Tax Collection at Source (TCS)

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Tax Collected at Source (TCS) is a tax mechanism under Section 206C of the Income-tax Act, 1961, requiring sellers to collect tax on specified transactions from buyers/licensees/lessees. The collected tax is deposited with the Central Government.

Applicability of TCS

Sale of Specified Goods [Section 206C(1)]

• Alcoholic liquor for human consumption.

• Tendu leaves, timber, and other forest produce.

• Scrap and minerals such as coal, lignite, and iron ore.

Leasing or Licensing Transactions [Section 206C(1C)]

• Licensing/leasing of parking lots, toll plazas, mines, or quarries.

Sale of luxury goods [Section 206C(1F)]

• Sale of specified luxury goods of value exceeding Rs. 10 lakhs.

• Specified luxury goods are motor vehicle, wrist watch, art piece, collectables (such as coin, stamp), yacht, rowing boat, canoe, helicopter, sunglasses, handbag, purse, shoes, sportswear and equipment, home theatre system, horse for horse racing in race clubs, horse for polo.

Overseas Transactions [Section 206C(1G)]

• Remittances exceeding Rs. 10 lakhs under the Liberalized Remittance Scheme (LRS).

• Purchase of overseas tour program packages.

General Sale of Goods [Section 206C(1H)]

• Sale of goods exceeding Rs. 50 lakhs in a financial year to a buyer by a seller whose preceding year's turnover exceeds Rs. 10 crores. (This provision is withdrawn with effect from 01-04-2025)

TCS Rates

TCS Rates

The rates of TCS vary based on the transaction type and buyer's compliance:

Rates for Specified Transactions

Nature of Transaction	Standard Rate	Rate if PAN/Aadhaar not furnished
Sale of alcoholic liquor	1%	5%
Tendu leaves	5%	10%
Timber	2%	5%
Other forest produce, if obtained under a forest lease	2%	5%
Scrap	1%	5%
Minerals (coal, lignite, iron ore)	1%	5%

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Nature of Transaction	Standard Rate	Rate if PAN/Aadhaar not furnished
Parking lot/toll plaza/mine/quarry leasing	2%	5%
Specified luxury goods of value exceeding Rs. 10 lakhs	1%	5%
Remittances under LRS for education purposes or medical treatment	5%	10%
Remittances under LRS for other purposes	20%	20%
Overseas tour program package	5% on remittance up to Rs. 10 lakh and 20% on the excess amount	10% on remittance up to Rs. 10 lakh and 20% on the excess amount

TCS on Sale of Alcoholic Liquor, Scrap, Forest Produce etc. [Section 206C(1)]

Who collects TCS?

Seller being:

• Central/State Govt
• Local authority
• Corporation/statutory body
• Company/firm/co-op society
• Individual/HUF (if turnover > Rs. 1 crore business / Rs. 50 lakh profession in prior FY)

From whom is TCS collected?

From the buyer, unless the buyer is:

• PSU
• Government
• Embassy/consulate/foreign trade rep
• Club
• Person buying for personal use (retail)

Other points

• Amount – TCS on full sales consideration.
• Time – At the earlier of receipt or account debit.
• Declaration (Form 27C) – No TCS if the buyer furnishes a declaration in Form 27C to the seller that the goods are for manufacturing/power generation (not trading). The seller submits a copy of Form 27C to the tax authorities by the 7th of the next month.

TCS on Leasing of Parking Lot, Toll Plaza, Mine or Quarry [Section 206C(1C)]

Who collects TCS?

Any person who grants lease, license, contract, or transfers right in parking lot, toll plaza, mine, or quarry.

From whom is TCS collected?

From the licensee/lessee using it for business purposes.

No TCS if lessee/licensee is a Public Sector Company.

On what amount TCS is collected?

TCS is collected on the entire amount received from the licensee/lessee.

When to collect TCS?

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At the earlier of:

• Debiting the buyer's account

• Receipt of payment

TCS on Sale of Motor Vehicle or Specified Luxury Goods (Section 206C(1F))

Who collects TCS?

Seller being:

• Central/State Govt
• Local authority
• Corporation/statutory body
• Company/firm/co-op society
• Individual/HUF (if turnover > Rs. 1 crore business / Rs. 50 lakh profession in prior FY)

From whom is TCS collected?

From Buyer paying > Rs.10 lakh for motor vehicle or specified luxury goods, unless the buyer is:

• Central/State Government
• Embassy/Consulate
• Local authority
• PSU engaged in passenger transport
• Dealer/distributor of motor vehicles
• RBI

On what amount is TCS collected?

