

# Amendments in TDS/TCS applicable from FY 2020-21

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## Amendments in the Provisions of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) applicable from Assessment Year 2021-22 (i.e Financial year 2020-21)

Through the **Finance Act 2020** (which have received the assent of the President of India on 27<sup>th</sup> March 2020), the Central Government has made various amendments to existing provisions of TDS & TCS and also inserted some new provisions for the levy of TDS.

Some major amendments w.r.t the above mentioned subject are described below:

### Section 194K: TDS on income in respect of units of Mutual Fund

**New section** shall be inserted under the chapter of TDS to provide deduction of **TDS of a resident @ 10%** with a threshold limit of ₹5000/- on any income in respect of units of Mutual Fund specified u/s 10(23D). The TDS shall be deducted by the person responsible for paying such income.

**Press Release: Clarification** dated 4<sup>th</sup> feb' 2020 (released after the date of Union Budget 2020) on applicability of TDS provisions on mutual fund dividend under **Section 194K**

It has been clarified that under the proposed section 194K, a mutual fund is required to deduct TDS @ 10% only on dividend payment. Read- [No TDS by Mutual Funds on income in the nature of capital gains](#)

### Section 194-O: Tax deduction at source by Ecommerce operators

**New Section** 194 O is inserted to provide that **E-commerce operator** shall deduct **TDS @1%** on gross amount of Sale of Goods or Services or both done by **E-Commerce participant (Seller)** through its digital platform, with a **Threshold Limit of ₹ 5,00,000/-** Threshold limit is available to Individual or HUF only, upto which no TDS is required to be deducted if PAN or Aadhar is furnished. It is further provided that a transaction in respect of which tax has been deducted by the e-commerce operator under this section, there shall not be further liability on that transaction for TDS under any other provision of Chapter XVII-B of the Act.

**Clarifications:**

**“E-commerce operator”** is defined to mean any person who owns, operates or manages digital or electronic facility or platform for electronic commerce and is a person responsible for paying to e-commerce participant.

**“E-commerce participant”** is defined to mean a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce.

Now let us understand the other amendments to the provisions of TDS with the help of comparison of the amendment made with the existing provision before amendment:-

## Section 194LC: Income by way of interest from Indian Company

Existing	Proposed
Section 194LC provides for a concessional deduction of tax at 5% by a specified company or a business trust, on interest paid to non-residents before 1 <sup>st</sup> July, 2020.	The period of said concessional deduction has been proposed to be extended to 1 <sup>st</sup> July'2023 from 1 <sup>st</sup> July'2020. Further, the rate of TDS been reduced to 4% on interest payment against borrowings through issues of long-term bonds and RDB which are listed only on a recognized stock exchange in any IFSC.

## Section 194LD: Income by way of interest on certain bonds and Government Securities

Existing	Proposed
Section 194LD of the Act provides for lower TDS of 5% in case of interest payments to Foreign Institutional Investors (FII) and Qualified Foreign Investors (QFIs) on their investment in Government securities and Rupee Denominated Bonds of an Indian company before 1 <sup>st</sup> July 2020.	It has been proposed to extend the period of concessional TDS of 5% to 01-07-2023 from existing 01-07-2020. Further, the concessional rate of TDS of 5% under the said section shall also apply on the interest payable to an FII or QFI in respect of the investment made in municipal debt security.

## Other amendments in TDS provisions merit attention of the user:

Section	Existing Provision	Proposed amendment
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<b>194LBA: Certain income from units of business Trust</b>	A business trust was earlier not required to deduct TDS on Dividend income paid to its unit holders	Now, a business trust, while distributing dividend to its unit-holders shall also deduct TDS at following rates Payment to resident unit holders @10%  Payment to non-resident unit holders @5%
<b>Section 196A Income in respect of units of Non -Resident</b>	Earlier, no TDS was required to be deducted on Dividend	Applicability of TDS is revived on income in respect of units of mutual fund on payment made to non-residents @ 20%
<b>Section 196C: Income from foreign currency bonds or shares of Indian Company</b>	No TDS was required to be deducted on dividend paid to non-resident.	Now, it is proposed to deduct TDS @ 10% on dividend paid to a Non-resident in respect of global depository receipts.
<b>Section 196D: Income of Foreign Institutional investor from Securities</b>	No TDS was required to be deducted on dividend paid to Foreign Institutional Investor.	Now, it is proposed to deduct TDS @ 20% on dividend paid to Foreign Institutional Investor.

<b>Section 194-Dividend</b>	<ul style="list-style-type: none"> <li>• No TDS was required to be deducted on dividend payment.</li> <li>• Threshold for TDS deduction was Rs 2,500</li> <li>• Existing mode of payment is "Account payee cheque or warrant".</li> </ul>	<ul style="list-style-type: none"> <li>• TDS will be deducted at the rate of 10% on dividend paid to any person</li> <li>• Threshold has been increased to INR 5,000</li> <li>• Mode of payment has been changed to "any mode" from the existing mode of payment of "Account payee cheque or warrant"</li> </ul>
<b>Section 194A-Interest other than "Interest on Securities"</b>	A co-operative society (other than a co-operative bank) is not required to deduct TDS under Section 194A on interest paid to its members.	A co-operative society (other than a co-operative bank) shall be liable to deduct TDS while paying interest under section 10(23FC), if its total sales exceeds ₹ 50 crores in the last year and if the amount of interest being credited exceeds ₹ 40,000 (₹ 50,000 in case of a senior citizen)
<b>Section 194C-Payments to Contractors</b>	The definition of work under section 194C <b>excludes</b> manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer.	The definition of work under section 194C shall <b>include</b> manufacturing and supplying of a product according to the requirement or specification of a customer by using material purchased from such customer or its associate (Under contract manufacturing)
<b>Section 194J- Fees for professional or Technical Services</b>	Section 194J provides that TDS shall be deducted @10% in case of fees for technical services (other than professional services)	Now, Section 194J proposed that TDS shall be deducted at the rate of 2% in case of fees for technical services (other than professional services)

## Amendment to the provision of TCS

**New Avenues or Widening the scope of section 206C for Tax Collection at Sources are added.**

The introduction of TCS on **sale of goods** will increase compliance burden on the seller and additional tax cost for the buyer and clarification is required will this provision attracts **exporters who sold goods outside India**.

- Authorized dealer is liable to deduct TCS @5% for remittance made out of India under Liberalised Remittance Scheme of RBI (if the amount remitted is INR 7 Lakhs or more)
- A seller of International tour package is liable to deduct TCS @5% on money receives for International tour package
- A seller (whose total turnover exceeds INR 10 crores in previous year) is liable to deduct TCS @0.1% of goods (other than goods covered under existing TCS provisions) for the value exceeding INR 50 Lakhs in a year.

**Note:** Provided also that the authorised dealer shall collect a sum equal to one half per cent. of the amount or aggregate of the amounts in excess of seven lakh rupees remitted by the buyer in a financial year, if the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education.

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