

The Tale of 'Arth', 'Shashtri' and the 'New TDS on Perks'

1.2.2022

Yes, it was the Budget Day. Two close friends, 'Arth'- a businessman and 'Shastri' – a CA, went out for a stroll in late evening.

'Arth'- "Yaar Shashtri, I was hearing our FM's budget speech, today. I heard about some new provision related to TDS on some perks. What is that?"

Shashtri' – "Yes Arth, you heard it right. In this year's budget, a new TDS section 194R, has been proposed in the Finance Bill 2022, w.e.f. 1.7.2022. This section 194R requires deduction of tax at source @ 10%, by any person, providing any benefit or perquisite, exceeding Rs. 20,000 in value, in a year, to a resident, and such benefit or perquisite arise from the business or profession of such resident."

'Arth'- "Yaar Shastri, don't forget that I am not a CA, you are, so don't use such technical jargons. Please explain in simple and easy to understand language."

'Shastri'(laughing)- "Ok bhai Arth, let me explain this with an example then. You are a businessman engaged in trading of high-end electronic items, and your sales in the previous year 2020-21, was rupees 2 crores. I know this, as I have done your tax audit, right. Now, suppose, you procure your electronic items for your business, from a big wholesale supplier. You request him for a discount in your purchases. He happens to visit your city. You sponsor his 5-star hotel accommodation, conveyance, and also gift him a Rolex watch and pleased with your hospitality, he eventually agrees for the discount. So, you purchase the electronic items from him, at an agreed discount and pay him the discounted consideration.

In this new section 194R, such benefits or perquisites like free accommodation, conveyance and gifted Rolex watch, in our example, are amenable to be considered as benefits or perquisites arising out of the business of your supplier, as you have provided such benefits or perks to your supplier, in order to get the favourable discounted terms for your procurements. So, such benefits or perks are having a direct nexus with the wholesale business of your supplier.

This new section 194R, now makes it mandatory for you to deduct TDS @ 10% in the PAN of your supplier, on the value of the gifted Rolex watch and the sponsored 5-star accommodation and conveyance, which obviously is far more than the prescribed threshold limit of rupees twenty-thousand, in a year.

'Arth'- "Bhai, but in this example, since I am not paying him in money terms for such benefits or perks, so will that mean, that I have to pay the TDS amount @ 10% on the value of such benefits or perks, out of my own pocket?"

'Shastri'- "You are absolutely right Arth."

'Arth'- "Arey baapre.... Bhai Shastri, is this provision applicable to all and sundry?"

'Shastri'- "No, this TDS provision is not applicable to those individuals or HUFs, whose annual turnover from business is up to rupees one crore or annual professional receipts are up to 50 lakhs in the immediately preceding previous year. So, in our example, if your business receipts

in the previous year 2020-21, had been up to rupees 1 crore only, then you would not have been required to deduct TDS under this new section 194R.”

‘Arth’- “Bhai Wah Shastri. You have explained me the full ‘arth’ (meaning) of this new ‘shaastra’ (provision), in such an easy language.”

‘Shastri’- “Arth Bhai, mere a simple compliment won’t do. Now, you have to give me a treat of the hot piping samosas and jalebis from our famous ‘Ramu Kaka Misthan Bhandar’.”

‘Arth’ (laughing)- “Bhai Shastri, I won’t be able to do so, as then, I would be required to deduct TDS @ 10% on these perks of samosas and jalebis.”

‘Shastri’ (also laughing)- “Bhai, Arth, you can relax and give me the treat, as the value of these samosas and jalebis is not more than rupees 20,000.”

‘Arth’- “Bhai Shastri, given your appetite for such treats, if I add up the numbers, the aggregate value of the full year’s treat of samosas and jalebi, will definitely cross the threshold limit of rupees 20,000, to soch lo....”

And their stroll continued with a huge laughter....

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