

(ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes. In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹50 lakhs during the P.Y.2022-23. Accordingly, ₹2,75,000, being 5% of ₹55,00,000 [₹25,00,000 + ₹30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ` 1 crore in P.Y. 2021-22], she is not required to deduct tax at source under section 194C. In such case also, she is required to deducted tax at source of ` 2,75,000 under section 194M.

Note - In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ` 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds ` 1 crore but does not exceed ` 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds ` 1 crore but does not exceed ` 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ` 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2021-22, she would be required to deduct tax at source @1% under section 194C amounting to ` 55,000 (since payment is made to Mr. Suresh, an individual) of ` 55,00,000.

(iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @2% on ` 7,20,000 [` 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ` 60,000 paid every month exceeds the threshold of ` 30,000. Therefore, nationalised bank is required to deduct tax at source of ` 1,200 per month amounting to ` 14,400 for the year.

Question 2

PYQ July 21

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents

S. NO.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2020- 21 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2020 for reconstruction of his	52,50,000



		residential house in Arunachal Pradesh	
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ₹5 crores F.Y. 2019-20	Contract payment for construction of office go down during January to March 2021 to Mr. Achilles, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of ₹95 lakhs in F.Y. 2019-2020	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2020	1,20,000
(D)	XYZ Urban Cooperative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹1.2 crores during Financial Year 2020-21. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

8 Marks

Answer:

(i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹50,00,000. Therefore, TDS u/s 194M would be = ₹52,50,000 × 5% = ₹2,62,500.

(ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2019-20, being the financial year immediately preceding F.Y.2020-21 in which such sum is paid, exceeds ₹1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual. However, since payment is made during the period 14.05.2020 and 31.3.2021, tax is to be deducted at the reduced rate of 0.75%. Therefore, TDS u/s 194C would be = ₹50,00,000 × 0.75% = ₹37,500

(iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹50 lakhs

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2020 -21 since his turnover from his business does not exceed ₹1 crore during the P.Y. 2019-20. Further, Mr. Golu is also not required to deduct tax at source u/s 194 M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹50 lakhs during the P.Y. 2020-21.



(iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ` 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹1 crore (₹1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2020-21, the bank is required deduct tax at source @ 2% of such sum. Therefore, TDS u/s 194N would be = ₹20,00,000 × 2% = ₹40,000.

Question 3

RTP May '21, MTP Sep '23, MTP1 Sept' 24

(a) Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Mr. Kunal received a sum of ₹10,20,000 on 28.02.2021 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) Indian Bank sanctioned and disbursed a loan of ₹12 crores to B Ltd. on 31-12- 2020. B Ltd. paid a sum of ₹1,20,000 as service fee to Indian Bank for processing the loan application.

(iii) Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2020 to February, 2021) at Mumbai where he pays a monthly house rent of ₹32,000 for those five months, totalling to ₹1,60,000. Rent is paid by him on the first day of the relevant month.

(b) Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2019-20 and F.Y. 2020-21 was ₹12 crore and 9.5 crore, respectively. During the previous year, XYZ Ltd. placed order for purchase of electric appliances for ₹55 lakhs on 01.08.2020. He again placed order for 35 lakhs on 01.11.2020. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.

8 Marks**Answer:****(a) TDS implications**

(i) On pre-mature withdrawal from EPF No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% under section 194-IB on ₹1,60,000 (being rent for 5 months from October 2020 to February 2021) from the rent of ₹32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹50,000.



(b) As per section 206(1H), tax is required to be collected at source @0.1% (@0.075%, if payment is received during the period between 14.5.2020 to 31.3.2021) on the sale consideration exceeding ₹50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds ₹10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out. Since, section 206C(1H) is applicable w.e.f.1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of ₹50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of ₹50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2020. Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹50 lakhs, TCS is required to be collected at source @0.075%, on amount of 35 lakhs, being the amount of consideration received after 01.10.2020.

Question 4

RTP May 19

Mr. Narayan is engaged in the retail business of groceries. During the previous year 2018-19 his turnover was ₹1.65 crores. Out of this, receipt of ₹1.30 crore represents online transactions and 35 lakhs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax?

Answer:

Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD

Particulars	RS
As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15th of March 2019. However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or before 15th March.	
The advance tax liability is computed as follows -	
Business Income	
8% of ₹35,00,000	2,80,000
6% of ₹1,30,00,000	7,80,000
	10,60,000
In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD.	



Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income.		
Tax liability		
Upto ₹2,50,000	Nil	
2,50,001 to 5,00,000 @5%	12,500	
5,00,001 to 10,00,000 @20%	1,00,000	
Above 10,00,001 @30%	18,000	1,30,500
Add: Health and Education cess @ 4%		5,220
Total Tax Payable		1,35,720
Mr. Narayan is required pay ₹1,35,720 as minimum amount of advance tax by 15th March 2019.		

Question 5

MTP May'20

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2020

- (a) State Bank of India pays Rs.50,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (b) Karan, a part time director of ABC Pvt. Ltd. was paid an amount of Rs. 1,75,000 as fees which was actually in the nature of commission on sales for the period 1.6.2019 to 30.9.2019.
- (c) Fee paid on 1.11.2019 to Dr. Kashyap by Varun (HUF) Rs. 5,00,000 for surgery performed on a member of his family.
- (d) Payment of Rs. 1,50,000 made to John Cena, an American wrestler, by an Indian newspaper agency on 1.8.2019 for contribution of articles in relation to the spot of wrestling. 7 Marks

Answer:

a. Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding Rs.2,40,000 p.a., is applicable to all persons except individuals and HUFs whose turnover/gross receipts do not exceed the monetary limits specified under 44AB(a)/(b). Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source. Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

b. Section 194J provides for deduction of tax at source @10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @10% by ABC Pvt. Ltd. on the commission of Rs.1,75,000 paid to Karan, a part-time director. The tax deductible under section 194J would be Rs. 17,500, being 10% of Rs.1,75,000.

c. As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed Rs. 1 crore or Rs. 50 lakhs, as the case may be, in the financial



year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs. 50 lakhs during the financial year. In the given case, the fees for professional service to Dr. Kashyap is paid on 1.11.2019 for personal purpose, therefore, section 194 M would have been applicable if the payment or aggregate of payments exceeded Rs. 50 lakhs in the P.Y.2019-20. However, since the payment does not exceed Rs. 50 lakhs in this case, there is no liability to deduct tax at source under section 194M.

d. Section 194E provides that the person responsible for paying of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @20%. Further, since, John Cena, an American wrestler, is a non-resident, Health and education ches @4% on TDS should also be added. Therefore, tax to be deducted = Rs. 1,50,0000 × 20.80% = Rs. 31,200.

Question 6

MTP April'21, PYQ May '19

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

(i) Ms. Sarla received a sum of Rs. 92,000 on 30th September 2020 towards maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.

(ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.

(iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2020-21:

(1) Rs. 22,000 towards fee for professional services

(2) Rs. 18,000 towards royalty.

(iv) Payment of Rs. 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.

(v) ABC Private Limited pays Rs. 12,000 to Ms. Deepika, its director, on 1.5.2020 towards sitting fee which is not taxable u/s 192.

(vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call center. On 18-03-2021, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2021 by Jigar Limited.

(vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

Answer:

7 Marks

VG Sir



(i) On payment of LIC maturity proceeds - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

(ii) On payment of sale consideration for purchase of residential house property - Since the sale consideration of house property is less than Rs. 50 lakhs, Mr. Arun is not required to deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of Rs. 50 lakhs.

(iii) On payment of fee for professional services and royalty - Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.

(iv) On payment for purchase of bag according to specifications - As per section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b). Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for 'sale' and not a works contract.

(v) On payment of sitting fees to the director - ABC Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a 1 In the alternative, an individual can be treated as not ordinarily resident if she is nonresident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2020-21 and never visited India earlier director of a company.

(vi) On payment of call center service charges - Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source@1.5% on the amount of Rs. 70,000 u/s 194J on 18.3.2021 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2021.

(vii) On payment of prize winnings of Rs. 21,000



Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payables to the customer, since the winnings exceed Rs. 10,000.

Question 7

MTP Oct'18

Examine the applicability of TDS provisions, if any, to be deducted in the following cases:

- (i) ABC Ltd. paid Rs. 19,000 to one of its directors as sitting fees on 1-01-2018.
- (ii) Payment made by a firm to a sub-contractor, Mr. Y, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2018.
- (iii) Fee paid to Dr. Khanna by Mr. A (HUF) Rs. 40,000 for surgery performed on a member of the family.

6 Marks

Answer:

(i) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director. Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.

(ii) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual. The aggregate amount credited during the year is Rs.4,20,000. Tax is deductible @ 1% on Rs. 4,20,000.