TCS is collected on the entire sales consideration if the motor vehicle or specified luxury goods exceed Rs. 10 lakhs. The Rs. 10 lakh limit applies per item, not on aggregate yearly sales.

When to collect TCS?

TCS is collected at the time of receipt of payment, whether at the time of advance or at delivery.

TCS on Remittance under Liberalized Remittance Scheme (LRS) [Section 206C(1G)(a)]

Who Collects TCS?

TCS is collected by an authorised dealer (person authorised by RBI to deal in foreign exchange). The responsibility for collecting tax on remittances made under LRS lies with the authorized dealer, but the applicability of TCS is based on the remitter, not the authorized dealer.

From whom TCS is Collected?

TCS is collected from the remitter under LRS unless

• Amount of remittance < Rs. 10 lakh in the year
• Remittance is for overseas tour, and the seller has already collected TCS u/s 206C(1G)(b)
• Remitter is a non-resident without PE in India
• Remittance is for education from a loan under Section 80E
• Remitter is Central/State Govt, Embassy, Consulate, Local Authority, or other notified person
• Payment made via international credit card while overseas

Amount on which TCS Applies

TCS applies on aggregate remittances exceeding Rs. 10 lakh in a financial year. The threshold applies across all purposes on a first-come-first-serve basis.

When to Collect TCS?

TCS is collected at the time of debiting the account or on receipt of payment, whichever is earlier.

TCS from Sale of Overseas Tour Package [Section 206C(1G)(b)]

Meaning of Overseas Tour Programme Package

• Any tour package that offers a visit to a country or territory outside India.

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Includes:

- o Expenses for travel,
- o Hotel stay,
- o Boarding/lodging,
- o Other related or similar expenditures.

• CBDT clarification [Circular No. 10, dated 30-06-2023]:

Purchase of only an international ticket or only hotel stay is not covered. A package qualifies if it includes at least two of:

- o International travel ticket,
- o Hotel accommodation (with or without food)/boarding/lodging,
- o Any other similar or related expenditure.

Who shall collect TCS

Seller of the overseas tour programme package.

From whom TCS shall be collected

Buyer purchasing the overseas tour programme package unless the buyer is:

• Central Government

• State Government

• Local Authority

• Embassy/High Commission/Consulate/Trade Representation of Foreign Government

• Non-resident without permanent establishment in India

• Any other notified person

Amount on which tax shall be collected

• TCS is collected on the total amount received by the seller for the overseas tour package.

• TCS applies on entire amount (even if purchase is via LRS).

Time of collection

At the time of debiting the amount or receipt of such sum, whichever is earlier.

Deposit of Tax Collected at Source (TCS)

Deposit of Tax Collected at Source (TCS)

Due Dates for Depositing TCS

- **Government Collectors**
  - o **Without Challan:** TCS must be deposited on the same day it is collected. A statement in Form 24G must be submitted to the income tax department.
  - o **With Challan (ITNS 281):** Deposit by the 7th of the next month in which tax is collected.
- **Other Collectors**

  TCS collected during a month must be deposited by the 7th of the following month.

How to Deposit TCS

- **Electronic Payment:** Corporate and tax-audited assessees must pay TCS electronically using internet banking or debit cards. Payment is made through Challan No. ITNS 281.

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- **Manual Payment:** Other collectors can deposit TCS at authorized branches of the Reserve Bank of India, State Bank of India, or other approved banks.
- **Third-Party Payment:** TCS payment can be made from a third party's account, provided the PAN of the concerned assessee is mentioned on the challan.

Furnishing of TCS Statement

Furnishing of TCS Statement

Persons responsible for collecting tax at source (TCS) must file quarterly statements in Form 27EQ by specified due dates. Government collectors depositing TCS without a challan must file Form 24G.

Forms for Filing TCS Returns

- **Form 27EQ**: Quarterly TCS statement for all collectors.
- **Form 24G**: For Government collectors depositing TCS without challans. A "Book Identification Number" (BIN) is generated upon submission.

Due Dates for Filing TCS Statements

- **Form 27EQ**:
  - Q1 (April–June): July 15
  - Q2 (July–September): October 15
  - Q3 (October–December): January 15
  - Q4 (January–March): May 15 (next financial year)
- **Form 24G**:
  - March: April 30
  - Other months: Within 15 days of the relevant month's end.

Modes of Filing TCS Statements

Statements can be filed:

- Electronically under digital signature.
- Electronically with verification in Form 27A.
  Paper filing is restricted for government offices, companies, entities requiring tax audit under Section 44AB, and where collectees exceed 20.

Details Required for TCS Statements

The following information is needed:

- Collector's TAN and PAN (if applicable).
- PAN/Aadhaar of collectees.
- Challan/BIN details for tax deposited.
- Details of amounts exempt from TCS under various provisions (e.g., imports, specified notified buyers).

