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Difference between 194Q & 206C(1H)

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**SECTION
194Q**



**COMPARISON
BETWEEN**

**206C (1H)
OF I-T ACT**

Overview



- Both sections are part of Income tax Act of India
- Section 194Q applies to **buyers** and Section 206C(1H) applies to **sellers**
- AIM : To ensure tax compliance in transactions involving goods.

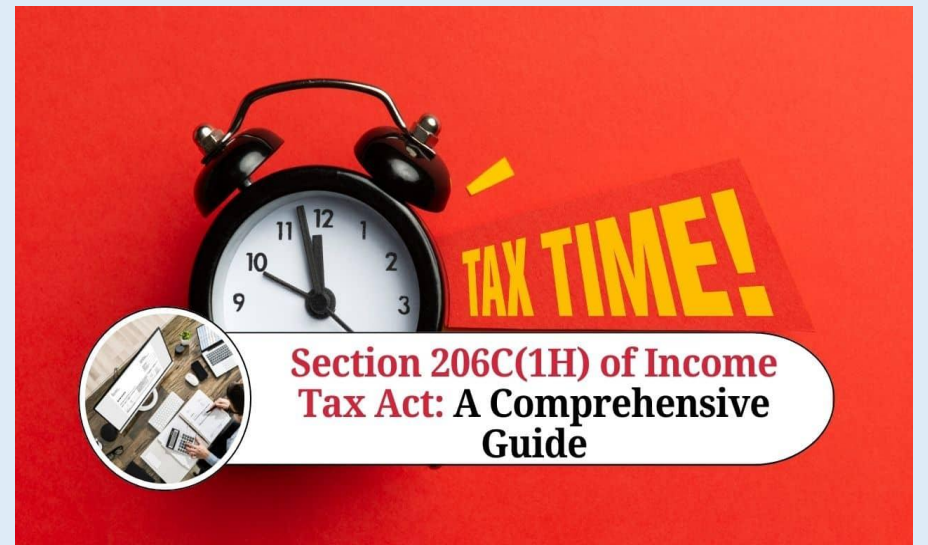
Section 194Q

- Applies to buyers of goods
- Threshold : Value of **Purchases** from a vendor of goods exceeds Rs. 50 Lakhs during the current year
- Rate of Tax : 0.1% (**5%** in case of no PAN furnished)
- When to deduct : **Payment or credit** whichever is earlier
- Who deducts : **Purchaser** of Goods
- Also applicable on **capital goods**

Section 194Q TDS on purchase of goods



Section 206C(1H)



- Applies to seller of goods
- Threshold : Value of Seller Contribution from a **Customer** exceeds Rs. 50 Lakhs during the current year
- Rate of Tax : 0.1% (**1%** in case of no PAN furnished)
- When to collect : **At the time of receipt** of the amount
- Who collects : **Seller** of Goods

Definition of Goods

- “Goods” means 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/ separated from the land before sale or under the contract of sale. [***As per Section 2(7) of The Sale of Goods Act, 1930***]
- For Example :- If the payment of the electricity expenses made exceeds 50 lakhs then it will be covered under Section 194Q because **units** are covered under the definition of **goods**.

Key Differences :

S. No.	Particulars	194Q	206C(1H)
1.	Who is responsible for collection/deduction of Tax	Purchaser of Goods	Seller of Goods
2.	Applicable on Whom	Turnover of assessee being buyer of goods is more than 10 Crores in the preceding FY	Turnover of assessee being seller of goods is more than 10 Crores in the preceding FY

S. No.	Particulars	194Q	206C(1H)
3.	Threshold Limit	Value of Purchases from a vendor of goods exceeds Rs. 50 Lakhs during the current year	Value of Seller Contribution from a Customer exceeds Rs. 50 Lakhs during the current year
4.	Time of deduction /collection	Payment or credit whichever is earlier	At the time of receipt of the amount
5.	Value on which deduction/collection to be made	On amount exceeding Rs. 50 Lakhs (without GST)	On amount exceeding Rs. 50 Lakhs (with GST) and without taking the impact of sales return or discount or indirect taxes

S. No.	Particulars	194Q	206C(1H)
6.	Rate of tax	0.1% (5% in case of no PAN furnished)	0.1% (1% in case of no PAN furnished)
7.	Payment of Interest	If the buyer fails to deduct TDS, he has to pay interest at 1% p.m. from the due date to the day when TDS is actually deducted. If the buyer deducted the TDS but fails to deposit it on time, he has to pay interest at 1.5% p.m. from the TDS deduction date to the date when it is deposited	If a person fails to collect TCS or collects TCS but fails to deposit it to the government within the prescribed due dates, they are liable to pay interest on the TCS amount. The interest rate is 1% or part thereof.

