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### **TDS on cash withdrawals**

Section 194N provides that every banking company, cooperative bank, or post office shall be required to deduct tax at source from any sum paid in cash from one or more accounts maintained by the recipient. The tax shall be deducted at the rate of 2% or 5% as the case may be.

#### **Who is required to deduct tax under this section?**

Every banking company (including any bank or banking institution), co-operative bank, or a post-office, which is responsible for payment of cash to a person, from one or more accounts maintained by him, shall be required to deduct tax under this provision. The tax shall be deducted at the time of payment.

#### **Who is a deductee?**

Tax is required to be deducted in all cases, whether the deductee is a resident or non-resident.

#### **Rate of TDS and threshold limit**

##### *If no default is made in the filing of the return*

Tax is required to be deducted at the rate of 2% of the sum if the aggregate of the amount withdrawn exceeds Rs. 1 crore (Rs. 3 crores where the recipient is a co-operative society<sup>1</sup>). The rate shall not be further increased by Surcharge and Health & Education Cess if the sum is payable to a resident person. The rate of TDS shall be increased by the applicable surcharge and health & education cess if the payee is a non-resident person or a foreign company. If the deductee does not furnish his PAN to the deductor, the tax shall be deducted at the rate of 20% under Section 206AA.

##### *If a person defaults in the filing of a return*

If a person has not filed a return of income for all of the three assessment years immediately preceding the previous year in which cash is withdrawn, and the due date for filing the return under section 139(1) has expired, the tax shall be deducted at the rates specified:

- a) At the rate of 2% of the sum, if the aggregate of the amount withdrawn exceeds Rs. 20 lakhs during the previous year but does not exceed Rs. 1 crore (Rs. 3 crores where the recipient is a co-operative society<sup>2</sup>);
- b) At the rate of 5% of the sum, if the aggregate of the amount withdrawn exceeds Rs. 1 crore (Rs. 3 crores where the recipient is a co-operative society<sup>3</sup>) during the previous year.

#### **How to check the return filing status?**

The Department has provided a utility of "ITR Filing Compliance Check" on <https://report.insight.gov.in> which will be available to Scheduled Commercial Banks (SCBs) to check the IT Return filing status in bulk mode on the basis of the PAN of the deductee.

<sup>1</sup> Amendment made by the Finance Act, 2023 with effect from 01.04.2023.

<sup>2</sup> Amendment made by the Finance Act, 2023 with effect from 01.04.2023.

<sup>3</sup> Amendment made by the Finance Act, 2023 with effect from 01.04.2023.

### Exemption from TDS

No tax is required to be deducted from any sum paid or payable to the following:

- a) The Government
- b) Any banking company or a co-operative bank or a post office
- c) Any business correspondent of a banking company or a co-operative bank in accordance with the RBI guidelines
- d) Any white-label automated teller machine (ATM) operator of a banking company or a co-operative bank in accordance with the RBI Authorisation; or
- e) Any person specified by the Central Government. Further, Central Government is empowered to specify the reduced rate for the deduction of tax under this provision.

### How to deposit TDS?

Tax deducted under this provision is required to be deposited to the credit of the Central Government through Challan ITNS 281 within 7 days from the end of the month in which tax was deducted.

However, the tax deducted during the month of March shall be deposited by 30th April of the next financial year.

### Filing of TDS statement

The person responsible for the deduction of tax at source under this provision is required to file a statement of tax deducted at source in Form 26Q quarterly.

### TDS Certificate

The deductor shall issue a TDS certificate to the assessee in Form No. 16A within 15 days from the due date of furnishing of the TDS statement.

### Consequences for failure to deduct or deposit tax

Where any person responsible for deducting tax at source fails to deduct tax or after deducting fails to deposit the same, he shall be treated as assessee-in-default. In that case, interest under section 201 will be applicable.

If the deductor fails to deduct TDS, interest at the rate of 1% per month or part of the month shall be applicable, till such failure continues. Interest shall be calculated from the date when such tax was required to be deducted till the date such tax is actually deducted.

Further, if the deductor after having deducted the tax, fails to deposit the same to the credit of the Central Government, interest at the rate of 1.5% per month or part thereof shall be applicable till such failure continues. The interest computation shall commence from the date on which the tax was deducted and end with the date when such tax was deposited to the government.