(iii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year. However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax at source is not attracted.

Therefore, in the given case, even if Mr. A (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Khanna is paid for a personal purpose i.e. the surgery of a member of the family.

Question 8

RTP May 20

Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2019. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2018-19 as under:

- (i) Retail Toy business, whose turnover is 185 lakhs [received 90 lakhs by Account payee cheque, 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.



- (ii) Income from other sources ₹3,05,000.
 (iii) Tax deducted at source ₹55,000.
 (iv) Advance tax paid ₹1,45,000 on 14-3-2019.
 (v) Calculate the interest payable under section 234B of the income-tax Act, 1961.

Answer:

Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	RS
Tax on total income of 15,05,000 [Business income of 12,00,000 (See Note below) + Income from other sources of 3,05,000]	2,64,000
Add: Health and Education cess @4%	10,560
Tax on total income	2,74,560
Less: Tax deducted at source	55,000
Assessed Tax	2,19,560
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2019	1,45,000
Interest under section 234B is leviable since advance tax of 1,45,000 paid is less than 1,97,604, being 90% of assessed tax	
Number of months from 1st April, 2019 to 15th December, 2019, being the date of payment of self-assessment tax	
Interest under section 234B@1% per month or part of a month for 9 months on 74,500 [i.e., difference between assessed tax of 2,19,560 and advance tax of 1,45,000 paid being 74,560 which is rounded off to 74,500] Interest under section 234B rounded off	6,705
	6,710

Note: The presumptive income computed under section 44AD would be 12 lakhs, being 8% of 45 lakhs and 6% of 140 lakhs.

Rounded off under Rule 119A of Income-tax Rules, 1962

Question 9

RTP Nov 22

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2021 and charged 8 crores for the lease. ABC Co. Ltd. sold coal for 2 crores to Mah Power Ltd., another Indian company, during the previous year 2021-22. Maha Power Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2020-21 amounted to 11 crores and 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?

Answer:

Section 206C(1C) provides for collection of tax @2% by every person who grants a lease in any



mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of ₹16,00,000, being 2% on 8 crores, being the charges for lease of coal mine.

Under section 206C (1), seller of certain goods, inter alia, coal is required to collect tax from the buyers @1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C(1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding 50 lakhs in any previous year, to deduct tax @0.1% of such sum exceeding 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)]. Buyer means a person whose turnover from the business carried on by him exceeds 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2020 -21 exceeds 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of 15,000 under section 194Q, being 0.1% of 1.5 crores, being the sum exceeding 50 lakhs.

Question 10

PYQ Jan'21

Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

- (i) On 1.5.2019, Mr. Brines made three fixed deposits of nine months each of ` 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2020.
- (ii) Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ` 2,00,000 and 7% Gold Bonds 1980 of ₹3,00,000. He received yearly interest on these bonds on 28.02.2020.
- (iii) M/s AG Pvt. Ltd. took a loan of ` 50,00,000 from Mr. Haridas. It credited interest of ₹79,000 payable to Mr. Haridas during the previous year 2019- 20. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2018- 19 and 2019-20.



(iv) Mr. Prabhakar is due to receive ` 6 lakh on 31.3.2020 towards maturity proceeds of LIC policy taken on 1.4.2016, for which the sum assured is ` 5 lakhs and the annual premium is ` 1,40,000.

8 Marks

Answer:

(i) CBZ Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ` 60,750 [$3,00,000 \times 9\% \times 3 \times 9/12$], which exceeds the threshold limit of ` 40,000. Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered. Tax to be deducted at source = ` $60,750 \times 10\% = ` 6,0751$

(ii) Tax @10% under section 193 is to be deducted on interest on $6\frac{1}{2}$ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., ` 5,00,000 exceed ` 10,000. Interest on $6\frac{1}{2}$ Gold Bonds, 1977 = ` $2,00,000 \times 6.5\% = ` 13,000$ Interest on 7% Gold Bonds 1980 = ` $3,00,000 \times 7\% = ` 21,000$ Tax to be deducted at source = ` $34,000 \times 10\% = ` 3,400$

(iii) M/s AG Pvt. Ltd. has to deduct tax at source @10% under section 194A, since the interest on loan payable is ` 79,000 which exceeds the threshold limit of ` 5,000. M/s AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2018-19 and 2019-20. Tax to be deducted at source = ` $79,000 \times 10\% = ` 7,900$

(iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ` 6 lakhs due on 31.3.2020 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ` 40,000 [$` 6,00,000$, being maturity proceeds - ` 5,60,000, being the amount of insurance premium paid. Tax to be deducted at source = ` $40,000 \times 5\% = ` 2,000$ Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as $81,000 [3,00,000 \times 9\% \times 3]$ and the tax to be deducted thereon would be $81,000 \times 10\% = 8,100$.

