Tax Wire

TDS and TCS amendments applicable from 1st June, 2016

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Background

The Finance Act, 2016 has brought changes in rates and limits for withholding as well as collection of taxes. These changes are applicable from 1st June, 2016. We have tried to summarise these changes as below.

Changes in Tax Deduction at Source (TDS)

- **TDS limits raised**

Section	Particulars	From	To
192A	Accumulated balance due to employee	30,000	50,000
194BB	Winning from Horse Race	10,000	15,000
194C	Payment to Contractors	75,000	1,00,000
194G	Sale on Lottery Tickets	1,000	15,000
194H	Commission or Brokerage	5,000	15,000
194LA	Acquisition of certain immovable property	2,00,000	2,50,000

- **TDS limits reduced**

Section	Particulars	From	To
194D	Insurance Commission	20,000	15,000

- **TDS rates reduced**

Section	Particulars	From	To
194DA	Life Insurance Policies	2%	1%
194G	Sale of Lottery Tickets	10%	5%
194H	Commission or Brokerage	10%	5%
194EE	National Saving Scheme	20%	10%

- **Form 15G/H** can be given for **TDS on rent**.

- **Mandatory holding of PAN for non residents** is no longer required, in respect of –

    - payment of interest on long-term bonds as referred to in section 194LC;
    - Any other payment subject to such conditions as may be prescribed(not yet prescribed)

Changes in Tax collection at Source (TCS)

The following amendments to Section 206C as regards TCS is applicable from 1st June, 2016

- Tax has to be collected **at 1% on purchase of motor vehicles** exceeding Rs.10 lakhs, irrespective of whether received in cash or not.
- TCS of 1% is added for sale of any goods or providing any service, if the consideration is received in cash, where the value exceeds Rs.2 lakhs.
- TCS of 1% is added for sale of jewellery, if the consideration is received in cash, where the value exceeds Rs.5 lakhs (this was Rs.2 lakhs till now)

Some key issues relating to the above:

As per Memorandum of Finance Bill 2016, the above amendment is brought about "In order to reduce the quantum of cash transaction in sale of any goods and services and for curbing the flow of unaccounted money in the trading system and to bring high value transactions within the tax net, it is proposed to amend the aforesaid section to provide that the seller shall collect the tax at the rate of one per cent from the purchaser on sale of motor vehicle of the value exceeding ten lakh rupees and *sale in cash of any goods (other than bullion and jewellery), or providing of any services (other than payments on which tax is deducted at source under Chapter XVII-B) exceeding two lakh rupees."* -

TCS on jewellery was introduced in Finance Act, 2012. Memorandum of Finance Bill, 2012 read as follows:

In order to reduce the quantum of cash transaction in bullion and jewellery sector and for curbing the flow of unaccounted money in the trading system of bullion and jewellery, it is proposed to provide that the seller of bullion and jewellery shall collect tax at the rate of 1% of sale consideration from every buyer of bullion and jewellery if sale consideration exceeds two lakh rupees and the sale is in cash. This would be irrespective of the fact whether buyer is a manufacturer, trader or purchase is for personal use.

Thus, going by plain reading, TCS is applicable on any part of consideration in cash – but going by intent it is arguable that it is applicable only if cash consideration exceeds Rs 2 lakhs. Further Memorandum to Finance Bill 2012 (where TCS on jewellery was introduced) also very clearly says TCS on jewellery is applicable only if sale is in cash and the amount exceeds Rs 2 lakhs. The practical and technical implications of these provisions are to be seen in future. This for sure is going to add further to the compliance burden to tax payers especially in industries like real estate and hospital where there could be genuine cases of receipt of cash from customers.

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