Processing of Statements

Statements are processed to identify errors, calculate interest, and late fees. Adjustments for errors (arithmetical or apparent) are made. Intimations for dues must be cleared within 30 days.

- **Interest for Late Payment**: Charged at prescribed rates.
- **Late Filing Fees**: Rs. 200 per day under Section 234E, up to the total tax collectible.

Correction of TCS Statements

- **Until March 31, 2025**: No time limit for corrections.
- **From April 1, 2025**: Corrections limited to six years from the financial year of the original statement's due date.

Penalties and Appeals

- **Penalty for Default**: Rs. 10,000 to Rs. 1,00,000 under Section 271H for late filing or inaccurate information.
- **Appeals**: Assessees can appeal before CIT(A) or apply for revision if aggrieved by adjustments made at the time of processing of TCS return.

Credit of TCS

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Credit of TCS

Credit for tax collected at source (TCS) is allowed to the person from whom it is collected, provided the collector deposits the tax with the Central Government and files the TCS Statement.

Who Can Claim Credit?

- **Collectee**: Credit is allowed to the person from whom TCS is collected and deposited.
- **Other Persons** (from 01-01-2025): Credit can be transferred to another person if:
    - o The income of the collectee is assessable in the other person's hands under the Income-tax Act.
    - o The collectee files a declaration with the collector specifying details of such other person and reason for giving credit.
    - o The collector reports this in the TCS statement and issues a TCS certificate in the other person's name.

When Is Tax Credit Allowed?

- Credit is given in the assessment year when the corresponding income is assessable.
- For certain cases (e.g., TCS on motor vehicles, overseas remittances, tour packages, and sale of goods), credit is allowed in the year of collection.

Conditions for Allowing Credit

Credit is allowed if:

- The collector deposits the TCS with the Central Government.
- The collector files the TCS Statement, reporting the tax collected.

Verification of Credit

- Credits are reflected in **Form 26AS**.
- If not displayed in Form 26AS, it indicates non-deposit or non-reporting by the collector.
- Collectees are advised to obtain a TCS certificate for verification.

TCS Certificate

TCS Certificate

A person required to collect tax at source (TCS) must issue a TCS certificate to the collectee, detailing the amount, rate, and other prescribed particulars. These certificates are generated and downloaded from the TRACES website after processing of TCS statement.

Form and Due Dates:

- **Form**: The TCS certificate is issued in **Form 27D**, downloadable from TRACES. The collector must authenticate it with a digital or manual signature. It includes key details like:
    - ▪ PAN of the collectee.
    - ▪ TAN of the collector.
    - ▪ Challan or Book Identification Number.
    - ▪ Receipt number of the TCS statement filed in **Form 27EQ**.
- **Duplicate Certificate**: A duplicate can be issued upon request, marked as “Duplicate.”
- **Due Dates**:
    - ▪ The TCS certificate must be issued within **15 days** from the due date of filing **Form 27EQ**.
    - ▪ Quarterly due dates:
        - ▪ Q1: July 30
        - ▪ Q2: October 30
        - ▪ Q3: January 30
        - ▪ Q4: May 30 of the next financial year.

Consequences of Failure to Collect or Pay Tax Collected at Source (TCS)

Consequences of Failure to Collect or Pay Tax Collected at Source (TCS)

A person responsible for collecting tax at source (TCS) and failing to collect or deposit the tax to the credit of the Central Government is deemed an assessee-in-default under the Income-tax Act.

Assessee-in-Default

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- **When collector is deemed to be in default:** A collector is deemed an assessee-in-default if TCS is not collected or deposited.
- **When collector is not deemed to be in default:** The collector is not deemed in default if:
    - o The collectee has paid tax on such income and filed the return of income under Section 139.
    - o A certificate from a Chartered Accountant in Form 27BA is submitted electronically.

    However, this relief does not apply if the collector fails to collect TCS in the following cases:

    - Sale of motor vehicle / notified luxury goods exceeding threshold (Section 206C(1F))
    - Remittance outside India under LRS exceeding threshold (Section 206C(1G))
    - Sale of overseas tour package (Section 206C(1G))
    - Sale of goods exceeding threshold in other cases (Section 206C(1H))
- **Time Limit for Default Orders:** An order of default cannot be passed after:
    - o Six years from the end of the financial year in which TCS was collectible; or
    - o Two years from the end of the financial year in which a correction statement was furnished, whichever is later.

