Awareness and Impact of TDS

The purpose of research is to discover answers to questions through the application of scientific procedures. Through each research, study has its own specific purpose, we may think of research objectives as falling into a number of following broad groupings:

- To know the Awareness of TDS among the assesses.
- To know the Impact of TDS on assesses.

INTRODUCTION

The foundation of an effective and stable public finance system of a country lies in its tax system. A state has to bring about a compulsory exaction from its subjects with the object, of course, of carrying out its multifarious functions as a welfare state. This compulsory exaction is referred to as **'Taxation'**. The taxation policy of a state aims to address its legitimate need to collect tax revenues to fund public services and to eliminate competitive distortion faced by local industries, trade and commerce. It works as a vibrant instrument of stimulating industrial growth, promoting exports, regulating imports, nurturing domestic trade and commerce and thereby generating employments and furthering economic progress of the state. Tax is also said to be the price, we pay for civilized society.

Conceptual framework of TDS

Taxes, nowadays, are broadly classified into:

- Direct Taxes; and
- Indirect Taxes

Direct Taxes:-

Direct Taxes are those, which are paid by the taxpayers directly from their income. The government collects direct taxes, directly from the taxpayers through levies such as Income Tax, Wealth Tax and Indirect Tax. Gift tax and Estate Duty were also part of the direct tax revenue.

However, in an ongoing process of simplification and rationalization of the direct tax structure in India, the Government repealed the Estate Duty Act in the late eighties and Gift Tax Act in 1998. Direct taxes are considered practically harsh and from a minor part of government's revenue.

Indirect Taxes:-

Indirect Taxes are those taxes, which are paid by the taxpayers indirectly, when purchasing some goods or commodity or when hiring some services, which are taxable. These taxes are although borne by the taxpayers, but not paid by them directly to the Government.

Tax deduction or collection at source

We all aware that we need to pay the Income Tax for our income. In some cases, the employer will be taking care of paying the total tax amount to the government in behalf of all the employees by deducting the tax amount from their salaries. This process is called TDS or Tax Deduction at Source.

What is TDS?

Taxes are deducted at the time of calculating your income. For example, you are working for a company X. Every month they will be paying you the salary of Rs.3, 50,000. If you are looking into your pay slip there is a column name IT which mention the tax amount deducted from your salary. Actually, the tax amount is deducted by your company and then pays to the government. Where as if you are not working for any company or doing the professional jobs like Doctor, Charted Accountant (CA), etc. You are liable to pay the tax to the government.

Who is eligible for TDS?

Not every one can deduct the tax at source. You have to apply for the Tax Deduction Account Number (TAN). TAN or Tax Deduction and Collection Account Number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax. It is compulsory to quote TAN in TDS/TCS return (including any e-TDS/TCS return), any TDS/TCS payment challan and TDS/TCS certificates.

Tax Deducted at source is one way of collecting the taxes by the Indian income tax department. Other ways are:

1. Advance Tax
2. Payment of tax under self-assessment.
3. Tax Collection at source.
4. Demand by department on assessment.

At present, TDS plays a very important role in the collection of the Indian Income Tax. This is a very easy method to collect from the Indian Income Tax Department point of view.

Every person who has to deduct tax at source has to obtain Tax Deducted at source Number (TAN) and it has to be quoted in all TDS challans, Returns and Certificates.

Nothing is as tangled and knotty as the TDS provisions. While some TDS rates are specified in the individual section which deal with the tax treatment of the particular stream of income, some rates are included as part of a separate schedule. To make matters worse, these rates get tampered and modified every year. This result is so much chaos and confusion, that sometimes those who have to apply TDS, do not have a clue about what rate to use. Imagine the plight of taxpayer.

The genesis of the problem lies in the complicated nature of the tax laws. The authorities complain that less than 2% of our population actually pays taxes. However, simplifying the provisions is not viewed as a possible solution. On the other hand, in an effort to bring more and more people into the tax net, the lawmakers simply end up complicating the law. In addition, the rule is simple more the complexity more the room.

TDS is final tax payable- at the time of filling his returns; the assessee pays the balance if any or asks for refund, as the case maybe. Ergo, it behooves the Department to have a standard uniform rate -convenient both for itself as well as for the taxpayers.

The most unfortunate part is that we could have easily done away with any TDS provided the department had good infrastructure to apprehend assessee avoiding tax only through TDS.

Objectives of TDS

Tax Deducted at Source was introduced in India to facilitate the payment of tax while receiving the income and it follows the concept of **"Pay as you earn"**. However, the purposes of tax deducted at source are changing slowly. Now, the objectives of tax deducted at source are:

1. To enable the salaried people to pay the tax as they earn every month. This helps the salaried persons in paying the tax in easy installments and avoids the burden of a lump sum payment.
2. To collect the tax at the time of payment of income to various assesses such as contractors, professionals etc.
3. Government requires funds throughout the year. Hence, advance tax and tax deducted at source help the government to get funds throughout the year and run the government smoothly.
4. It helps to spread the tax net wide enough to include persons who might otherwise have evaded taxes. The minimum thresholds are raised and the rates are reasonable and comparable with the rates prevailing in other countries. Hence, it is very vital to make all the persons earning the taxable income pay the tax. But, the best way to make them pay is to deduct tax at source.

TDS remittance is normally made in specified branches of banks.

However, if the amount is credited on the last day of the financial year, i.e., on 31st March, then the tax deducted can be deposited within two months from the end of the financial year, i.e., within

31st May. But, if it was credited or paid even on 30th March, then you will have time only up to 7th April. This extended two months time is available only in the case of the following items for which the payee's account is credited on the last day of the financial year:

1. Interest on Securities (Sec 193).

2. Interest other than Interest on Securities (Sec 194A).
3. Payments to contractors and sub-contractors (Sec 194C).
4. Insurance Commission (Sec 194D).
5. Payments to non-resident sportsmen or sports associations (Sec 194E).
6. Commission etc. on the sale of lottery tickets (Sec 194G).
7. Commission or brokerage (Sec 194H).
8. Rent (Sec 194-I).
9. Fees for professional or technical services (Sec 194J).
10. Other Sums (Sec 195).
11. Income in respect of units of non-residents (Sec 196A).
12. Income from Units (Sec 196B).
13. Income from foreign currency bonds or shares of Indian company (Sec 196C).
14. Income of Foreign Institutional Investors from securities (Sec 196D).

Deduction of tax from salaries [sec. 192]

Any person responsible for paying any income chargeable under the head "Salaries" is required to deduct tax at source on the amount payable. Tax is to be calculated at the rates prescribed for the financial year, which the payment to employees is made. The person responsible for paying the salary may, at the time of deducting at source, increase or decrease the amount to be deducted for the purpose of adjusting any previous deficiency or excess deduction.

How to compute salary and tax thereon –

At the time of deducting tax at source, the person responsible for paying salary during the financial year 2008-09 should keep the following points in mind:

EXEMPTION LIMIT –

No tax is required to be deducted at source unless the estimated salary exceeds the maximum amount not chargeable to tax for the financial year 2008-2009.

HOUSE RENT ALLOWANCE-

House rent allowance qualities for exemption, subject to the specified limits.

Incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section **10(13A).** the employee should submit a written statement to the employer pinpointing rent paid by him, name of the landlord and address of the property taken on rent along with rent receipt given by the landlord. However, the board has decided (as an administrative measure) that if house rent allowance is Rs. 3,000 per month (or less than that), the employer will give exemption on the basis of a declaration given by the employee (no need to submit rent receipt). This concession is only for t5he purpose of tax deduction at source and, in the regular assessment of the employee, the Assessing Officer will be free to make such enquiry, as he deems fit, for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

OTHER ALLOWANCES AND PERQUISITES-

Exemption available under section 10 in respect of other allowances, will be provided by the employer. The value of the perquisites by way of free residential accommodation and other perquisites will be determined under rule 3 and should be taken into account for computing taxable salary.