Question 11

PYQ Nov'19

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

(i) Mr. Tendon received a sum of ` 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) A sum of ` 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).

(iii) Ms. Kabul won a lucky draw prize of ` 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.



(iv) Finance Bank Ltd. sanctioned and disbursed a loan of ` 10 crores to Borrower Ltd. on 31-3-2019. Borrower Ltd. paid a sum of ` 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.

(v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2018 to February, 2019) at Hyderabad where he pays a monthly house rent of ` 52,000 for those three months, totaling to ` 1,56,000. Rent is paid by him on the first day of the relevant month.

7 Marks

Answer:

TDS implications

(i) On pre-mature withdrawal from EPF No tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On credit of interest on recurring deposit by a banking company Since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed ` 50,000 in the P.Y.2018-19, no tax is deductible at source under section 194A.

(iii) On payment of prize winnings of ` 21,000 Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of ` 21,000 payable to the customer, since the winnings exceed ` 10,000.

(iv) On payment of service fee to bank Even though service fee is included in the definition of "interest" as defined under section 2(28A), no tax is deductible at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.

(v) On payment of rent exceeding ` 50,000 by a salaried individual Mr. Ashok, a salaried individual, is liable to deduct tax at source @5% under section 194-IB on ` 1,56,000 (being rent for 3 months from December 2018 to February 2019) from the rent of ` 52,000 payable on 1st February, 2019, since the monthly rent exceeds ` 50,000.

Question 12

PYP May'22, MTP Oct '23

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2022-23.

(i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2022 by sum of ₹4,90,000 for the sale of product R, made during the month February, 2022. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹60,000 directly to XY on 21st February, 2022.

(ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth



₹26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges. ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2021-22 as under

BILL NO.	DATE	AMOUNT
1	30-04-2021	27,000
57	30-06-2021	25,000
105	30-09-2021	28,000
151	30-12-2021	32,000

6 Marks

Answer:

(i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on 5,50,000 (i.e., 4,90,000 credited on 28.2.2022 plus deemed payment of 60,000 on 21.2.2022, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2022 is facilitated by AB Ltd. through its e-commerce platform. Hence, TDS u/s 194O = 1% on 5,50,000 = 5,500

(ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C. Therefore, in such circumstances, the TDS provisions would not be attracted on 1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the Question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹1,70,000/- i.e. ₹3,400/-.

(iii) In this case, the individual contract payments (through the bills dated 30.4.2021, 30.6.2021 and 30.9.2021) made by ABC LLP to XYZ does not exceed ₹30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2021-22 exceeds ₹1,00,000 (on account of the last payment of ₹32,000, due on 30.12.2021, taking the total from ₹80,000 to ₹1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹1,12,000, from the last payment of ₹32,000 on 30.12.2021. Hence, TDS u/s 194C = ₹2,240



Multiple Choice Questions

Question 1

RTP Nov '23

XYZ Ltd. is engaged in the manufacture of mobile phones with a brand name "JUST SAY". There are five dealers in Delhi and Mumbai to sell "JUST SAY" mobile phones. A Ltd., a dealer in Delhi, receives two mobile phones and X Ltd., a dealer in Mumbai, receives one mobile phone from XYZ Ltd. in January, 2023 on achieving the sales target in the third quarter of 2022-23. The manufacturing cost of each such mobile phone is ₹ 15,000 while the MRP is ₹ 25,000. The price charged from the customers for such mobile phone is after providing 22% discount on MRP. Is XYZ Ltd. liable to deduct tax at source before giving mobile phones to A Ltd. and X Ltd.? And if yes, how much?

- (a) Yes; ₹ 3,900 from A Ltd. and No TDS from X Ltd.
 (b) Yes; ₹ 3,000 from A Ltd. and No TDS from X Ltd.
 (c) Yes; ₹ 5,000 from A Ltd. and ₹ 2,500 from X Ltd.
 (d) Yes; ₹ 3,900 from A Ltd. and ₹ 1,950 from X Ltd.

