may account for the TCS raised in invoice under a separate head 'TCS Clearing account' in its books of account. Subsequently, upon receipt of consideration along with TCS from the buyer, the seller may pay off the TCS liability and square off the TCS clearing account. This way, the seller should be able to keep track of its obligation to receive TCS in case of any undue delay in receipt of consideration as well. As an illustration, the following journal entries may be passed:

S.No.	Particulars	Debit	Credit
1	At the time of issuance of invoice Buyer <ul style="list-style-type: none">To SaleTo GST (assumed 18%)To TCS clearing account	118.118	100 18 0.118
2	At the time of receipt of sale consideration along with TCS Bank <ul style="list-style-type: none">To Buyer TCS clearing account <ul style="list-style-type: none">To TCS Payable	118.118 0.118	118.118 0.118
3	At the time of payment of TCS liability TCS Payable <ul style="list-style-type: none">To Bank	0.118	0.118

In case of receipt of advance, the seller may capture the amount of TCS at the time of issuance of invoice. However, it may be clarified here that while the seller may capture the TCS at the time of issuance of invoice later, however, the obligation to collect TCS arises on the date of receipt of consideration itself. Accordingly, in case of any advance receipt, the seller will have to collect the TCS at the time of receipt of advance itself. In case of sale/purchase transaction in one year and sale consideration being received in another year, the seller may have apprehensions that the same may lead to reconciliation issues. In this regard, it is to be noted that the TCS liability is linked to and the obligation to collect the same arises on date of receipt of any amount as consideration for sale of goods. Now, in case the sale is made say in FY 2020-21 (post 01.10.2020) and the payment is received in FY 2021- 22, then the seller should collect TCS in FY 2021-22. In such a case, by following the above said methodology of capturing the TCS in the invoice itself, the seller should be able to keep a track of its TCS obligations and reconcile the same later. Once the TCS has been charged in the invoice and accounted for in the books under the TCS clearing account, the seller should be able to keep a track as to from which parties the TCS is to be collected even if the consideration is being received in the next financial year. The seller may accordingly collect the TCS from the respective parties at the time the sale consideration is received.

As regards the payment received on or after 01.10.2020 in respect of sales made prior to 01.10.2020, there can be two options. One is to raise a debit note as and when payment is received and the second one is to raise a debit note on 01.10.2020 itself in respect of all outstanding against sale of goods. The latter option will be a better one as buyer will be required to remit payment along with TCS and seller need not wait for and keep track of each payment received and then raise debit note of TCS amount.

Another accounting issue will arise from 01.04.2021 onwards when TCS rate will get revised to 0.1% as against 0.075% applicable from 01.10.2020 to 31.03.2021. In such cases, as on 01.04.2021, the seller should issue debit note in respect of all outstanding as on 31.03.2021 of the difference in the TCS rate of 0.025% (0.1-0.075).

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