DONATION BY EMPLOYEE DEDUCTIBLE UNDER SECTION 80G-

The employer should not give any deduction in respect of donation given by an employee to a notified public charitable institute. The tax relief admissible under section 80G in respect of such donations will have to be claimed by the employee at the time of finalization of his assessment.

However, where donations/ contributions are made to other funds (e.g., the Jawaharlal Nehru Memorial Fund, the Prime Minister's Drought Relief Fund, the National Children's Fund, etc.) deduction should be allowed by the employer while calculating tax deductible from salary income.

OTHER DEDUCTIONS –

The employer should also take into consideration amount deductible under sections 80C, 80CCC, 80CCD, 80D, 80DD, 80E, 80GG and 80U.

TAX DEDUCTIBLE –

The total salary should be rounded off to the nearest multiple of Rs. 10 by ignoring the fraction of less than five rupees and increasing the fraction of five rupees or more.

Other points – the following points should be noted –

TAX ON PERQUISITE PAID BY EMPLOYER –

Section 192(1A) provides that the person responsible for paying any income in the nature of a perquisite (not provided for by way of monetary payment) referred to in section 17(2) may pay at his option, tax on the whole(or part of such income) without making any deduction therefrom at the time when such tax was otherwise deductible under the provisions of section 192(1).

For this purpose tax shall be determined at the average of income-tax computed on the basis of the rates in force for the financial year, on the income chargeable under the head "Salaries" and the tax so payable shall be construed as if it were, a tax deductible at source from the income under the head “Salaries”.

MORE THAN ONE EMPLOYER-

Where an employee has more than one employer, he is required by section 192(2) to furnish in form No.**12B** to one of the employers (as selected by the employee having regard to the circumstances of the case) the details of salary due/ received by him from other employers. Only after submission of information in form No. **12B**, it becomes the obligation of the employer (to whom form No. **12B** is submitted) to deduct tax at source after considering the information submitted by the employee. If information is submitted in the month of October, only from October onwards, tax shall be deducted at the average rate determined after considering the details submitted in form No.**12B.**

RELIEF UNDER SECTION 89-

Section 192(2A) provides in respect of salary payments of employees of Government or public sector undertakings, company, co-operative society, local authority, university, institution, association or body, deduction of tax at source is to be made after allowing relief under section

89. To avail this benefit, the concerned employee should furnish information in form No. **10E** the employer.

CAN THE EMPLOYER DEDUCT TAX IN RESPECT OF OTHER INCOMES OF EMPLOYEE- The provisions are given below-

1. The employee may (or may not) declare his other incomes to the employer.

2. If the employee wants to declare his other incomes to the employer, then such information should be given plain paper to the employer.
3. The employee may declare details of his other incomes (including loss under the head "Income from house property" but not any other loss) and tax deducted thereon by others. If the aforesaid information is not submitted by the employee to the employer, then employer cannot take into consideration other incomes of the employee (even if the quantum of other incomes is otherwise known to the employer).
4. After receipt of such information, the employer should deduct (out of salary payment) tax due on total income as follows-

Computation one [on the basis of(a)salary and (b)others incomes declared by the emplyee]	***Computation two [on the basis of(a)salary and ignoring the other incomes declared by the employee]***
a. Find out salary income. **b.** Add. Other incomes declared by the employee (in case of loss, only house property loss would be considered; no other loss would be taken into consideration) **c.** Find out aggregate of (a) and (b) **d.** Less: Deduction under sections**80C** and **80U** **e.** Find out (c) – (d) **f.** Find out tax on (e) **g.** Add: Surcharges, education cess and	**j.** Find out salary income **k.** Less: loss under the head "Income from house property" as declared by the employee **l.** Find out (j)-(k) **m.** Less: Deduction under section **80C** to **80U** **n.** Find out (l)-(m) **o.** Find out tax on (n) **p.** Add: Surcharges and education cess and secondary and higher education cess **q.** Less: Tax deducted from rent by others (if

secondary and higher education cess **h.** Less: Tax deducted by others as per information given by the employee **i.** Find out tax liability [(f)+(g)-(h)]	there is loss of house property) as per information given by the employee **r.** Find out tax liability [(o)+(p)-(q)]

Only house property loss declared the assessee would be considered.

Surcharge is not applicable in case net income does not exceed Rs. 10 lakh for the assessment year 2009-10.

Education cess is 2 per cent of tax and surcharge.

Secondary and higher education cess is 1 per cent of income tax and surcharge.

PARTICULARS OF PERQUISITES/PROFITS IN LIEU OF SALARY- With effect from June 1, 2001, sub- section **(2C)** has been inserted in section **192.** It provides that any person responsible for paying salary shall furnish to the person who receives the salary a statement giving particulars of perquisites or profits in lieu of salary provided to him in form **12A.**

Form No.**12A** starting the nature and value of perquisite is to be provided by the employer to employee if salary exceeds Rs. 1,50,000. In other cases, the information shall be provided in Form No.**16.**

	Form No.24 to the Government	***Form No. 16 to employees***	***Form No.12BA to the employees***
▪ If salary exceeds Rs. 1,60,000 ▪ If salary is upto Rs.	**Yes**	**Yes**	**Yes**

1,60,000 and tax is deducted under section **192.**	**Yes**	**Yes**	**No**
■ If salary is upto Rs. 1,60,000 and tax is not deducted at source from the salary of any employee	**No**	**No**	**No**

Deduction of tax at source from interest on securities [Sec. 193]

Any person responsible for paying any interest on securities to a resident is required to deduct income-tax at source at the rates in force.

Time of tax deduction – Tax has to be deducted at source at the time of payment or at the time of credit to the account of payee or transfer to interest payable account or suspense account, whichever comes earlier. However, tax cannot be deducted until identity of the person in whose hands it is includible as income can be ascertained- ***Industrial Development Bank Of India*** v. **ITO** [2006] 10 SOT 497/104 TTJ 230 (Mum).

Securities interest on which is not subject to tax deduction- Tax is not deductible in respect of interest payable on the following:

a. Debenture issued by any institution or authority or any public sector company or co-operative society (including a co-operative land mortgage bank or a co-operative land development bank) notified by the Central Government;

b. Any security of the Central/State Government [However, from June 1,2007, interest exceeding Rs. 10,000 payable during a financial year on 8 per cent Savings(Taxable) Bonds, 2003 (popularity known as relief Bonds) will be subject to tax deduction at source irrespective of date of investment];

c. Securities beneficially owned by the Life Insurance Corporation of India or the General Insurance Corporation of India or to any of the four companies formed by virtue of the schemes framed under section **16(1)** of the General Insurance Business (Nationalisation) Act, 1972 or any other insurer; and

d. (with effect from June 1, 2008) any listed Demat security

- ***Tax rates-*** Tax is deductible at the rate of 10 per cent **(+ SC + EC + EHEC)** in the case of listed debentures and 8 per cent Relief Bonds and at the rate of 20 per cent **(+ SC + EC + EHEC)** in the case of non-listed debentures if the recipient is a resident non-corporation assessee. Tax is deductible at the rate of 20 per cent **(+ SC + EC + EHEC)** if the recipient is a domestic company.

