



# CPA CONNECT



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Dear Partner,

Warm Greetings,

I am delighted to share with you the latest installment of CPA CONNECT - Issue-5. In this edition, we delve into the significant topic of "Introduction of New TDS Sections: Impact and Implications" as stipulated in the Income Tax Act.

In this edition, we will focus on the following key sections:

- Section 206AB
- Section 194N
- Section 194R

Building upon the groundwork laid in our previous release, we continue to provide comprehensive insights into the implications and effects of these new TDS sections.

If you missed the inaugural issue, fret not. We extensively covered the initial section 206AB in our issue 4 on "Introduction of New TDS Sections: Impact and Implications," offering valuable analysis and guidance.

Thank you for your continued support and readership.

In case you would like to access the previous issues on this topic, please click [here](#).

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## **Understanding Section 194N of the Income Tax Act, 1961:**

### **A Comprehensive Analysis**

In a bid to curb cash transactions and promote digital payments, the finance minister introduced Section 194N in the Union Budget 2019. This section entails tax deduction at source (TDS) on cash withdrawals exceeding Rs 1 crore. Let's delve into the intricacies of Section 194N and its implications:

#### **1. Threshold Limit and Applicability:**

Section 194N applies to cash withdrawals exceeding Rs 1 crore from a bank account during a financial year. It encompasses all sums withdrawn from a specific bank, irrespective of whether they originate from one or multiple accounts held by the same individual or entity.

#### **Illustrative Examples:**

Scenario 1: Individual X withdraws Rs 40 lakhs from Bank A and Rs 35 lakhs from Bank B during the financial year. As both withdrawals are below Rs 1 crore individually, Section 194N does not apply.

Scenario 2: Individual X withdraws Rs 80 lakhs from Bank A and Rs 50 lakhs from Bank B.

Although each withdrawal is below Rs 1 crore individually, the aggregate exceeds Rs 1 crore. Yet, Section 194N does not apply.

Scenario 3: Individual X withdraws Rs 1.20 crores from Bank A and Rs 60 lakhs from Bank B. Here, since the withdrawal from Bank A surpasses Rs 1 crore, TDS shall be deducted only on the amount exceeding Rs 1 crore from Bank A.

## **2. Entities Exempted from Section 194N:**

Certain entities are exempted from the purview of Section 194N, including government bodies, banks (including co-operative banks), business correspondents of banking companies, white label ATM operators, traders paying farmers in Agricultural Produce Market Committee (APMC), and others notified by the government.

## **3. TDS Rates:**

Under Section 194N, TDS is levied at a rate of 2% on cash withdrawals exceeding Rs 1 crore in a fiscal year. However, if the individual withdrawing cash has not filed an income tax return (ITR) in the three preceding years, the TDS rates differ. In such cases, TDS is deducted at 2% for withdrawals between Rs 20 lakhs and Rs 1 crore and at 5% for withdrawals exceeding Rs 1 crore.

## **Illustrative Calculation:**

If an organization, which hasn't filed an ITR for the past three years, withdraws Rs 1.20 crores, TDS will be deducted at 2% on Rs 80 lakhs (between Rs 20 lakhs and Rs 1 crore) and at 5% on the remaining Rs 20 lakhs (exceeding Rs 1 crore).

In conclusion, Section 194N aims to promote transparency and discourage large cash transactions by imposing TDS on withdrawals exceeding Rs 1 crore. However, understanding its nuances and implications is crucial for taxpayers and financial institutions alike to ensure compliance with tax regulations.

*In the meantime, if you have any question on the above, feel free to get back to me/us and we will respond to it.*