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Sec-194C

Payments to contractors and sub-contractors:

- Section 194C provides for deduction of tax at source from the payment made to **RESIDENT** Contractors and Sub-Contractors.
- Any person who is **responsible**
  - **for paying any sum**
  - **to a RESIDENT CONTRACTOR**
  - for carrying out any Work (including supply of labour for carrying out any work) in pursuance of a contract
  - **between such Resident contractor** and
    - The Central Government,
    - A State Government,
    - Local Authority,
    - Statutory Corporation ;Corporations established by or under central/state or provincial Act
    - Company,
    - Co-Operative Society,
    - Any Statutory Authority Dealing With Housing Accommodation,
    - Any Society Registered Under The Societies Registration Act, 1860,
    - Any Trust
    - Universities or institution declared to be university by UGC
    - Any Firm
    - Any government of a foreign state or foreign enterprises or any association or body established outside India
    - Any Individual/ HUF/AOP/BOI whose accounts are subject to tax audit Under Section 44AB in the immediately preceding financial year
  - must deduct **income tax** at the prescribed rate
  - from **such sum**
  - at the time of credit or payment, whichever is earlier.

- **The deduction of income-tax at source from payments made to NON-RESIDENT CONTRACTORS will be governed by the provisions of section 195.**

- Payments made
  - by Individuals, HUF, AOP or BOI
  - to a Resident **contractor**
  - would attract TDS
  - If their total sales/turnover exceeds Rs.***100 lakhs (in case of business)*** and gross receipts Exceed Rs.***25 lakhs (in case of profession)*** in the immediately preceding financial year.
  - However, relief has been provided in respect of **payments made by Individuals, HUF** to a Contractor **exclusively for personal purposes**.

- The rate of TDS under section 194C on payments to contractors would be
  - 1%, where the Payee is Individual / HUF and
  - 2% in respect of other payees.

- The same rates of TDS would apply for both contractors and sub-contractors.

- Further, in respect of payment to transport contractors and sub-contractors engaged in the business of plying, leasing and hiring goods carriages, TDS provisions **would not** apply if they furnish their PAN to the deductor.

- **The following table shows the TDS rates ;**

Payee i.e. Who receives income	TDS rate
Individual / HUF contractor/sub-contractor	1%
Other than individual / HUF contractor/sub-contractor	2%
Contractor in transport business (if PAN is furnished)	Nil
Sub-contractor in transport business (if PAN is furnished)	Nil

- No deduction will be required to be made if the **consideration for the contract does not exceed Rs.30, 000**. However, it has been provided that tax will be required to be deducted at source
  - Where the amount credited or paid or likely to be Credited or paid to a contractor or sub-contractor exceeds Rs.30,000 in a **single payment** or Rs.75,000 in the **aggregate during a financial year**.

- Therefore, even if a single payment to a contractor does not exceed Rs.30,000, TDS provisions Under section 194C would be attracted where the aggregate of the amounts of such sums Credited or paid or likely to be credited or paid to the contractor during the financial year **Exceeds Rs.75,000.**

- The word "**WORK**" in this section would include
  - Advertising;
  - Broadcasting and telecasting including production of programmes for such broadcasting or telecasting;
  - Carriage of **goods or passengers** by any mode of transport **other than by railways;**
  - Catering;
  - Manufacturing or supplying a product according to the requirement or specification of a customer **by using material purchased from such customer**. (Manufacturing or supplying a product according to the requirement or specification of a customer by using the material purchased from such customer, but does not include manufacturing or supplying a product according to the requirement or Specification of a customer by using the material purchased from a person, other than such customer.)
  - Supplying of labour for carrying out any work **but excludes** contracts for rendering of professional services by Lawyers, Doctors, Engineers, Chartered Accountants, Architects, Consultants, etc., as these are covered u/s194J

- It may be noted that the term "work" would include manufacturing or supplying a product According to the requirement or specification of a customer by using material purchased from such customer. In such a case, tax shall be deducted on the invoice value **excluding the value of material purchased from such customer** if such value is mentioned separately in the invoice.

- Where the material component has not been separately mentioned in the invoice, tax shall be deducted on the whole of the invoice value.

- The deduction of income-tax will be made from sums paid for carrying out any work or for Supplying labour for carrying out any work.
  In other words, the section will apply **only in Relation to**
  - 'Works Contracts' and 'Labour Contracts'
  - And will **not cover** contracts for sale of Goods.

- The deduction of INCOME-TAX must be made at the time of credit of the sum to the account of the contractor, or at the time of payment thereof in cash or by issue of a cheque or Draft or by any other mode, whichever is earlier.

- Contracts for rendering **PROFESSIONAL SERVICES** by
  - Lawyers,
  - Physicians,
  - Surgeons,
  - Engineers,
  - Accountants,
  - Architects,
  - Consultants etc. **Cannot Be Regarded As Contracts for Carrying Out Any "Work"** And, Accordingly, **no deduction of income-tax is to be made from payments relating to such contracts under this section**.

- Separate provisions for fees for Professional services have been made under section 194J.

- U/s 194C, tax is required to be deducted for carrying out any work which, inter alia, includes carriage of goods and passengers by any mode of transport **other than by railways.**
- Though generally speaking all types of machinery, plant and equipment given on hire get covered u/s. 194-I but ***HIRING OF TRANSPORT VEHICLES*** get specifically covered u/s. 194C as far as tax deduction at source is concerned.
- Transport vehicles used for carriage of goods and passengers are to be subjected to TDS under the provisions of section 194C of the I.T. Act.

The **payments made directly to** Doordarshan /AIR is not subject to TDS as Doordarshan /AIR, being a government agency, is not liable to income tax. (Source: circular no.715 dt.8.8.1995)