

# TDS on Cash Withdrawal – Amendment In Section 194N

[taxguru.in/income-tax/tds-cash-withdrawal-amendment-section-194n-income-tax-act.html](http://taxguru.in/income-tax/tds-cash-withdrawal-amendment-section-194n-income-tax-act.html)

Anita Bhadra

## **TAX DEDUCTION AT SOURCE ( TDS ) ON CASH WITHDRAWL**

### **( Amendment in Sec 194N of the Income Tax Act, 1961 )**

1. The **Finance Bill 2020 ( Bill) introduced vide Union Budget 2020-21** is passed by both Houses of Parliament, with few amendments on 27th March 2020 and also received President's assent .

2. One of the amendment which will effect a large number of people is change in scope of TDS on cash withdrawal under sec 194N of Income Tax Act.

**3. Existing Scope of Sec 194N :** Section 194N for deduction of tax at source (TDS) on cash withdrawals exceeding Rs 1 crore. was introduced by Honourable Finance Minister in Union Budget 2019. This section applies to an aggregate of sums withdrawn from a particular payer in a financial year. The Government has introduced Section 194N in the Union Budget 2019 in order to discourage cash transactions in the country and promote the digital economy,



**4. Amendment in Sec 194 N :-** Section 194 N of the Income Tax Act has been amended vide clause 84 of Finance Act 2020.

### **Clause 84 of Finance Act 2020**

For section 194N of the Income-tax Act, the following sections **shall be substituted** with effect from the **1st day of July, 2020**, namely

Every person, being,— (i) a **banking company** to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act);

(ii) a **co-operative society engaged in carrying on the business of banking** or

(iii) a **post office**, who is responsible for paying any sum, being the amount or the aggregate of amounts, as the case may be, **in cash exceeding one crore rupees** during the previous year, **to any person** (herein referred to as the recipient) **from one or more accounts** maintained by the recipient with it shall, **at the time of payment of such sum, deduct an amount equal to two per cent. of such sum**, as income-tax:

**Provided that in case of a recipient who has not filed** the returns of income for all of the three assessment years relevant to the three previous years, for which the time limit of file return of income under sub-section (1) of section 139 has expired, immediately preceding the previous year in which the payment of the sum is made to him, the provision of this section **shall apply with the modification that—**

(i) the sum shall be the amount or the aggregate of amounts, as the case may be, in **cash exceeding twenty lakh rupees during the previous year**, and

(ii) the **deduction shall be—**

(a) an amount **equal to two per cent. of the sum** where **the amount** or aggregate of amounts, as the case may be, being paid in **cash exceeds twenty lakh rupees** during the previous year **but does not exceed one crore rupees**; or

(b) an amount equal to **five per cent.** of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash **exceeds one crore rupees during the previous year**:

**5. Amended Scope of Sec 194N** :- The Scope of TDS on cash withdrawal has been extended. TDS @ 2% is required to be deducted if the withdrawer **has not filed his tax return for three years** and withdrawal during the year exceeds Rs 20 lakhs but less than Rs 1 crore. For withdrawal more than Rs 1 crore TDS @ 5%. Is required to be deducted .

**6. Effective date of Amendment** :- Amendment of Section 194N will be with effect from 01 July 2020 .

**7. Who will Deduct TDS :-** The person (payer) making the cash payment will have to deduct TDS under Section 194N. Here is the list of such persons:

Any bank (private or public sector)

A co-operative bank

A post office

**8. When TDS to be deducted :** TDS under Section 194N tax shall be required to be deducted only when the aggregate amount of cash withdrawal during the previous year by a person from one or more of his bank or post office account, as the case may be, exceeds Rs. 20 Lakhs and the said person has not filed his Income Tax Returns for last three years . Further, the tax shall be required to be deducted only on the amount exceeding Rs. 20 Lakhs

8.1 For the purpose of computation of threshold limit of Rs. 20 Lakhs , the total amount of cash withdrawn during the previous year shall be considered.

**9. Illustration :**

Payers :- Bank / Post Office / Co -operative Societies

Mr. X – Filed all his Returns

Mr. Y -Not Filed his returns for 3 preceding Assessment years  
AY [ 2019-20, 2018-19 & 2017-18]  
FY [ 2018-19,2017-18 & 2016-17]

Cash Withdrawal upto Rs 1 crores

Cash Withdrawal more than Rs 1 crores

Cash Withdrawal 20 Lakhs to 1 Crore

Cash Withdrawal more than Rs 1 crores

No TDS

TDS @ 2%

TDS @ 2%

TDS @ 5%

Further , Mr Y has saving and current account with 2 Branches of the same bank. The details of total cash withdrawn from both the accounts / branches are as follows:

Date of Cash Withdrawal	Cash Withdrawn from saving Bank of Branch1	Cash Withdrawn from saving Bank of Branch 2	Cash Withdrawn from Current Account – Branch 1	Total Withdrawn	TDS
-------------------------	--	---	--	-----------------	-----

2019-20	20,00,000	25,00,000	1,25,00,000	1,70,00,000	1,40,000
2020-21	0	25,00,000	0	25,00,000	10,000
2020-21	20,00,000	25,00,000	1,25,00,000	1,70,00,000	3,50,000

Since Amendment is w.e.f 01 July 2020 , for FY 2019-20 TDS will be deducted on 70,00,000( 1,70,00,000-1,00,00,000) @ 2% = 1,40,000.

For FY 2020-21 TDS will be deducted as follows :

(a) In case total cash withdrawal for the year is Rs 25,00,000/- TDS will be deducted @ 2% on Rs 5,00,000/- (amount exceeding Rs 20,00,000)

(b) In case of total cash Withdrawal is Rs 1,70,00,000 /- TDS will be deducted @ 5% on Rs 70,00,000/ (amount exceeding Rs 1 Crores )

**10. Point of Tax Deduction :** TDS will be deducted by the payer while making the cash payment over and above Rs 1 crore in a financial year to the payee. If the payee withdraws a sum of money on regular intervals, the payer will have to deduct TDS from the amount, once the total sum withdrawn exceeds Rs 1 crore in a financial year. Further,

**10.1** The TDS will be done on the amount exceeding Rs 1 crore. In the example given above , Mr Y withdraws 45 Lakhs in the aggregate in the financial year and in the next withdrawal, an amount of Rs 1.25 crores is withdrawn, the TDS liability is only on the excess amount of Rs.70 Lakhs (0 .45+1.25-1.00)

**11. Applicability :** The section will apply to withdrawals made by following taxpayers:-

An Individual

A Hindu Undivided Family (HUF)

A Company

A partnership firm or an LLP

A local authority

An Association of Person (AOPs) or Body of Individuals (BOIs)

**12. Non Applicability :** Sec 194N will not apply to withdrawals made by following taxpayers:-

Government Body

Bank including co-operative banks

Business correspondent of a banking company

White label ATM operator of any bank

Farmers – Central Government specifies the commission agent or trader, operating under **Agriculture Produce Market Committee (APMC)- Notification No. 70/2019-Income Tax Dated 20th September, 2019**

CBDT exempts cash withdrawal by the authorised dealer and its franchise agent and sub-agent; and Full-Fledged Money Changer (FFMC) licensed by the Reserve Bank of India and its franchise agent from TDS under Section 194N subject to conditions specified in **Notification No. 80/2019-Income Tax dated 15th October, 2019.**