Cases when tax is not deducted at lower rate- In the following cases tax is not deductible or deducted at lower rate:

APPLICATION IN FORM NO. 13

DECLARATION TO THE PAYER IN FORM NO. 15G

INTEREST ON DEBENTURES IN SOME CASES- It will not be necessary to deduct tax at source on interest on debentures paid to a resident individual, if the following conditions are fulfilled, namely;

a. The debentures have been issued by a company in which the public are substantially interested;

b. The debentures are listed in a recognized stock exchange in India;

c. The interest is paid by the company by an account payee cheque; and

d. The aggregate amount of interest paid or likely to be paid by the company to the holder of the debentures during the financial year does not exceed Rs. 2,500.

AMOUNT PAYABLE TO FUNDS ESTABLISHED FOR THE BENEFIT OF ARMED FORCES- Since the income of these organizations is exempt under section **10(23AA),** no tax should be deducted at source under section **193** from the income of such funds- Circular No. 735, dated January 30, 1996.

INTEREST PROVIDED FUNDS- The Board has decided that in the case of a provident fund whose income is exempt under section **10(25)(ii)** the income by way of interest on securities of Central and State Governments may be paid to such provident funds without deduction of income-tax at source - Circular No. 741, dated April 18, 1996.

DEEP DISCOUNT BONDS- Tax is deductible at the time of redemption. If the recipient has paid tax on interest on accrual basis, he can take relief under section **197.**

TDS ON 8 PER CENT SAVINGS (TAXABLE)BONDS,2003- The following clarifications have been given in respect of application of TDS on 8 per cent Savings (Taxable) Bonds,2003-

- Tax Deduction at source on 8 per cent Savings (Taxable) Bonds,2003 is effective from June 1, 2007. Any interest credited or paid on 8 per cent Savings (Taxable) Bonds,2003 on or after June 1,2007 will attract TDS if the amount of interest exceeds Rs. 10,000 for the financial year. Therefore, the date of investment is not a relevant factor.TDS would, thus, apply to existing bondholders also.

	Financial year 2008-09 (assessment years 2009-10)
2. If the recipient is an individual ***/HUF/AOP/BOI*** and payment or credit subject to tax deduction exceeds Rs. 10 lakh	***10%***
3. If the recipient is an artificial juridical person	***10%***
4. If the recipient is a firm or a domestic company and payment or credit subject to tax deduction does not exceed Rs. 1 crore	***Nil***
5. If the recipient is a firm or a domestic company and payment or credit subject to tax deduction exceeds Rs. 1 crore	***10%***
6. If the recipient is a non-domestic company and payment or credit subject to tax deduction does not exceed Rs. 1 crore	***Nil***
7. If the recipient is a non-domestic company and payment or credit subject to tax deduction exceed Rs. 1 crore	***2.5%***
8. If the recipient is a co-operative society or local authority	***Nil***
■ Education cess (*as a percentage of income- tax and surcharges*)	***2%***
■ Secondary and higher education cess (*as a percentage of income- tax and surcharges*)	***1%***

- The rate of TDS is 20 per cent if the recipient is a company and 10 per cent if the recipient is a person other than a company. These rates will be increased by surcharge, education cess and secondary and higher education cess.
- The recipient can submit Form No. **15G** or **15H** to get interest without TDS [for the relevant conditions]

- On ‘cumulative’ type of investments, if the interest is credited every year, tax deduction has to be made if the interest credited during the financial year exceeds the threshold limit of Rs. 10,000. Thus, in the case of ‘cumulative’ type of investments, though the interest is payable on the date of maturity, tax deduction is still to be made whenever the interest credited or paid exceeds the threshold limit during the financial year.
- A certificate issued by the Assessing Officer under section **197** [426.2] for deduction of tax at a lower rate or ***Nil*** rate is required in the case of charitable institution and trusts. No special dispensation is allowed to charitable institution and trusts as far as **TDS** discipline is concerned.

Deduction of tax at source from dividends [Sec.194]

The principal officer of an Indian company or a company which has made the prescribed arrangements for the declaration and payment of deemed dividend under **section2(22)(e)**within India to a shareholder who is resident in India, is required, before making any payment, to deduct at source from the amount of dividend at the prescribed rate. For the financial year 2007-08 rate for tax deduction is 20 per cent **(+SC+EC+SHEC).**

Cases when tax is not deducted or deducted at lower rates –

In the following cases tax is not deducted at lower rates:

DIVIDENDS COVERED BY SECTION 115-O- No tax is deductible from **June 1, 1997** to **March 31, 2002** and from **April 1,2003** in the case of dividend referred to in section **115-O [337]**

APPLICATION *IN FORM NO.-[426.2.]*

DECLARATION TO THE PLAYER IN FORM NO. 15G- [426.1.]

Deduction of tax at source from interest other than interest on securities [Sec. 194 A]

Any person, (not being an individual or a Hindu undivided family), who is responsible for paying to a resident any income by way of interest other than income chargeable as interest on securities, is required to deduct income-tax thereon at the rates in force at the time of credit of such income to the account of payee or " interest payable account" or "suspense account" 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. Deduction of tax is to be made from gross interest and not net interest payable after mutual set off between parties- ***CIT v. S.K.*** *Sundararamier & Sons [1999] 240 ITR 740 (Mad.).*

- ***Tax rates*** – Generally, tax is deducted at the rate of 10 per cent (+SC+EC+SHEC) if the recipient is a resident non-corporate assessee and 20 per cent (+SC+EC+SHEC) if the recipient is a domestic company.

Adjustment in the case of short deduction **–**The person responsible for making the payment at the time of making any deduction, increase or reduce the amount to be deducted under section 194A for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.

when section 194A is not applicable **–** By virtue of sections 194A(3) and 197(1C), tax is not deductible in the following cases:

a. Where the aggregate amount of interest credited or paid (or likely to be credited or paid) during the financial year does not exceed a specified amount;

b. Where interest is credited or paid to any banking company, cooperative bank, public financial institution, the **L**ife **I**nsurance **C**orporation, the Unit Trust of India, an insurance company or a co-operative society carrying on the business of insurance or notified institutions;

c. Where interest is credited or paid by the firm to its partner(s);

d. Where interest is credited or paid by a co-operative society to its members or to any other co-operative society;

e. Where interest is credited or paid in respect of deposits under the schemes of Post Office (Time Deposits), Post Office(Recurring Deposits), Post Office Monthly Income Account, Kisan Vikas Patra, National Savings Certificate VIII Issue and Indira Vikas Patra;

f. Where interest is credited or paid in respect of deposits (other than time deposits made or on after July 1, 1995) with a banking company or interest to non-members on deposits with a co-operative bank

g. Where interest is credited or paid in respect of deposits (by non-members) with a primary agricultural credit society or primary credit society or co-operative land mortgage bank or co-operative land development bank;

h. Where interest is credited or paid by the Central Government under different provisions of the direct taxes;

i. Where interest is credited or paid or credited on compensation awarded by the Motor Accidents Claims Tribunal if the amount of payment or the aggregate amount of such payment does not exceed Rs. 50,000;

j. Income paid / payable by an infrastructure capital company / fund or public sector company in relation to zero coupon bonds on or after June 1, 2005;and

k. Interest paid or payable by an Offshore Banking unit or deposits (or borrowing) made on or after April 1, 2005 by a person who is resident but not ordinarily resident in India.