### Penalty and Prosecution

Failure to comply with the provisions of deduction of tax at source under this provision may result in penalties and prosecution as per the following provisions:

- a) If a person fails to deduct tax at source, he shall be liable for payment of penalty under Section 271C;
- b) If a person deducts tax but fails to deposit the same to the credit of the Central Government, he shall be liable for the penalty under Section 221 and prosecution under Section 276B.



However, no person shall be punishable under Section 276B if he proves that there was reasonable cause for the failure. Further, a person can also file an application for compounding of offence.

#### **Consequences for failure to furnish TDS Statement?**

Where any person fails to furnish a TDS statement, section 234E shall be applicable, wherein the deductor is liable to pay fees at the rate of Rs. 200 per day during such default continues. However, such fees should not exceed the amount of TDS.

Moreover, he shall be liable for penalties under sections 271H of Rs. 10,000 which can be extended to Rs. 100,000, and 272A of Rs. 500 for every day during which failure continues.

#### **Consequences for failure to issue TDS Certificates**

Where any person, responsible for issuing TDS Certificates, fails to issue such certificates, a penalty under section 272A shall be applicable of Rs. 500 for every day during which failure continues.

INCOME TAX DEPARTMENT

## MCQs on Payment of Certain amounts in Cash

**Q1. Tax under section 194N is required to be deducted by \_\_\_\_\_.**

- (a) Banking Company
- (b) Co-operative bank
- (c) Post-office
- (d) All of the above

**Correct answer: (d)**

**Justification of the correct answer:** Every banking company (including any bank or banking institution), co-operative bank, or a post-office, which is responsible for payment of cash to a person, from one or more accounts maintained by him, shall be required to deduct tax under Section 194N.

**Q2. Tax is required to be deducted in case where the deductee is a non-resident.**

- (a) True
- (b) False

**Correct answer: (a)**

**Justification of the correct answer:** Tax is required to be deducted in all cases whether the deductee is a resident or non-resident.

**Q3: What is the threshold limit to deduct tax under section 194N, where no default is made in the filing of the return by the deductee who is an individual?**

- (a) Rs. 1 crore
- (b) Rs. 20 lakhs
- (c) Rs. 50 lakhs
- (d) No limit

**Correct answer: (a)**

**Justification of the correct answer:** Where no default is made in the filing of the return i.e., deductee has filed its return of income timely, tax is required to be deducted if the aggregate of the amount withdrawn exceeds Rs. 1 crore (Rs. 3 crores where the recipient is a co-operative society).

**Q4: No tax under section 194N is required to be deducted if cash withdrawal is made by \_\_\_\_\_.**

- (a) Any banking company or a co-operative bank or a post office
- (b) Any white-label automated teller machine (ATM) operator of a banking company or a co-operative bank in accordance with the RBI Authorisation
- (c) The Government
- (d) All of the above

**Correct answer: (d)**

**Justification of the correct answer:** No tax is required to be deducted from any sum paid or payable to the following:

- a) The Government

- b) Any banking company or a co-operative bank or a post office
- c) Any business correspondent of a banking company or a co-operative bank in accordance with the RBI guidelines
- d) Any white-label automated teller machine (ATM) operator of a banking company or a co-operative bank in accordance with the RBI Authorisation; or
- e) Any person specified by the Central Government. Further, Central Government is empowered to specify the reduced rate for the deduction of tax under this provision.

**Q5: Tax deducted under this provision is required to be deposited to the credit of the Central Government through \_\_\_\_\_.**

- (a) Challan ITNS 281
- (b) Challan ITNS 280
- (c) Challan ITNS 283
- (d) None of the above

**Correct answer: (a)**

**Justification of the correct answer:** Tax deducted under this provision is required to be deposited to the credit of the Central Government through Challan ITNS 281 within 7 days from the end of the month in which tax was deducted. However, the tax deducted during the month of March shall be deposited by 30th April of the next financial year.

**Q6: The person responsible for the deduction of tax at source under this provision is required to file a statement of tax deducted at source in \_\_\_\_\_.**

- (a) Form 26Q
- (b) Form 24Q
- (c) Form 27Q
- (d) None of the above

**Correct answer: (a)**

**Justification of the correct answer:** The person responsible for the deduction of tax at source under this provision is required to file a statement of tax deducted at source in Form 26Q quarterly.