**POINTS TO BE KEPT IN MIND WHILE READING THE PROVISION**

1. Definition of each word or concept
2. What are threshold conditions?
3. Whom the provision is applicable?
4. What is event that triggers the Provision?
5. What are the exceptions to the provision?
6. Any Unusual Condition?

**ANALYSIS OF SECTION 194C**

***Payments to contractors.***—

***194C***(1):- **Any person** responsible for paying **any sum** to **any resident** (hereafter in

Resident as per Section 6

ANY - Scope is wider

Person u/s 2(31)

this section re­ferred to as the contractor) for carrying out **any work** (**including supply**

**of labour for carrying out any work)** in pursuance of a **contract** between the contractor and a **specified person** shall, at the time of credit of such sum to the account of the contractor **or** at the **time of payment** thereof in ***cash or by issue of a cheque or draft or by any other mode***, whichever is **earlier**,

deduct an amount equal to—

          (*i* )  one per cent where the payment is being made or credit is being given to an individual or a Hindu undivided family;

         (*ii* )  two per cent where the payment is being made or credit is being given to a person other than an individual or a Hindu undivided family,

of such sum as **income-tax on income comprised therein.**

**Analysis Subsection 1**

1. Work as defined in explanation iv to section 194C
2. Contract is not define , so the definition of section 2(f) of Indian Contract Act,1872 shall be applied.
3. The Parties shall be resident and Specified person (as mention in the explanation 1 to section 194C
4. Time of Credit - This word credit indicates the accounting credit in the books i.e when the invoice of supplier is recorded it is credited in the books – **So it imples that the maintaining books of accounts is pre-requisite for TDS**
5. OR --- At time of Payment which ever event is earlier i.e date of the accounting entry or date of payment whichever is earlier
6. Mode is having wider scope- CASH/ CHEQUE/DRAFT/ ANY OTHER – which includes in KIND
7. INCOME COMPRISE – Income as per S-2 (24) so the GST is excluded automatically because it is not income and provision requires to deduct the tax on INCOME Portion. Reimbursement is not income. Out of pocket is not a income

**194C (2)** Where any sum referred to in sub-section (1) is **credited to any account,** whether called **"Suspense account" or by any other name**, in the **books of account** of the person liable to pay such income, such **crediting shall be deemed to be credit of such income to the account of the payee** and the provisions of this section shall apply accordingly.

It means if u record the entry in any name for time being, still it shall be DEEMED to be credit of INCOME OF Payee

**194C(3)** Where **any sum is paid or credited** for carrying out any work mentioned in sub-clause (*e*) of clause (*iv*) of the *Explanation*, tax shall be deducted at source—

          (*i* )  **on the invoice value** excluding the value of material, if such value is mentioned separately in the invoice; or

         (*ii* )  **on the whole of the invoice value**, if the value of material is not mentioned separately in the invoice.

Sub section 3 put clarity on the amount on which TDS to be applied. I.e In Case of Invoice = Material + Labour – if separate amount mention – deduct on labor part and if not mention separately deduct on total invoice value

**194C (4)** **No individual or Hindu undivided family** shall be liable to deduct income-tax on the sum credited or paid to the account of the contractor where such sum is credited or paid **exclusively for personal purposes** of such individual or any member of Hindu undivided family.

Sub section 4 gives exception for the nature of expense i.e personal nature shall not be covered in the provision

**194C(5)** **No deduction shall be made** from the amount of any sum credit­ed or paid or likely to be credited or paid to the account of, or to, the contractor, **if such sum does not exceed thirty thousand rupees** :

**Provided that where the aggregate** of the amounts of such sums credited or paid or likely to be credited or paid during the financial year exceeds one lakh rupees, the person respon­sible for paying such sums referred to in sub-section (1) shall be liable to deduct income-tax under this section.

Sub section 5 gives threshold for single Transaction i.e 30,000 bu the Proviso extends the limit to 1 Lakh if the AGGREGATE i.e clubbing all the transaction during the year

**194C (6) No deduction shall be made** from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor during the course of business of plying, hiring or leasing goods carriages, on furnishing of his Permanent Account Number, to the person paying or crediting such sum.

Sub section 6 gives one more exception in the business category of hiring vehicles if they provide PAN and declaration that the own less than 10 vehicles

(7) The person responsible for paying or crediting any sum to the person referred to in sub-section (6) shall furnish, to the pre­scribed income-tax authority or the person authorised by it, such particulars, in such form and within such time as may be pre­scribed.

*Explanation.*—For the purposes of this section,—

**(*i* )  "specified person"** shall mean,—

     (*a*)  the Central Government or any State Government; or

     (*b*)  any local authority; or

      (*c*)  any corporation established by or under a Central, State or Provincial Act; or

     (*d*)  any company; or

      (*e*)  any co-operative society; or

      (*f*)  any authority, constituted in India by or under any law, engaged either for the purpose of dealing with and satisfy­ing the need for housing accommodation or for the purpose of planning, deve-lopment or improvement of cities, towns and vil­lages, or for both; or

     (*g*)  any society registered under the Societies Registration Act, 1860 (21 of 1860), or under any law corresponding to that Act in force in any part of India; or

     (*h*)  any trust; or

      (*i*)  any university established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a university under section 3 of the University Grants Commis­sion Act, 1956 (3 of 1956); or

      (*j*)  any Government of a foreign State or a foreign enter­prise or any association or body established outside India; or

      (*k*)  any firm; or

**Explanation : Eligibility of Person based on Audit Condition**

**(*l*)  any person, being an individual or a Hindu undivided family or an association of persons or a body of individuals, if such person,—**

**(A) does not fall under any of the preceding sub-clauses; and**

**(B) is liable to audit of accounts under clause (a) or clause (b) of section 44AB during the financial year immediately preceding the financial year in which such sum is credited or paid to the account of the contractor;**

         (*ii* )  "goods carriage" shall have the meaning assigned to it in the *Explanation* to sub-section (7) of section 44AE;

**(*iii* )  "contract" shall include sub-contract;**

**(*iv* )  "work" shall include—**

     (*a*)  advertising;

     (*b*)  broadcasting and telecasting including production of programmes for such broadcasting or telecasting;

      (*c*)  carriage of goods or passengers by any mode of trans­port other than by railways;

     (*d*)  catering;

      (*e*)  Manufacturing or supplying a product according to the requirement or specification of a customer **by using material purchased from such customer,**

                but **does not include** manufacturing or supplying a product accord­ing to the requirement or specification of a customer **by using material purchased from a person, other than such customer**.’.

CASE STUDY – 194C ATTRACTED OR NOT

1. X Ltd paid labour charges to contractor 1.5 Lakhs
2. Y proprietor of the business having audit, had paid computer services charges 45,000
3. ABC firm had received the courier invoice of 33000 for april 2023.
4. XYZ firm got letterhead and stamped purchased from stationers amounting to 50,000
5. A had received raw material from XYZ transport services with invoice of 90,000
6. A Ltd paid rent for laptops hired for the 30 staff member of Rs 5000 for each staff.
7. ABC firm sold car to Labour supplier against his invoice of 2 Lakhs