Question 2

RTP May '21

Dr. Sargun, maintained two bank A/c's, one current A/c with Canara Bank for her profession and a Saving Bank A/c with State Bank of India. The following are the details of her withdrawals from these A/c during the previous year 2020-21:

Date of withdrawals	Canara Bank	State Bank of India
25.04.2020	25,00,000	--
27.04.2020	--	15,50,000
31.08.2020	29,00,000	--
01.09.2020	14,20,000	--
05.09.2020	--	14,00,000
07.10.2020	18,21,000	--
11.12.2020	26,23,000	--
12.02.2021	7,56,000	--
25.03.2021	--	16,13,000

She furnished her return of income for the A.Y. 2020-21 and A.Y. 2019-20 on or before the time limit prescribed u/s 139(1). However, for the A.Y. 2018-19 and A.Y. 2017-18, she has furnished her return of income belatedly. Is any tax deductible at source u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank and SBI Bank? If yes, at what rate and what amount?

- (a) TDS is deductible at source on ₹ 33,79,000 @ 5% by Canara Bank and no tax is deductible by SBI.
 (b) TDS is deductible at source on ₹ 20,20,000 @ 5% by Canara Bank and no tax is deductible by SBI.
 (c) TDS is deductible at source on ₹ 20,20,000 @ 2% by Canara Bank and no tax is deductible by SBI.
 (d) TDS is deductible at source on ₹ 75,00,000 @ 5% and on ₹ 20,20,000 @ 2% by Canara Bank and tax is deductible at source @5% on ₹25,63,000 by SBI.



Question 3

RTP Nov'20

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2020, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2020. The interest chargeable under section 201(1A) would be:

- (a) ₹ 1,080
 (b) ₹ 860
 (c) ₹ 1,620
 (d) ₹ 840

Question 4

MTP March'19

A, a resident individual, is engaged in the business of money lending. For the purpose of lending money to various persons, A borrows money from other persons. As a part of his business, A took a loan from B of an amount of Rs.10 lacs. B is a non-resident. On the said loan, A paid an amount of Rs.1 lac as interest during the P.Y. 2018-19 to B in India. A did not deduct tax at source while crediting/paying the interest amount to B. A is of the view that the amount of Rs.1 lac shall be allowed to him as a deduction under the Income-tax Act, 1961.

Whether A's view is correct?

- a) Correct, interest expenses incurred for business are allowed as deduction u/s 36(1)(iii).
 b) Incorrect, as tax at source has not been deducted by A on the interest amount, full amount of interest of Rs.1 lac shall be disallowed in A.Y. 2019-20.
 c) Incorrect, as tax at source has not been deducted by A on the interest amount, amount of interest of Rs. 30,000 shall be disallowed in A.Y. 2019-20.
 d) Correct, interest expenses incurred for business are allowed as deduction u/s 37(1).

Question 5

MTP March '23

An amount of ₹ 60,000 was paid to Mr. Samar on 1.7.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 75,000 was due to Mr. Samar on 28.02.2023, from which tax @10% (amounting to ₹ 13,500) on the entire amount of ₹ 1,35,000 was deducted and the net amount was paid on the same day to Mr. Samar. However, this tax of ₹ 13,500 was deposited only on 22.6.2023. The interest chargeable under section 201(1A) would be:

- a) ₹ 480
 b) ₹ 1,290
 c) ₹ 1,260
 d) ₹ 810

Question 6

MTP April 22

Mr. Kumar made the following cash withdrawals during the P.Y.2021-22 -

Date	Amount	From
1.6.2021	₹ 70 lakhs	Canara Bank
1.7.2021	₹ 45 lakhs	HDFC
1.8.2021	₹ 50 lakhs	Canara Bank
1.9.2021	₹ 15 lakhs	HDFC
1.10.2021	₹ 60 lakhs	Repc Bank (Co-operative Bank)
1.11.2021	₹ 10 lakhs	SBI
1.12.2021	₹ 10 lakhs	Repc Bank



2.1.2022	₹ 15 lakhs	HDFC
10.1.2022	₹ 15 lakhs	HDFC
20.1.2022	₹ 20 lakhs	Repco Bank
1.2.2022	₹ 15 lakhs	Repco Bank
10.2.2022	₹ 75 lakhs	SBI
20.2.2022	₹ 15 lakhs	HDFC
1.3.2022	₹ 15 lakhs	SBI

Which of the above banks are required to deduct tax at source on cash withdrawals made by Mr. Kumar in the P.Y.2021-22 if he regularly files his return of income?