Interest for Default

- **Failure to Collect TCS:**
    - o Interest is charged at 1% per month or part thereof, from the date TCS was required to be collected to the actual date of collection.
- **Failure to Deposit TCS:**
    - o Interest is charged at 1.5% per month or part thereof, from the date of collection to the actual date of deposit.
- **Assessment Officer's Order:** Interest must be paid as per the Assessing Officer's computation unless rectified or appealed.

Penalty and Prosecution

- **Penalty:**
    - o Failure to collect TCS attracts a penalty under Section 271CA.
    - o Failure to deposit TCS attracts penalties under Section 221, except where the Assessing Officer is satisfied with the reasons for default.
- **Prosecution:**
    - o Under Section 276BB, failure to deposit TCS may lead to prosecution.
    - o Repeat offenses under Section 278A attract harsher penalties unless reasonable cause is proven (Section 278AA).

Charge on Assets

If the collector fails to deposit TCS, the unpaid tax and interest create a charge on all assets of the defaulter.

Appeal Against Default Order

An appeal against an order treating the collector as an assessee-in-default can be filed before the Commissioner of Income-tax (Appeals) [CIT(A)].

Certificate for Collection of TCS at A Lower Rate

Certificate for Collection of TCS at A Lower Rate

Collectee (Buyers, licensees, or lessees) can apply for a certificate to collect Tax Collected at Source (TCS) at a lower rate. The Assessing Officer issues this certificate if the applicant's tax liability justifies the lower rate.

Eligible Applicants

The application can be made by any buyer, licensee, or lessee for TCS under the following provisions:

- Sale of alcoholic liquor, scrap, etc. [Section 206C(1)]
- Lease/licensing of parking lots, toll plazas, mines, or quarries [Section 206C(1C)]
- Sale of goods exceeding Rs. 50 lakh [Section 206C(1H)]

Ineligible Applicants

Applications cannot be made for TCS reduction under:

- Sale of motor vehicles or notified goods [Section 206C(1F)]
- Liberalized Remittance Scheme [Section 206C(1G)]

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• Sale of overseas tour packages [Section 206C(1G)]

Application Process

• Submit Form 13 online using a Digital Signature or Electronic Verification Code.

• PAN is mandatory; alternatively, Aadhaar can be used if linked to PAN or in cases where PAN is unavailable.

Assessment of Eligibility

The Assessing Officer evaluates the following before issuing the certificate:

• Tax on estimated income for the current year.

• Tax on assessed or returned income for the last four years.

• Existing tax liability.

• Advance tax, TDS, and TCS for the current year.

Issuance and Validity of Certificate

• The certificate is issued to the tax collector, based on the applicant's request.

• It is valid for the specified period unless cancelled earlier.

• After expiration, a fresh application can be made.

Prior Approvals

• Approval from the Additional/Joint CIT is needed before issuing the certificate.

• If the cumulative tax foregone exceeds Rs. 50 lakh in major cities (Delhi, Mumbai, Chennai, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune) or Rs. 10 lakh in other locations, approval from the CIT (TDS) is required.

• For international buyers, approvals must be obtained from the relevant international taxation authorities.

Requirement to Furnish PAN (For TCS)

Requirement to Furnish PAN (For TCS)

Every person responsible for payments subject to Tax Collected at Source (TCS) must furnish their Permanent Account Number (PAN) to the collector. Failure to provide PAN results in TCS being collected at a higher rate.

Requirement for TCS

• As per Section 206CC, if the collectee fails to provide PAN, tax will be collected at the higher of:

  o Twice the rate specified under Section 206C.

  o 5%.

  o **Cap on TCS Rates**: From July 1, 2023, the maximum TCS rate is 20%, including under Section 206C(1G).

• **Under Section 206C(1H)**:

  o Tax is collected at the higher of:

    ▪ Twice the specified rate under Section 206C(1H).

    ▪ 1%.

It must be noted that Section 206C(1H) is withdrawn with effect from 01-04-2025.

Other Requirements

a) **Lower or Nil TCS Certificate**:

  o PAN is mandatory to apply for a lower/nil TCS certificate in Form 13.

  o Aadhaar may be used in place of PAN if linked.

b) **Declaration for Nil TCS (Form 27C)**:

  o Resident buyers can declare goods purchased are for manufacturing or production to avoid TCS.

  o Declaration requires PAN or Aadhaar.

c) **Invalid PAN**:

  o If PAN is invalid or does not belong to the collectee, it is treated as not furnished, and TCS is collected at a higher rate.

Consequences of Inoperative PAN

• PAN must be linked with Aadhaar by March 31, 2022, to remain operative.

• From July 1, 2023, if PAN is inoperative:

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o Higher TCS rates apply.

o Lower TCS certificates cannot be obtained.

o Refunds and interest on refunds are disallowed.

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