

CBDT announces online functionality for Sections 206AB & 206CCA of Income-tax Act

Snapshot

Finance Act 2021 introduced two new provisions to the Income-tax Act, 1961 (ITA) effective from July 01, 2021, to ensure higher withholding / collection of taxes in respect of certain non-filers of tax returns. There were apprehensions in the industry as regards to ensuring compliance with the conditions and parameters mentioned in these sections.

Government has now come up with a Circular announcing a new functionality – “Compliance Check for Sections 206AB & 206CCA” whereby now, the Taxpayer neither needs to undertake a detailed verification process nor obtain multiple declarations from the vendors or customers.

Basics

Sections 206AB and 206CCA of the ITA are applicable from July 01, 2021 and are subject to fulfilment of the following conditions:

- The payee / deductee has not filed his tax returns for last 2 Assessment Years (AY) immediately preceding the year in which the payment is being made.
- The aggregate amount of TDS/TCS in case of that person for each of the 2 preceding previous year is Rs. 50,000 or more.

If both the above conditions are satisfied, then the deductor / collector ('Taxpayer') shall be required to

deduct / collect tax from the above-mentioned persons ("specified persons") at higher of the following rates:

- twice the rate specified in section; or
- twice the rate in force; or
- 5%

The Functionality

With effect from July 01, 2021, every Taxpayer shall be required to ensure that tax is deducted / collected at higher rates as per sections 206AB & 206CCA. The provisions have posed unique challenges and imposed additional compliance burden on the Taxpayer especially in cases with large number of vendors/customers. To make the compliance under sections 206AB & 206CCA relatively easy and effective, CBDT has launched a new functionality - “**Compliance Check for section 206AB & 206CCA**” whereby the Taxpayer can identify the list of specified persons. The key features of the functionality issued by CBDT are summarized as under:

- For Financial Year (FY) 2021-22, the utility will list down the name of persons who have not filed ITRs for FY 2018-19 and FY 2019-20 and in whose case aggregate TDS/TCS is Rs. 50,000 or more in each of the years.
- The Taxpayer shall be required to identify the list of “specified persons” based on PAN search functionality **at the beginning of each year** (*One time exercise*).
- For FY 2021-22, **no new names will be added** in the list of “specified persons”.
- The list of “specified persons” appearing in the **utility will be updated** in the following circumstances:
 - If any specified person files a valid ITR (filed & verified) for **AY 19-20 or AY 20-21** during FY

2021-22, his name will be removed from the list with effect from the date of filing ITR

- If any specified person files a valid ITR (filed & verified) for **AY 2021-22**, his name will be removed from the list with effect from due date of filing ITR or actual date of filing ITR, whichever is later.

- If aggregate TDS/TCS in **FY 20-21** in case of the specified person is below the threshold limit of Rs. 50,000, his name will be removed from the list from the due date of filing ITR u/s 139(1) falling in the subsequent FY 2021-22
- In case where any belated or revised TDS/TCS return is filed by the in FY 21-22, the list will be updated for removing persons on regular basis.

Manner of compliance

The taxpayer shall therefore be required to follow following broad procedure every year for complying with sections 206AB & 206CCA.

Steps	Actions to be taken
I	At the beginning of each year, the Taxpayer shall identify the list of specified persons covered by section 206AB & 206CCA based on individual or bulk PAN search utility. (Please keep the PDF files/ Report generated form the CBDT Functionality for Audit trail)
II	If the name of payee / payer is appearing in the list of "specified person", then tax is required to be deducted / collected at higher rate.
III	If there is any new vendor / party, then the Taxpayer should identify whether his name is appearing in the list of specified persons or not. <ul style="list-style-type: none">▪ If it is a specified person, then tax is required to be deducted / collected at higher rate.▪ If it is not a specified person, then tax is required to be deducted / collected at normal rate
IV	The list of only "specified persons" identified in Step-II & III, may be verified from utility while complying with the TDS/TCS provisions on a specific need basis

Procedures

Taxpayers have to undertake a process of registration for "Compliance heck for section 206AB & 206CCA" functionality by visiting the reporting portal at URL <https://report.insight.gov.in>.

On successful completion of the registration, the functionality would also be available by logging onto the said portal

The verification process by searching PAN(s) shall be available in two modes:

- PAN Search – To verify for single PAN
- Bulk Search – To verify for PANs in bulk

Income Tax Department has released FAQs (Version 1.0 of June 2021) as regards the steps to be followed and also a Quick Reference Guide (Version 1.0 of June 2021) providing a write up on the steps and screenshots of various steps to be followed in the respective procedures.

The Quick Reference Guide is available on <https://report.insight.gov.in/reporting-webapp/portal/homePage>.

Key takeaways

It is to be noted that the above functionality has been issued by CBDT solely for the purpose of removing unnecessary compliance burden on the Taxpayer.

It is stated in the Circular that during FY 21-22, no new names will be "added" in the list of "specified person". The circular further discusses various circumstances under which the list of "specified person" identified in the beginning of FY 21-22 will get updated.

In view of the above, on receipt of a confirmation from the vendor / customer regarding filing of tax return / revision of TDS / TCS Return, a Taxpayer may verify the Utility to check removal of their names from the list of "specified person" at the time of complying with the TDS/TCS.

The Circular categorically states that Taxpayer are expected to carry out necessary due diligence in respect

of a non-resident who is established as a "specific person" by the functionality but does not have a Permanent Establishment and thereby is to be considered as a non-specified person. Accordingly, due care will have to be taken by Taxpayer to obtain a "No PE" declaration from the non-resident parties whose names appear in the list of specified persons.

Prima facie, the circular issued by the CBDT does not seem to be in sync with the language of section 206AB and 206CCA of the ITA and the memorandum providing for the intent behind the provisions. However, as the Circular has been issued specifically for avoiding additional compliance burden on the taxpayer, we understand that once the above steps are followed, it should be considered as a compliance with the provisions of sections 206AB and 206CCA.

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For further analysis and discussion, you may please reach out to us.

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