Process to be followed :

As a eligible buyer:-It will be your responsibility. So deduct TDS u/s 194Q

As a eligible seller:- Take a declaration from your buyers that they will deduct TDS u/s 194Q and comply the same, else you need to charge TCS if buyers are not eligible or no such declaration is received or no such treatment is given by your buyers.

In case of a transaction to which section 206C(1H) and 194Q apply, TDS is to be deducted as per Section 194Q.

That means Section 194Q will prevail over Section 206C(1H).



If the buyer fails to deduct TDS of purchase of goods under section 194Q, then **40A(IA)** will get attracted.

40A(IA) says that **30%** of the purchase transactions on which TDS is not deducted will get disallowed as an expenditure.

For Example :- Purchase on which TDS to be deducted Rs. 60,00,000
But assessee fails to deduct the same. Then 40(IA) will be applicable on the assessee & amount of Rs.18,00,000 will be disallowed as an expenditure.

The disallowance u/s 40A(IA) is to be reported in clause **21(b)(ii)** of **Form 3CD**

If the seller fails to collect TCS under section 206C(1H), a penalty equal to the uncollected TCS amount will be imposed.



Example : - Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was ` 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ` 95 lakh (` 20 lakh on 1.6.2024, ` 25 lakh on 12.8.2024, ` 22 lakh on 23.11.2024 and ` 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2023-24 was ` 15 crores. (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961. (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2023-24 was ` 8 crores, all other facts remaining the same? (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

Ans. (1) Since Mr. Gupta's turnover for F.Y.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ` 50 lakhs in the P.Y.2024-25, he is liable to deduct **tax@0.1%**

No tax is to be deducted u/s 194Q on the payments made on 1.6.2024 and 12.8.2024, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ` 50 lakhs. Tax of ` 1,700 (i.e., 0.1% of ` 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ` 22 lakh on 23.11.2024 [$\text{` 22 lakh} - \text{` 5 lakhs}$, being the balance unexhausted threshold limit]. Tax of ` 2,800 (i.e., 0.1% of ` 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ` 28 lakhs on 25.3.2025.

(2) TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ` 10 crores in the F.Y.2023-24 and his receipts from Mr. Gupta exceed ` 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ` 50 lakhs. Tax of ` 1,700 (i.e., 0.1% of ` 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2024 ($\text{` 22 lakh} - \text{` 5 lakhs}$, being the balance unexhausted threshold limit). Tax of ` 2,800 (i.e., 0.1% of ` 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct **tax@5%**, instead of 0.1%. In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect **tax@1%** instead of 0.1%.

Exemptions u/s 194Q :-

1. Value/aggregate value is less than INR 50 Lakhs in the F.Y
2. Turnover of the purchaser is less than INR 10 crores in the immediately preceding F.Y
3. Tax is deductible under any other provisions of the Income Tax Act
4. Tax is deductible under any of the provisions of section 206C of the Income Tax Act (other than section 206C(1H))
5. Import of goods

Exemptions u/s 206C(1H):-

1. Turnover from the business of the seller is less than INR 10 Crores in the immediately preceding F.Y.
2. Value/aggregate value of sale consideration received from the buyer is less than INR 50 Lakhs in the F.Y
3. Export of goods out of India
4. Sale/ supply of services
5. Sale of goods to govt. and local authority etc

Conclusion :

- Section 194Q and section 206C(1H) are important provisions under the Income Tax Act to ensure better tax compliance in commercial transactions
- Understanding the key differences helps businesses adhere to tax obligations and avoid penalties.
- Both the buyer and seller have distinct responsibilities for tax deduction and collection.



THANK YOU!