NO TAX DEDUCTION IF INTEREST DOES NOT EXCEED A SPECIFIED AMOUNT- Tax under section **194A** is not deductible where the aggregate amount of interest credited or paid (or likely to be credited or paid) during a financial year does not exceed the amount given below-

	From June 1,2009 Rs.	***Up to May 31, 2010 Rs.***
Where the payer is a banking company and interest is paid or payable on time deposit	***10,000***	***5,000***
Where the payer is a co-operative society engaged in carrying on the banking business and interest is paid or payable on time deposit	***10,000***	***5,000***
Where the payer is post office and interest is paid or payable on notified deposit scheme with post office, i.e., Senior Citizen Savings Scheme,2004	***10,000***	***5,000***
Where the payer is any other	***5,000***	***5,000***

person		

The aforesaid limits shall be computed with reference to the income credited or paid by a branch of the banking company or the co-operative society, as the case may be. The interest on time deposits made with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank, will not be subject to the requirement of deduction of Income tax at source. The expression "time deposits" his been defined to mean deposits, excluding recurring deposits, repayable on the expiry of fixed period.

Cases where tax is deducted at lower rate or when no tax is deducted-

In the following cases case is not deducted or deducted at lower rates:

APPLICATION *TO THE ASSESSING OFFICER IN FORM NO.13*

DECLARATION *TO THE PAYER IN FORM NO.15G*

Deposit in joint means- If there is a deposit of Rs. 7,000 in a joint account of **XY** (the payer does not give any information about share of **X** and **Y**) and there are deposits of Rs. 45,000 in the name of **X** and Rs. 3,000 in the name of Y with the same person, the rate of interest of being 10 per cent per annum, the payer may aggregate the interest in the joint account amounting to Rs. 700 with the interest Rs. 4,500 on the deposit of **X** (who has higher interest income) and since the aggregate interest during a financial year exceeds Rs. 5,000, he

may deduct tax at source. The fact that the joint account may be styled as **YX** instead of **XY** will not make any difference. On the other hand, if the payer has definite information about the separate share of X and Y in the joint deposit (say both have equal shares), then their respective interest (50 per cent in each case) on joint deposit will be added to separate interest income of each of them. Since, in this particular case amounts to be arrived at do not exceed Rs. 5,000 (Rs. 4,850 and Rs. 650 in the case of X and Y, respectively) the payer is not liable to deduct tax at source- Circular No. 256, dated May 29, 1979.

Interest payment under Land Acquisition Act- Vide Circular No. 526, dated December 5, 1988, interest payment made under the Land Acquisition Act are covered by the provisions of section 194A. The Supreme Court has started in ***Bikram Singh v. Land Acquisition Collector [1996]*** 89 Taxman 119 that section 194A is not applicable in the case of interest payable on delayed compensation for compulsory acquisition.

Interest payable on hundi by buyer to supplier in the case of outstation sale of goods –Whether tax to be deducted by the buyer- In the case of out-station sale of goods, the supplier draws a *hundi* on the buyer and routes it through his banker along with transport documents with instructions to deliver the documents on retirement of the *hundi* and to charge interest on the amount of hundi from the date of acceptance thereof to the date of actual payment.

A problem arises whether, in such circumstances, tax is to be deducted at source by the party retiring the . *hundi* on the amount of interest at the time of making payment to the bank. In the aforesaid cases, interest paid by the buyer to the supplier is not to the supplier is not to the bank as such but only routed through the bank.

The exemption under section 194A(3)(iii)(a) is available when interest is paid to a bank. As the interest from the buyer is not for the bank as such, but only routed through bank to the supplier (who is the recipient), the buyer has to deduct tax at source under section 194A from the interest through bank will not make any difference- Circular No. 48, dated November 7,1970.

Interest payable by consignor t5o their commission agent- Tax is to be deducted at source in accordance with section **194A** from the interest paid by consignor to their commission agent even where such interest is paid under an agreement whereby the commission agent retains for himself the interest due to him at the time of paying to the consigner the moneys due to him on account of the consignment- Circular **Letter F. No. 12/12/68-IT (A-II),** dated **September 23, 1968.**

Finance service company- Payment made by the assessee, which is a company engaged in retail finance services, corporate advisory services, securities trading and assets securitization, to the persons who has invested in a scheme floated by the assessee under which the investor is guaranteed a minimum return of 1.5 per cent a month, is 'interest' as defined in section 194A from payment of interest made to investors under the above scheme- *Viswapriya Financial Services & Securities Ltd.v.CIT [2002]258 ITR 496 (Mad.).*

Who is an individual – section 194A is not applicable in some cases if the payer of income is an individual or a Hindu undivided family. Even an artificial juridical person can be treated as an individual under section 194A. Status fixed for the purpose of assessment cannot get altered for purpose of section 194A. Once a trust has been assessed as an individual under section 161, section 194A will not be applicable to it – *ITO* v. Arihant Trust [1995] 214 ITR 306 (Mad).

***Payment under a hire purchase agreement* –** When a part of purchase installment is paid by a hirer to the owner under a hire purchase contract, the provisions of section 194A are not attracted – Instruction No. 1425, dated November 16, 1981.

Cheque discounting charges – Cheque discounting charges are different from interest payments and the provisions of section 194A are not attacted – ITO v. A.S.Babu Sah [2003] 86 ITD 283 (Mad).

Interest on delayed payment of insurance compensation- Tax at source is to be deducted by insurance company in case of interest on delayed payment of compensation awarded by Motor Accident Tribunal and trial court cannot direct insurance company to make payment without deduction of tax at source – **New India Assurance Co. Ltd.** V. **Man**i [2004]270 ITR 394 (Mad).

Personal loan of directors routed through company – Where director's personal loans were routed through the company's books by back-to-back transaction / cheques, the Supreme Court, in ***CIT*** v. **Century Building Industries (P.) Ltd. [2007] 163 Taxman 188,** held that the company has an obligation to deduct tax on interest payment. It does not matter that it has only acted as a medium for collecting and disbursement purpose. The Supreme Court held that the tax should have been deducted at the time of credit not withstanding the arrangement between the company, directors and the agency giving loans.

Deduction of tax at source from winnings from lotteries or crossword puzzles [Sec.194B]

A person responsible for paying to any person any income by way of winnings from lotteries or crossword puzzles or card game or any other game of any short exceeding Rs. 5,000 is

required, at the time of such payment, to deduct income-tax thereon at the rate in force. The rate of tax deduction at source for the financial year 2008–09 is 30 per cent **(+SC+EC+SHEC).** Tax is deductible from the amount payable to the winner. Unclaimed and

/ or undisbursed of section prize money is not a winning from lottery and, as such the provisions of section 194B for deduction of income – tax at source are not applicable in respect thereof – *Director of State Lotteries* v. CIT [1999]238 ITR 1 (Gauhati).

- ***Prizes on the basis of gift coupon may not be "lottery"-*** State Government's District Level Gift-Linked Savings Mobilization Scheme cannot be treated as lottery merely because prizes were distributed on basis of gift coupons issued ***Director of Small Savings v. ITO*** [2000] 75 ITD 152 (Mad).

Prizes given partly in cash and partly in kind – Where the prize is given partly in cash and partly in kind, tax will be deductible from cash prize with reference to the aggregate amount of the cash prize and the value of the prize in kind. Where the winnings are wholly in kind or where they are partly in cash and partly in kind but the part in cash is not sufficient to meet the liability for tax deduction in respect of the whole of the winnings, the person responsible for paying shall, before releasing the winnings either in cash or in kind, insure that tax has been paid in respect of the winnings.

Deduction of tax at source from winnings from horse races [Sec. 194BB]

Tax is deductible at source from any income by way of winnings from the horse races at prescribed rates. The rate of tax deduction at source for the financial year 2008-09 is 30 per cent **(+SC+EC+SHEC).** Deduction of tax at source can be made only in cases where income

by way of winnings from horse races to be paid to a person exceeds Rs. 2,500. The obligation to deduct tax at source applies only where such winnings are paid by a bookmaker or a person to whom a license has been granted by the government under any law for the time being in force for horse racing in any race course or for arranging for wagering or betting in any race course.

