



CPA CONNECT



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Dear Partner,

Warm Greetings,

In this article, we are going to discuss the newly introduced TDS Section 194R of the Income Tax Act. Section 194R is a critical provision that regulates the deduction of tax at source (TDS) on benefits or perquisites arising from a business or profession. This article provides an in-depth exploration of the key aspects of Section 194R, encompassing its applicability, rates, exceptions, guidelines, and ramifications for non-compliance.

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

Understanding Section 194R of the Income Tax Act, 1961:

A Comprehensive Analysis

Applicability:

Section 194R applies to any individual or entity responsible for providing benefits or perquisites, whether in monetary form or otherwise, to a resident person. The term "person responsible for providing" encompasses the entity furnishing such benefits or perquisites, including Key persons in the case of NGOs. Tax deduction is mandatory before providing the benefit or perquisite to the recipient.

Exception:

1. This section shall not apply in case the value of perquisite during the financial year does not exceed Rs. 20,000;
2. This section shall also not apply to a person being an individual or a HUF, whose total sales, gross receipts or turnover does not exceed one crore rupees in case of business OR fifty lakh rupees in case of profession, during the financial year immediately preceding the financial year in which such benefit or perquisite is provided.

Rate of TDS:

Tax is deducted at a rate of 10% on the value or aggregate value of the benefit or perquisite provided. This rate remains unaffected by surcharges or health and education cess. However, if the deductee fails to furnish a PAN, or has not filed an income tax return for a specified period, the TDS rate increases to 20% under Sections 206AA and 206AB, respectively.

Note:

TDS is applicable if the value or aggregate value of benefits or perquisites provided or expected to be provided during the financial year exceeds Rs. 20,000. In such cases, tax should be deducted on the entire value of the benefit or perquisite, not just the amount exceeding Rs. 20,000.

TDS in Case of Benefits or Perquisites is in Kind:

In instances where the benefit or perquisite is wholly or partly in kind, and the cash component is insufficient to cover the TDS liability, the provider must ensure TDS payment before releasing the benefit or perquisite. This ensures compliance with TDS obligations.

Valuation of Benefit or Perquisite:

Valuation is typically based on the fair market value of the benefit or perquisite. Exceptions include scenarios where the provider purchases the benefit or perquisite before providing it, in which case the purchase price serves as the value. Additionally, if the provider manufactures the items provided as benefits or perquisites, the price charged to customers shall be the value.

Example:

For instance, if an NGO hires an individual to deliver a lecture on Income Tax amendments, with reciprocation in the form of sponsoring a trip to Dubai and gifting a watch worth Rs. 50,000, these benefits are considered directly related to the individual's business. Consequently, TDS at a rate of 10% is applicable on the total value of these benefits.

In summary, Section 194R of the Income Tax Act is pivotal in regulating TDS on benefits or perquisites, ensuring compliance with tax obligations and contributing to a transparent and accountable financial ecosystem.

Circulars issued under Income Tax for Guidelines on section 194R

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*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.*