

Clarification on applicability of Tax Deduction at Source on cash withdrawals

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In order to discourage cash transactions and move towards less cash economy, the Finance (No. 2) Act, 2019 has inserted a new section 194N in the Income-tax Act, 1961 (the 'Act'), to provide for levy of tax deduction at source (TDS) @2% on cash payments in excess of one crore rupees in aggregate made during the year, by a banking company or cooperative bank or post office, to any person from one or more accounts maintained with it by the recipient. The above section shall come into effect from 1st September, 2019.

Since the section provided that the person responsible for paying any sum, or, as the case may be, aggregate of sums, in cash, ***in excess of one crore rupees during the previous year*** to deduct income tax @2% on cash payment in excess of rupees one crore, queries were received from the general public through social media on the applicability of this section on withdrawal of cash from 01.04.2019 to 31.08.2019.

The CBDT, having considered the concerns of the people, hereby clarifies that section 194N inserted in the Act, is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N of the Act. However, since the threshold of Rs. 1 crore is with respect to the previous year, calculation of amount of cash withdrawal for triggering deduction under section 194N of the Act shall be counted from 1st April, 2019. Hence, if a person has already withdrawn Rs. 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, the two per cent TDS shall apply on all subsequent cash withdrawals.

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