Deduction of tax at source from payment to contractor or sub-contractors [Sec. 194C]

Provisions of section 194C are given below-

Who is responsible for tax deduction- In the following two cases tax is deductible under section 194C-

WHEN PAYMENT IS MADE BY A SPECIFIED PERSON TO A RESIDENT CONTRACTOR [SEC 194C(1)]

- ***Specified person – Meaning of –*** tax is deductible under section 194C (1) only if payment is made in pursuance of a contract between a specified person and a resident contractor. The following are "specified persons" for this purpose :

a. The Central Government or any State Government ; or

b. Any local authority ; or

c. Any corporation established by or under a Central, State or Provincial Act ; or

d. Any company ; or

e. Any co-operative society ; or

f. Any authority constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning development or improvement of cities, towns and villages, or for both; or

g. Any society registered under the Societies registration Act, 1860 or under any law corresponding to that Act in force in any part of India; or

h. Any trust; or

i. Any university established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a University under section 3 of the University Grants Commission Act, 1956;

j. Any firm, or;

k. Any individual or HUF whose books of account are required to be audited under section 44AB(a)/(b) during the immediately preceding financial year and sum credited / paid is not exclusively for personal purposes; or

l. (with effect from June 1, 2008) AOP / BOI whose books of account are required to be audited under section 44AB(a)/()b during the immediately preceding financial year.

CASE II- WHEN PAYMENT IS MADE BY A RESIDENT CONTRACTOR TO A RESIDENT SUB – CONTRACTOR **[SEC. 194 C (2)] -** Tax is also deductible –

a. In case payment is made by a resident contractor (not being an individual or a Hindu undivided family whose books of account are not required to be audited under section 44AB in the immediately preceding financial year);

b. To a resident sub – contractor;

c. For carrying out (or for the supply of labour for carrying out) the whole (or any part) of the work undertaken by the contractor, or for supplying, whether wholly or partly, any labour which the contractor has undertaken to supply.

When tax has to be deducted at source - Tax is to be deducted either at the time of credit of such sum to the account of the payee, or at the time of payment thereof in cash or by issue of Cheque or by any other mode, whichever is earlier.

For this purpose, any sum credited to any account, whether called "Suspense account" or by any other name, in the books of account of the payer, is treated as credit of such income to the account of the payee.

Consideration/sum exceeding a particular sum is subject to tax deduction at source – The provisions are given below:

- To avoid tax deduction in petty case, tax is required to be deducted at source where the amount credited or paid to a contractor or sub- contractor exceeds Rs. 20,000 in a single payment or credit or Rs. 50,000 in the aggregate during a financial year. In the other words, tax is not be deductible under section 194C if the following two conditions are satisfied-

  a. The amount of any (single) sum credited or paid (or likely to be credited or paid) to the contractor or sub- contractor does not exceed Rs. 20,000; and

  b. The aggregate of the amounts of such sums credited or paid (or likely to be credited or paid) during the financial year does not exceed Rs. 50,000.

- Further, tax is not deductible under section 194C if the following conditions are satisfied-

  1. Consideration for work contract is paid or payable by a resident contractor to a resident sub- contractor.
  2. The resident sub-contractor is an individual.
  3. The aforesaid amount is paid or payable to the sub- contractor during the course of business of plying, hiring or leasing goods carriage.
  4. The resident sub- contractor does not own more than two goods carriages at any time during the previous year.
  5. The resident sub- contractor submits a declaration to the payer in Form No. 15-I.

If the above conditions are satisfied, the payer will not deduct tax at source under section 194C. the payer shall furnish the details of above payment to the prescribed income-tax authority in Form No.15J on or before June 30 after the expiry of the financial year.

Who is a contractor/ sub- contractor- A **"contractor"** is one who makes an agreement with another to do a piece of work, retaining in himself controls of the means, methods and the manner of producing the result to be accomplished, neither party having the right to terminate the contract at will. Sub- contractor is one who takes portion of contract from principal contractor or another sub- contractor

SUPPLY OF GOODS AS PER SPECIFICATION OF BUYER – IS IT WORKS CONTRACT- The provisions of section 194C would apply in respect of a contract for supply of any article or things as per prescribed specifications only if it is a contract for sale – **Circular No. 13 /2006,** dated December 13,2006.

Rate of tax deduction- The person responsible for making payments to contractors / sub-contractors is required to deduct tax at source at the following rates during the financial year 2008-09. These rates are, however, not applicable in case covered by para 411.8.

	Advertising contracts	**Other contracts**
	Income-tax	**Income-tax**
Payments to contractor	1% (+SC+EC+SHEC)	2% (+SC+EC+SHEC)
Payments to sub-contractor	1% (+SC+EC+SHEC)	1% (+SC+EC+SHEC)

PAYMENT, NOT INCOME COMPRISED THEREIN, IS SUBJECT TO DEDUCTION- The deduction at the aforesaid rate is with reference to the amount of payment itself and not "income comprised in the payment". The person responsible for payment is not, therefore required to estimate the income comprised the payment at all. The Supreme Court in *Associated Cement* Co. *Ltd.v.CIT* [1993] 201 ITR 435 has also given the same verdict.

WHEN PURCHASE ORDER IS TO ACQUIRE MACHINERY AND ITS ERECTION- One has to find out the primary object of the contract. If the primary object is to purchase plant and the civil work, erection and commissioning are only incidental to purchase of plant, deductible under section 194C only in respect of consideration payable for civil work, erection and commissioning. This is because of the fact that the contract for supply of plant and the contract for civil work/erection are two separate contracts, though there may be a common purchase order – ***Haryana Power Generation Corporation Ltd***.v.***ITO*** [2007] 164 Taxman 64 (Delhi) (Mag).

Deduction of tax at source from insurance commission [Sec.194D]

Person responsible for paying to a resident any income by way of remuneration reward, whether by way of commission or otherwise, for soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance is required, to deduct income-tax thereon at the rates in force.

- ***Tax rates-*** Generally tax is deductible at the rate of 10 per cent (SC+EC+SHEC) if the recipient is a resident non-corporate assessee and 20 per cent (SC+EC+SHEC) if the recipient is a domestic company.

- ***Time of tax deduction*** – tax shall be deducted at the time of credit of such income to the account of the payee or the payment thereof (by whatever mode), whichever is earlier.
- ***Adjustment not possible:***

- ***When tax is not deductible or deductible at lower rate*** – when the amount does not exceed Rs.5, 000.

Payment to non-resident sportsman or sports association [Sec. 194E]

A person responsible for paying the following income to following persons shall deduct tax at source at the rate of 10 per cent (+SC+EC+SHEC).

Payee	***Nature of income***
1. non-resident foreign citizen sportsman (including an athlete)	Income is by way of **a.** participation in India in any game (other than card game or gambling, etc.); or **b.** advertisment; or **c.** contribution of articles relating to any game or sport in India in newspapers, magazines or journals.
2. Non-resident sports association or institution.	Any amount guaranteed to be paid or payable in relation of any game (but other than card game, etc.) or sport played in India.

When tax shall be deducted at source – Tax is to be deducted at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of cheque or draft or by other mode, whichever is earlier.

Deduction of tax from Payments in respect of National Savings Scheme [Sec. 194EE]

The person responsible for paying any amount (i.e. principal and interest) out of National Savings Scheme, 1987 should deduct tax at source at the rate of 20 per cent (+SC+EC+SHEC). Tax is deductible at the time of payment. It may be noted that the payment out of National Savings schemes, 1992 (which was eligible for the benefit of sections 80L and 88) is not subject to tax deduction at source.

