

**Income Tax New Provision introduced wef 01<sup>st</sup> October 2020-**  
**Collection of tax at source on sale of goods**

1. Tax Collection at Source (TCS) is a new provision introduced w.e.f 01/10/2020.
2. Now, every seller whose turnover in the FY 2019-20 is more than Rs. 10 Crore will be required to collect Tax at Source @ 0.075% if the value or aggregate value of sale to any buyer during the year exceeds Rs. 50 Lakh.
3. TCS is required only on amounts exceeding Rs. 50 Lakh. So if a person has received Rs. 60 Lakh from any customer, TCS will be required only on Rs. 10 Lakh and not entire Rs. 60 Lakh.
4. The TCS rate will be 1% if the PAN or Aadhar of the buyer is not available with the seller.
5. It may be noted that the actual rate of TCS as quoted above is 0.10% & 1% but due to Covid- 2019, the rate has been reduced till 31.03.2021 by 25% to 0.075% from 0.10%. There is no reduction in the TCS rate by 25% if the PAN / Aadhar of the buyers are not available.
6. TCS provision is applicable only on **Seller of Goods** if the Turnover of seller is more than Rs. 10 Cr in previous financial year.
7. TCS is required to be done only from those buyers from whom the receipt is more than Rs. 50 Lakh during the year. Receipt up to Rs. 50 Lakh is not liable for TCS. Amount exceeding Rs. 50 Lakh only will be liable for GST.
8. TCS is applicable only on the sale of Goods. Sale of services is not liable for TCS.
9. TCS has to be done on GST also. GST will be added to the goods value and then TCS will be collected. There will not be any TCS on GST components.
10. It has been specifically provided that if the buyer is liable to do TDS /TCS under any other provision of this Act then the seller will not be required to do TCS u/s 260C(1H).
11. TCS not applicable in respect of sales made to Central Government, State Government, local authority, Embassy, High Commission, Consulate or a trade representation of foreign state. Exporters are specifically excluded from the provision of section 206C(1H). An exclusion is provided from TCS only in respect of sales made to central government or state government. Companies which may be owned wholly or substantially by the

Government are not given an exemption and so TCS is to be collected in such cases

12. Section 206C (1H) requires TCS on all amounts received even if it is pertaining to the sale done prior to 01/10/2020. It means that if the sale is done before 01/10/2020 and the amount is received afterwards then the TCS will be applicable. 206C(1H) nowhere provides for bifurcation of amount pertaining to period (a) prior to introduction of section 206C(1H) & (b) after introduction of section 206C(1H).
13. **It may be noted that TCS is leviable on** “any amount as consideration for sale of any goods of the value”. In normal course, all the amount charged which has become the part of consideration and so, in my opinion, TCS will be applicable on such amount also. Even following conservative approach or considering the quantum involved, it would be advisable to comply with the TCS provisions on this amount as well.
14. If the buyer is purchasing the motor vehicle, even for a price exceeding Rs. 50 Lakh, TCS U/s 206C(1H) will not be applicable. It may be noted that TCS on the motor vehicle is levied u/s 206C (1F) if the value is more than 10 Lakhs. As per the provisions of Section 206C(1H), TCS is not applicable to goods that are covered under other provisions of TDS/ TCS.
15. Sellers would be required to obtain a Tax Deduction Account Number (TAN). If the persons already have obtained TAN for compliance of the tax deduction at sources (TDS) provision then another TAN is not needed for TCS purpose. Tax collected during the month will be required to be deposited in Challan No 281 within a period of 7 days of next month. It may be noted that, even for the month of March also, the deposit has to be done by 7<sup>th</sup> April as there is no exception or extended time in such cases. Sellers will be required to file the quarterly TCS returns in Form no. 27EQ. This quarterly return has to be filed within 15 days from the end of the quarter. Sellers will be required to issue the TCS certificate in Form no 27D to the buyers.

## Practical aspects on TCS on sale of goods and accounting entries

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:

<b>S No.</b>	<b>Particulars</b>	<b>Debit</b>	<b>Credit</b>
<b>1</b>	<b>At the time of issuance of invoice</b>		
	Buyer 1	1,181.18	
	To Sale		1,000
	To GST (assumed 18%)		180
	To TCS clearing account		1.18
<b>2</b>	<b>At the time of receipt of sale consideration along with TCS</b>		
	Bank	1,181.18	
	To Buyer 1		1,181.18
	TCS clearing account	1.18	
	To TCS payable		1.18

S No.	Particulars	Debit	Credit
3	<b>At the time of payment of TCS liability</b>		
	TCS payable	1.18	
	To bank		1.18

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).