- Canara Bank & HDFC
- HDFC, SBI & Repco
- HDFC, Repco & Canara Bank
- HDFC & Repco

Question 7

MTP Oct'19

Which of the following details/evidences are required to be furnished by an employee to his/her employer in respect of deduction of interest under the head "Income from house property", when the employer is estimating the total income of the employee for the purpose of tax deduction at source u/s 192?

- Amount of Interest payable or paid
 - Rate of interest payable or paid
 - Name of the lender
 - Address of the lender
 - PAN of the lender
 - TAN of the lender
- (i), (iii), (v)
 - (i), (iii), (iv), (v)
 - (ii), (iv), (v), (vi)
 - (i), (ii)

Question 8

MTP May'20

Mr. Ram acquired a house property at Chennai from Mr. Satyam, a resident, for a consideration of Rs.85 lakhs, on 23.8.2019. On the same day, Mr. Ram made two separate transactions, thereby acquiring an urban plot in Gwalior from Mr. VI pun for a sum of Rs.50 lakhs and rural agricultural land from Mr. Danish for a consideration of Rs.75 lakhs. Which of the following statements are correct?

- No tax deduction at source is required in respect of any of the three payments.
- TDS@1% is attracted on all the three payments.
- TDS@1% on Rs.85 lakhs and Rs.50 lakhs are attracted. No TDS on payment of Rs.75 lakhs for acquisition of rural agricultural land
- TDS@1% on Rs.85 lakhs is attracted. No TDS on payments of Rs.50 lakhs and Rs.75 lakhs.



Question 9

MTP March'21

TPR & Co., a partnership firm selling its product X through the digital facility provided by MKY Limited (an E-commerce operator). MKY Limited has credited in its books of account, the account of TPR & Co. on 31st January, 2021 by sum of Rs. 4,80,000 for the sale of product X made during the month of January 2021. Out of Rs. 4,80,000, it made payment for Rs. 4,00,300 on 3rd February, 2021. Further, Mr. Pawn, who purchased the product X through the facility provided by MKY Limited, has made the payment of sum of Rs. 40,000 directly to TPR & Co. on 15th January, 2021. Which statement is correct regarding requirement of deduction of tax at source by MKY Limited?

- No tax is required to be deducted at source.
- MKY Limited is required to deduct tax at source Rs. 4,800 under section 194C.
- MKY Limited is required to deduct tax at source Rs. 3,900 under section 194O.
- MKY Limited is required to deduct tax at source Rs. 5,200 under section 194O.

Question 10

MTP Oct'21

While deciding liability of an individual to deduct tax on payment of fees for professional services, which of the following is immaterial -

- Amount paid to professional
- Turnover of financial year immediately preceding financial year in which payment made
- Turnover of financial year in which payment is made
- Amount of fees for professional services

Question 11

MTP Nov'21

Mr. Prakash is employed with XYZ Ltd. from 05.11.2017. He resigned on 31.03.2022 and also withdrew a sum of Rs. 55,000, being the accumulated balance of employer's contribution in his EPF Account, on the same date. The tax would be deducted -

- Rs. 500 u/s 192
- Rs. 5,500 u/s 192
- Rs. 4,125 u/s 192A
- Rs. 5,500 u/s 192A

Question 12

MTP Oct'20

Mr. Ajay Sadhu, proprietor of M/s Blue Bird Enterprises having turnover of ₹ 65 lakhs and not subject to tax audit under the Income-tax Act, 1961 during P.Y. 2018-19, has received two bills for payment. The first bill is for ₹ 42,00,000 from Vijay Associates, an advocate and property dealer firm, for his daughter's hearing and ₹ 21,00,000 from same Vijay Associates for brokerage service provided in relation to purchase of one property. Both bills were raised on 21-12-2019 but payment were made in instalments. 1st Instalment of ₹ 5,00,000 as advance was payment on 15 11-2019, 2nd Instalment of ₹ 45,00,000. On 25-03-2020 and balance amount ₹ 13,00,000 on 11-05-2020. Determine the TDS liability for Mr. Ajay Sadhu, if any, for A.Y. 2020-21?

- ₹ 2,50,000
- ₹ 3,15,000
- ₹ 65,000
- Nil