***When tax is not deductible* –** No tax deduction shall be made in the following cases –

- Payment upto Rs. 2,500
- Payment to legal heirs
- Declaration to the payer in the form No. 15G.

Deduction of tax at source on payments on account of repurchase of units by Mutual Funds or UTI [Sec. 194F]

The person responsible for paying to any person any amount referred to in section 80CCB shall, at the time of payment thereof, deduct income-tax thereon at the rate of 20 per cent (+SC+EC+SHEC). it may be noted that section 80CCB is applicable if investment was made during the previous year 1990-91 and 1991-92 in the notified units of Equity Linked Saving Scheme of UTI or a mutual fund.

Deduction of tax from commission, etc., on sale of lottery tickets [Sec. 194G]

The person responsible for paying any income by way of commission, remuneration or prize (by whatever named called) on lottery tickets in an amount exceeding Rs. 1,000 shall deduct income-tax thereon at the rate of 10 per cent (+SC+EC+SHEC).

If an authorized lottery ticket agent purchases lottery ticket in bulk at a discount from the State Government and sells the same at the price of his choice, section 194G is not applicable – *M.S. Hameed v. Director of State of Lotteries [2001] 114 Taxman 394 (Ker.).*

- Tax shall be deducted at the time of credit of such income to the account of the payee or at the time of payment of such income in cash or issue of cheque or draft, or by any other mode, whichever is earlier.

Deduction of tax from commission or brokerage [Sec. 194H]

Here, we shall discuss TDS implications on payments of the nature of **Commission or Brokerage** as per the Indian Income Tax Act.

Section 194H has been inserted from June 1, 2001. It provides as under –

Who is responsible for Tax deduction – any person (other than an individual or HUF) who is responsible for paying commission or brokerage (not being insurance commission) to a resident shall deduct at source.

***When tax has to be deducted* –** Tax shall be deducted at the time of credit of such income to the account of the payee or at the time of payment of such income in cash or by the issue of a cheque or draft or by any other mode, Whichever is earlier.

Where any income is credited to any account whether called "Suspense account" or by any other name in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee.

Deduction of tax at source from income by way of rent [sec. 194-I]

Section 194-I has been inserted with effect from June 1, 1994.

***Who is responsible for Tax deduction* –** any person (not being an individual or a HUF) responsible for paying rent to a resident is required to deduct tax at source under the provisions of section 194-I.

***When tax has to be deducted* –** The person responsible for paying rent should deduct tax at source. Tax is to be deducted at source either :

a. at the time of credit of such income to the account of the payee; or
b. at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, Whichever is earlier.

Where any income by way of rent is credited to any account (whether called "Suspense account" or by any other name) in the books of account of the person liable to pay such rent, such crediting shall be deemed to be credit of such income to the account of the payee.

	Rate of tax deduction
Rent of machinery or plant or equipment	***10%***
Rent of any land or building or furniture or fitting –	
Where the recipient is an individual or a Hindu Undivided Family	***15%***
Where the recipient is any other person	***20%***

Tax deduction at source on fees for professional or technical services or royalty [sec. 194-J]

Section 194-J has been inserted with effect from July 1, 1995.

Who is liable to deduct tax at source under section 194J – Any person, not being an individual or a HUF, who is responsible for paying to a resident any sum by way of fees for professional services, or fees for technical services or royalty shall deduct at source.

Time of tax deduction – Tax shall be deducted at the time of credit of such sum to the account of the payee 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.

Rate of tax deduction – Tax shall be deducted at the rate of 10 per cent (+SC+EC+SHEC). The above rate is applicable on total payment (reimbursement cannot be deducted out of bill amount).

When tax is not deductible – where the amount of such sum or, as the case may be the aggregate of the amount of such sums credited or paid or likely to be credited or paid during the financial year by the aforesaid person to the account of, or to, the payee, does not exceed Rs. 20,000 in case of fees for professional services or Rs. 20,000 in case of fees for technical service, or Rs. 20,000 in case of royalty or Rs. 20,000 in case of any sum referred to in section 28(va).

Fees paid by non-residents

Payment to a director

Tax deduction from payment of compensation in certain cases [Sec. 194LA]

The provision of section 194LA are given below –

Who is responsible for Tax deduction – Any person responsible for paying to a resident any compensation or enhanced compensation or consideration or enhanced consideration on account of compulsory acquisition of any immovable property (but other than agricultural land) is responsible for deduction of tax at source.

Time of tax deduction – Tax is deductible at the time of payment of aforesaid sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Rate of tax deduction – Tax is deductible at the rate of 10 per cent (+SC+EC+SHEC). However, Tax is not deductible if the aforesaid sum or aggregate amount during a financial year does not exceed Rs. 1,00,000.

Deduction of tax at source from other sums [Sec. 195]

A person responsible for making payment to a non-corporate non-resident assessee or to a company other than a domestic company, of any interest or any other sum (not being salary) is required, at the time of payment or at the time of credit to the account of payee, interest payable account, or suspense account, or at the time of payment, whichever is earlier, to deduct income-tax thereon at the rates prescribed by the relevant Financial Act. TDS liability under section 195 arises only when income is credited to account of payee or on actual payment of same, whichever is earlier and mere accrual of income in hands of foreign company would not be sufficient proximate reason for tax-deductor's liability under section 195.

- **When tax is deducted at lower rate or when no tax is deducted –** Tax at source should not be deducted or should be deducted at lower rate, as the case may be, where the recipient has made an application to the Assessing Officer and obtained a certificate to that effect.

  * Moreover, tax is not deductible by an Offshore Banking Unit from interest paid on deposits made after March 31, 2005 by a non-resident or interest on borrowing taken from a non-resident on or after March 31, 2005.

- **Income of recipient taxable in India is subject to tax deduction, not the entire payment –** Under Section 195, income of non-resident which is taxable in India is subject to tax deduction. Where the payer of income (other than salary) considers that the whole of such sum would not be income chargeable in the case of recipient, he may make an application under section 195(2) to the Assessing Officer to determine by general or special order the appropriate proportion of such sum so chargeable, and upon such determination, tax shall be deducted under section 195 only on that proportion of the sum which is so chargeable.

- **Furnishing of information regarding deduction of tax at source under section 195 –** tax is deductible at source under section 195 in respect of payment/credit of any sum (other than salary) to a person who is non-resident. The person making the remittance is required to furnish an undertaking (in duplicate) addressed to the Assessing Officer accompanied by a certificate from a chartered accountant in a specified format. This undertaking and certificate is submitted to the Reserve Bank of India or its authorized dealers who, in turn, are required to forward a copy to the Assessing Officer.

  The purpose of the undertaking and the certificate is to effectively collect taxes (by way of TDS under section 195) at the stage when the remittance is made, as it may not be possible to recover the tax at a larger stage from the non-resident. There has been substantial increase in foreign remittance, making the manual handling and tracking of certificate difficult.

  To monitor and track transactions in a timely manner, section 195 has been amended with effect from April 1, 2008.

- **Procedure for refund of tax deducted under section 195 to the person deducting tax at source –** the board have revised the procedure for refund of tax deducted at source under section 195 to the deductor –

  - **Cases covered – In the following cases tax deducted at source under section 195 can be refunded to the deductor –**

    I. The contract is cancelled and no remittance is made to the non-resident.

II. The remittance is duly made to the non-resident, but the contract is cancelled. In such cases, the remitted amount has been returned to the person responsible for deducting tax at source.

III. The contract is cancelled after partial execution and no remittance is made to the non-resident for the non-executed part.

IV. The contract is cancelled after partial execution and remittance related to non-executed part is made to the non-resident. In such cases, the remitted amount has been returned to the person responsible for deducting tax at source or no remittance is made but tax was deducted and deposited when the amount was credited to the account of the non-resident.

