

**Circular No. 22/2016**

**F. No 370142/17/2016-TPL**

**Government of India**

**Ministry of Finance**

**Department of Revenue**

**Central Board of Direct Taxes**

**(TPL Division)**

**June 8, 2016**

**Sub: Amendment in Section 206C vide Finance Act 2016 - Clarifications regarding**

Section 206C of the Income-tax Act, 1961 (hereafter referred to as 'Act'), prior to amendment by Finance Act, 2016, provided that the seller shall collect tax at source at specified rate from the buyer at the time of sale of specified items such as alcoholic liquor for human consumption, tender leaves, mineral being coal or lignite or iron ore etc. It also provided for collection of tax at source at the rate of one per cent on sale in cash of bullion exceeding 2 lakh rupees and jewellery exceeding 5 lakh rupees.

In order to reduce the cash transactions in sale of goods and services. Finance Act 2016 has expanded the scope of section 206C (1D) to provide that the seller shall collect tax at the rate of one per cent from the purchaser on sale in cash of any goods (other than bullion and jewellery) or providing of any services (other than payment on which tax is deducted at source under Chapter XVII-B) exceeding two lakh rupees. So far as sale of Jewellery and bullion is concerned, the provisions of sub-section (1D) of section 206C prior to its amendment by the Finance Act 2016 shall continue to apply. Further, with a view to bring high value transactions within the tax net, it has been provided in sub- section (1F) of section 206C of the Act that the seller who receives consideration for sale of a motor vehicle exceeding ten lakh rupees, shall collect one per cent of the sale consideration as tax from the buyer. Any person who obtains in any sale. the goods of the nature specified in sub-section (1D) or (1F) of section 206C is a buyer. The seller for the purposes of collection of tax under section 206C shall be --

- (i) A Central Government or a state Government,
- (ii) Any local authority, or corporation or authority established under any Central, State or Provincial Act,
- (iii) Any company, firm or cooperative society,
- (iv) An individual or Hindu undivided family who is liable to audit as per provisions of section 44AB during the financial year immediately preceding the financial year in which the goods are sold or the services are provided.

The amendments brought in section 206C by Finance Act, 2016 are applicable from 1<sup>st</sup> June 2016.

In this regard a number of queries have been received about the scope of the provisions and the procedure to be followed. The board has considered the same and decided to clarify the points raised by issue of a circular in the form of questions and answers as follows:

**Question 1:** Whether tax collection at source ('TCS') at the rate of 1% is on sale of Motor Vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/distributors.

**Answer:** To bring high value transactions within the tax net, section 206C of the Act has been amended to provide that the seller shall collect the tax at the rate of one per cent from the purchaser on sale of motor vehicle of the value exceeding ten lakh rupees. This is brought to cover all transactions of retail sales and accordingly it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

**Question 2:** Whether TCS at the rate of 1% is on sale of Motor Vehicle is applicable only to Luxury Cars?

**Answer:** No. As per sub section (1F) of Section 206C of the Act the seller shall collect the tax at the rate of one per cent from the purchaser on sale of any motor vehicle of the value exceeding ten lakh rupees.

**Question 3:** Whether TCS at the rate of 1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions for sale of motor vehicle or any other goods or provision of services"

**Answer:** Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State and shall not be liable to levy of TCS at the rate of 1% under sub-section (1D) and (1F) of section 206 C of the Act.

**Question 4:** Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

**Answer:** Tax is to be collected at source at the rate of 1% on sale consideration of a motor vehicle exceeding ten lakh rupees. It is applicable to each sale and not to aggregate value of sale made during the year. This can be explained by way of an illustration:

Illustration: Motor vehicle worth 20 lakh is sold and for which payments are made in instalments, one at the time of booking and the other at the time of delivery. At the time of booking 5 lakh rupees are paid and 15 lakh rupees are paid at the time of delivery. Tax at the rate of 1% on 5 lakh rupees at the time of booking and at the rate of 1 % on remaining 15 lakh rupees at the time of delivery shall be collected at source.

Similar will be the position with regard to collection of tax at source under sub-section (1D) of section 206C.

**Question 5:** whether TCS at the rate of 1% on sale of motor vehicle is applicable in case of an individual?

**Answer:** The definition of "Seller" as given in clause (c) of the Explanation below sub-section (11) of section 206C shall be applicable in the case of sale of motor vehicles also Accordingly, an individual who is liable to audit as per the provisions of section 44AB of the Act during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.

**Question 6:** How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

**Answer:** The provisions of TCS on sale of motor vehicle exceeding ten lakh rupees is not dependent on mode of payment. Any sale of Motor Vehicle exceeding ten lakh would attract TCS at the rate of 1%.

**Question 7:** As per section 206C(1D) , tax is to be collected at source at the rate of 1% if sale consideration received in cash exceeds 2 lakh rupees whereas as per section 206C (1F) tax is to be collected at source at the rate of 1% of the sale consideration of a motor vehicle exceeding 10 lakh rupees . Whether TCS will be made under both sub-section (1D) and (1F) of the section 206C @ 2% where part of the payment for purchase of motor vehicle exceeds 2 lakh rupees in cash?

**Answer:** Sub-section (1F) of the section 206C of the Act provides for TCS at the rate of 1% on sale of motor vehicle of value exceeding 10 lakh rupees. This is irrespective of the mode of payment. Thus if the value of motor vehicle is 20 lakh rupees, out of which 5 lakh rupees has been paid in cash and balance amount by way of cheque , the tax shall be collected at source at the rate of 1% on total sale consideration of 20 lakh rupees only under sub-section (1F) of section 206C of the Act. However, if a vehicle is sold for 8 lakh rupees and the consideration is paid in cash, tax shall be collected at source at the rate of 1% on 8 lakh rupees as per sub-section(1D) of section 206C of the Act.

**Lakshmi Narayanan**

**Under Secretary TPL-III**

**CBDT**