



# TDS on electricity: everything you need to know

# Introduction: why are we even talking about electricity and tax?

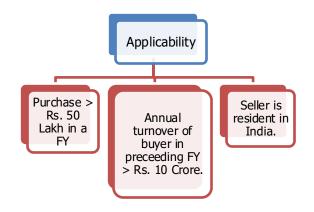
- ▶ If you thought paying your electricity bill was painful, wait till you hear this Now, buying electricity can come with a side order of TDS thanks to Sec. 194Q of the Income-tax Act, 1961.
- ➤ It's true! Because electricity is legally treated as "goods," if you buy a lot of it, you may have to deduct tax before you pay your power supplier.
- But don't worry it's not as shocking as it sounds.
  Let's break it down.

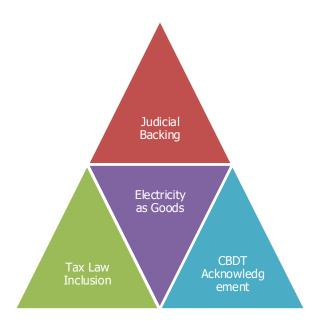
#### When does TDS apply on electricity?

- ➤ You, the buyer, must deduct TDS at 0.1% if ALL these conditions are met:
  - ➤ Your purchases of electricity from a seller cross ₹50 lakh during the financial year.
  - ➤ Your total turnover in the previous financial year was more than ₹10 crore.
  - ▶ The seller is resident in India.
- Remember, it's not just how much you buy that matters — your own size (turnover) matters too. This applies even if the seller doesn't raise a GST invoice separately for the electricity.

#### Why electricity counts as "goods"

- We know what you are thinking "Come on, electricity isn't even solid! How can it be goods?" Good question. Here's why:
- ▶ In the landmark case State of Andhra Pradesh v. NTPC, the Supreme Court said electricity is movable property it can be generated, transmitted, sold, and even stored.
- Under GST law, "goods" means anything that's movable, except money and securities. Electricity fits right in!





#### In short:

Here's a really simple way to look at it:

Electricity is like water — it moves, it flows, you pay for it — so it's goods for tax purposes



# The fine print, consequences & a recap

#### Special cases: when TDS does not apply

- ▶ While TDS under Section 194Q generally applies on electricity purchases, there are special exceptions where no TDS is required:
- ▶ No TDS needs to be deducted if electricity is purchased from a government department (such as a Union Territory Electricity Department) rather than from a government-owned company. This exemption flows from Sec. 196 of the Income-tax Act, 1961 which exempts payments made to the government from TDS obligations.
- Examples where no TDS would apply:
  - Chandigarh Electricity Department (Chandigarh UT)
  - Puducherry Electricity Department (Puducherry UT)
- ► However, if the electricity supplier is a government-owned company (like Kerala State Electricity Board Ltd., Maharashtra State Electricity Distribution Company Ltd., or Tamil Nadu Generation and Distribution Corporation Ltd.), TDS will apply as usual.
- ► Government companies, even if wholly owned by the government, are treated as separate legal entities under the Companies Act.

## Pro tip:

Always verify whether your supplier is a "department" or a "company" before deciding on TDS deduction. You can easily do that by taking a look at the PAN of the supplier

#### Consequences of not deducting TDS

▶ Did you miss (or refuse) to deduct TDS on electricity? Here's what you are in for:

# ► Disallowance of 30% of your electricity expense

Under Sec. 40(a)(ia), if you fail to deduct TDS, 30% of your electricity expense could be disallowed while calculating taxable income. This would result in higher income tax payable.

▶ Here's an example: If you paid Rs. 1 crore for electricity but didn't deduct TDS, Rs. 30 lakh could be disallowed, and assuming a tax rate of 25%, you could end up paying additional tax of Rs. 7.50 lakhs, not counting interest! Compare that with a deduction of just Rs. 10,000.

#### ▶ Being treated as a defaulter

The tax department may treat you as an assessee-in-default under Section 201. You could be liable to pay:

- The TDS amount not deducted,
- Interest for delay,
- Possible penalties.

#### ► Penalties and prosecution risk

Serious or repeated failures could even invite penalties and, in extreme cases, prosecution under the Income Tax Act.

#### A quick recap

- Buying electricity in bulk? Check if Sec. 194Q applies.
- Cross ₹50 lakh + ₹10 crore turnover? Deduct 0.1% TDS.
- ► TDS applies if buying from a governmentowned company.
- ► Most importantly, not deducting TDS can cause serious tax consequences!



### Notice to the reader

In relation to this publication, you may contact:

George Joseph, Managing Partner

Cell: +91 97464 00575 Email: gj@gja.co.in

P. Rajagopal, Jt. Managing Partner

Cell: +91 93886 09990 Email: pr@gja.co.in

**Shaji Varghese**, Partner Cell: +91 98470 44030 Email: shaji.varghese@gja.co.in

Umesh Bhat, Partner Cell: +91 98472 74567 Email: umeshbhat@gja.co.in

Reuben Joseph, Partner Cell: +91 98952 09307 Email: reuben.joseph@gja.co.in

N. Vijayakumar, Principal (Indirect Tax.)

Cell: +91 94463 62533 Email: vjkumar@gja.co.in

**Allen Joseph**, Partner Cell: +91 90483 06882 Email: allen.joseph@gja.co.in

Raphael Sharon, Partner Cell: +91 99462 03087 Email: raphael.sharon@gja.co.in

**Nithin Siva**, Partner Cell: +91 77368 93698 Email: nithin.s@gja.co.in

**George Nettady**, Partner Cell: +91 94950 07758

Email: george.nettady@gja.co.in

37/2038, 1st Floor, Muttathil Lane Kadavanthra, Cochin – 682 020, Kerala

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## **Authors**

**Yohan Mathew Thomas**, Articled Assistant yohan.m@gja.co.in

**Reuben Joseph**, Partner reuben.joseph@gja.co.in

# Editorial board of GJA Learning

- ▶ Gowry Krishna, gowry.k@gja.co.in
- Deepak P., deepak.p@gja.co.in
- Riya Thomas, riya.thomas@gja.co.in
- Karthik S., karthik.s@gja.co.in