V. There occurs exemption of the remitted amount from tax either by amendment in law or by notification under the provisions of Act.

VI. An order is passed under section 154 or 248 or 264 reducing the tax deduction liability of a deductor under section 195.

VII. There occurs deduction of tax twice from the same income by mistake.

VIII. There occurs payment of tax on account of grossing up which was not required under the provisions of Act.

IX. There occurs payment of tax at a higher rate under the domestic law while a lower rate is prescribed in the relevant double taxation avoidance treaty entered into by India.

In the cases given above, where no income has accrued to the non-resident due to cancellation of contract or where income has accrued but no tax is due on that income or tax is due at a lesser rate, the amount deposited to the credit of

Government to that extent under section 195, can be refunded, with prior approval of the Chief Commissioner or the Director General concerned, to the person who deducted it from the payment to the non-resident.

- **Other points –** *The following points should be noted –*

a. ***PAYMENT TO NON-RESIDENT SHIPPING COMPANIES AND/OR THEIR INDIAN AGENTS***

b. ***AGENTS OPERATING OUTSIDE INDIA***

c. ***TELECOM FACILITY***

d. ***SALARY TO TECHNICIANS***

e. ***INCOME EXEMPT UNDER DTAA***

f. ***LEAD MANAGER OF GDR***

g. ***DATABASE***

h. ***USE OF TRANSPONDER AND UPLINKING FACILITY***

Tax deduction from any income payable to non-resident unit-holders of mutual fund [Sec. 196A]

Tax is not deductible under section 196A from April 1, 2003.

Deduction of tax at source in respect of units referred to in section 115AB [Sec. 196B]

Where any income in respect of units referred to in section 115AB or by way of long-term capital gain arising from the transfer of such units, is payable of an Offshore Fund, the person responsible for making the payment shall deduct tax at the rate of 10 per cent (+SC+EC+SHEC).

***Time of tax deduction* –** Tax shall be deducted at the time of credit of such income to the account of the payee 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.

Tax deduction from income or long-term capital gain from foreign currency bonds/Global Depository Receipts [Sec.196C]

Any person responsible for paying any income in respect of bonds or Global Depository Receipts referred to in section 115AC to a non-resident or by way of long-term capital gain arising from the transfer of such bonds/ Global Depository Receipts shall deduct tax at the rate of 10 per cent of such income (+SC+EC+SHEC).

***Time of tax deduction* – Tax** is deductible at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or at the time of issue of a cheque or draft or by any other mode, whichever is earlier. However, no tax is deductible from dividends referred to in section 115-O with effect from April 1, 2003.

Tax deduction from income of foreign Institutional Investors from securities [Sec. 196D]

Any person responsible for paying any income in respect of securities referred to in section 115AD (1) (a) to a Foreign Institutional Investors shall deduct tax thereon at the rate of 20 per cent (+SC+EC+SHEC). With effect from April 1, 2003, no tax is deductible from dividend referred to in section 115-O.

***Time of tax deduction* – Tax** is deductible at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or at the time of issue of a cheque or draft or by any other mode, whichever is earlier.

***When tax is not deductible* –** No deduction of tax is to be made from any income by way of capital gains arising from the transfer of such securities.

Types Of Payment, Relevant Provisions, Person Responsible For Deduction Of Tax And Type Of Payee

S No	Nature of Payment	Person Responsible for deduction of tax at source	TDS necessary when payment is made to
1.	Salary and all positive incomes under any head on income but not including loss under the head income under the House property (Sec 192)	All Governments, Companies, Co operartive societies, Local authorities, University, Institutions, Associations or Body , Trustees of a recognized Provident Fund or Superannuation Fund	Any individual having taxable salary during the previous year from any number of employers
2.	Interest on Securities (Sec 193)	Any person	Any person
3.	Dividend from Domestic Companies or companies which have made prescribed arrangement for declaration/payment of dividend within India (Excluded from TDS w.e.f. 1.6.97 by Finance Act, 97) (Sec 194)	Principal Officer of a Domestic Company.	A resident shareholder when total dividend paid exceeds Rs 2,500/-
4.	Interest other than interest on securities (Sec 194A)	Any person other than individual or HUF	A resident
5.	Winnings from Lottery or crossword puzzles (Sec 194B)	Any person	Any person
6.	Winnings from horse races (Sec	Book maker or person holding a	Any person

	194BB)	licence for horse racing, wagering or betting in any race course	
7.	i. Payment to Contractors in pursuance of any work of contract including supply of labour contract (Sec 194C)	Central, State Government, local authority; Central, State or provincial Corporation; Company ; Co-operative Society; trust; University; a constituted authority engaged in housing and planning & development of Cities,Towns and Villages; and firm (firm included w.e.f. 1.7.95 vide Finance Act, 1995)	Any resident person
	ii. Payment to sub-contractors (Sec 194C)	Any Contractor other than individual or HUF	Any resident person
8.	Insurance Commission covering all payments for procuring Insurance business(Sec 194D)	Any person responsible for payment	A resident
9.	Payment to non-resident sportsman (including athlete) or sports association or institution. In case of non-resident sportsman, it includes payments in respect of advertisements as well as articles on any game or sports in India in newspapers, magazines etc. (194E)	Any person responsible for payment	Any non-resident sportsman who is not a citizen of India and any non-resident sports association or institution
10.	Payments in respect of deposits under NSS (194EE)	Person responsible for making payment in respect of amount referred to in Section 80CCA (2)(a).	Any person except when the payment is made to the heirs.
11.	Payment on account of repurchase of Units by Mutual Fund or UTI (194F)	Person responsible for making payment in respect of amount referred to in Section 80CCB (2).	Any person
12.	Commission to Stockists, distributors, buyers and sellers of Lottery tickets including remuneration or prize on such tickets (sec 194G)	Person responsible for making payment to such agent	Any person
13.	Commission brokerage (sec 194H)	Not applicable w.e.f. 1.6.92	-
14.	Payment of rent (sec 194I)	Any person responsible for making payment excluding individual & HUF.	Any person
15.	Fees for professional & technical services; professional services include legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration,	Any person responsible for making payment except an individual & HUF.	A resident.

	advertising & any profession notified under Section 44AA ; Technical fees mean any consideration for rendering any managerial , technical or Consultancy service including provision of services of technical or other personnel(sec 194J)		

Rates For TDS In India.

During the Financial Year 1998-1999 Tax is to be Deducted by the peerson responsible for making the necessary payments at following Rates.

- **A.** Salary to an employee.
- **B.** In the case of payment to a resident other than a company.
- **C.** In the case of payments to a domestic company.
- **D.** In the case of payment to a non-resident other than a company.
- **E.** In the case of payments to a non-domestic company.

Nature of payment	Rate of deduction of tax(as percentage of payment made)	Surcharge	Total
A. Salary to an employee	At regular tax rates in force See sub-module Tax Rates		
B. In the case of payment to a resident other than a company:			
1. interest other than interest on securities	10	1	11
2. winning from lotteries and crossword puzzles	40	4	44
3. winning from horse races	40	4	44
4. insurance commission	10	1	11
5. interest on debentures or securities other than a security of the Central or a State Government for money issued	10	1	11

by or on behalf of a local authority or a statutory corporation or listed debentures of a company			
6. rent to an individual or a Hindu undivided family	1.5	1.5	16.5
7. rent to a person other than an individual or a Hindu undivided family	20	2	22
8. payment in respect of deposit under National Savings Scheme, 1987	20	2	22
9. payment on account of repurchase of units by Mutual Fund of UTI [section 80CCB(2)	20	2	22
10. commission on sale of lottery tickets	10	1	11
11. payment to contractor (in the case of advertising contracts : 1 per cent)	1	0.1	1.1
11A. Payment to a contractor other than an advertising contract	2	0.2	2.2
12. payment to sub contractor	1	0.1	1.1
13. fees for professional or technical services	5	0.5	5.5
14. Payment exceeding Rs. One lakh of compensation/consideration or enhanced compensation/consideration on account of compulsory acquisition of any capital asset (applicable upto May 31st 2000)	10	1	11
15. any other income	20	2	22
C. In the case of payments to a domestic company:			
1. interest other than interest on securities	20	2	22
2. winning from lotteries and crossword puzzles	40	4	44
3. winning from horse races	40	4	44
4. commission on sale of lottery tickets	10	1	11
5. payments to a contractor (in the case of advertising contracts : 1 per cent)	1	0.1	1.1
5A. Payment to a contractor other than an advertising contract	20	0.2	20.2
6. payments to sub-contractor	1		
7. rent	20	2	22
8. fees for professional or technical services	5	5	0.5
9. Payment exceeding Rs. One lakh of compensation/consideration or enhanced compensation/consideration on account of compulsory acquisition of any capital asset (applicable upto May 31st 2000)	10	1	11
10. any other income	20	2	22
D. In the case of payment to a non-resident other than a company			

1. income from foreign exchange assets payable to an Indian citizen	20	2	22
2. income by way of long-term capital gains referred to in section 115E	10	1	11
3. income by way of interest payable by Government/Indian concern on money borrowed or debt incurred by Government or Indian concern in foreign currency	20	2	22
4. rent to an individual or a Hindu Undivided Family	15	-	15
5. rent to a person other than an individual or a Hindu Undivided Family	20	-	20
6. winnings from lotteries and crossword puzzles	40	4	44
7. winnings from horse races	40	4	44
8. payments referred to in section 115BBA	10	-	10
9. payments in respect of National Savings Scheme, 1987	20	-	20
10. payments on account of repurchase of units by Mutual Fund/UTI [section 80CCB(2)]	20	-	20
11. income by way of interest/dividends [not being dividends referred in section 115-O] payable in respect of bonds/shares referred to in section 115AC or by way of long-term capital gain arising from transfer of such bonds	10	-	10
12. commission on sale of lottery tickets	10	-	10
13. income in respect of units referred to in section 115AD(1)(a) payable to foreign Institutional Investor (other than capital gain)	20	-	20
14. income by way of long-term capital gain	20	2	22
16. any other income [see Note 2]	30*		
E. In the case of payments to a non-domestic company			
1. winning from lotteries and crossword puzzles	40	-	40
2. winnings from horse races	40	-	40
3. interest payable by Government or an Indian concern on money borrowed or debt incurred in foreign currency	20	-	20
4. royalty payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after March 31, 1976, where such royalty is in consideration for the transfer of all or any rights (including the granting of a licence) in respect of copyright in any book on a subject referred to in the first proviso to sub-section (1A) of section 115A of the Act, to the Indian concern or in respect of computer software referred to in the second proviso to section 115A(1A), to a person resident in India :-			
--where the agreement is made before June 1, 1997	30	-	30
--where the agreement is made after May 31, 1997	20	-	20

5. royalty [not being royalty of the nature referred to in (d) supra] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to matter included in the industrial policy, the agreement is in accordance with that policy:-			
--where the agreement is made after March 31, 1961 but before April 1, 1976	50	-	50
--where the agreement is made after March 31, 1976 but before June 1, 1997	30	-	30
--where the agreement is made after May 31, 1997	20	-	20
6. fees for technical services payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to matter included in the industrial policy, the agreement is in accordance with that policy			
--where the agreement is made after February 29, 1964 but before April 1976	50	-	50
--where the agreement is made after March 31, 1976 but before June 1, 1997	30	-	30
--where the agreement is made after May 31, 1997	20	-	20
7. rent	20	-	20
8. long-term capital gains	20	-	20
9. payments referred to in section 115BBA	10	-	10
10. commission on sale of lottery tickets	10	-	10
11. payments to overseas financial corporation covered by section 115AB or by long-term capital gains arising from transfer of such units	10	-	10
12. income by way of interest/dividend [not being dividend referred in section 115-O] in respect of bonds/shares referred to in section 115AC or by way of long-term capital gain arising from transfer of such bonds	10	-	10
13. income (other than capital gain) in respect of units referred to in section 115AD(1)(a) payable to Foreign Institutional Investor	20	-	20
14. on any other income	48	-	48

Exemption From TDS India

Circumstances in which tax is not to be deducted at source or is to be deducted at a lower rate :

S.No	Type of Income	Form No in which application to be made	Certificate to be issued by the Assessing Officer	Period of validity
1.	Salary (sec192)	Form No 13 (see rule 28)	Form No 15AA (see rule 28AA). The certificate is issued to the deductor under advice to the applicant	Valid for the period specified in the certificate (see Rule 28AA) Fresh application required after expiry of validity period.
2.	Interest on securities (Section 193)	-do-	-do-	-do-
3.	Interest other than interest on Securities (Section 194A)	-do-	-do-	-do-
4.	Insurance Commission (Section 194D)	-do-	-do-	-do-
5.	Rental Income (Section 194I)	-do-	-do-	-do-
6.	Income in respect of Units (Section 194K)	-do-	-do-	-do-
7.	Payment to non-residents (Section 195)	-do-	-do-	-do-
8.	Payment to Contractors or Sub-Contractors (Section (194)	Form No.13C (See Rule 28)	No prescribed form. The certificate can be issued by the Assessing Officer on a plain paper	For the relevant FY.
9.	Commission on	Form No 13D	-do-	-do-

	sale of lottery tickets (sec 194G)	(applies to lottery agents and not prize winners)		
10.	Payment of fees for professional or technical services (sec 194J)	Form No 13E	-do-	-do-
11.	Payment to non-resident banking company (sec 195(3))	Form No 15C (see rule 29B)	Form No 15E	For the FY specified in the certificate
12.	Payment to non-resident company carrying on business or profession in India through a branch (not being interest or dividend)-sec 195(3)	Form No 15D (see rule 29B)	-do-	For the relevant FY

Types of income/payment where the above benefit is not available under the Act:

1. Winning from Lottery or Crossword puzzles Section 194B
2. Winning from horse race Section 194BB
3. Payments to non-resident Sportsmen or Association Section 194E
4. Payments in respect of NSS deposits Section 194EE
5. Payments on account of repurchase of units issued by Mutual funds Section 194F
6. Income in respect of units of non-residents, Off-shore Funds;foreign currency bonds;

   (FIIs) Section 196A,196B, 196C & 196D

IMPACT OF TDS

POSITIVE IMPACT OF TDS

More time

Tax extensions do indeed give you extra time – 6 months – to be exact. Many people decide to file an extension because they know they will not be able to properly prepare their return before the deadline. In this instance, filing for an extension is well worth it, because there are certainly tax mistakes that can be costly when made. It is always better to file an extension then an incorrect return.

May help prevent an audit

Although many people assume any small mistake will result in an audit, with tax extensions it is not the case. Filing a tax extension will not increase your chance of being randomly selected for an audit.

No penalty

You will not be fined, cited, or penalized for filing a tax extension. The IRS gives the public this extra inch in hopes that they will be more likely to get their money with less paperwork to worry about.

Stress relief

In this economy, there is plenty of stress and worry to go around. Since there is no penalty for filing an extension, you may file one just to take some anxiety off of your shoulders. These days we can take all the stress relief we can get, and if you think filing an extension helps you focus on bigger problems, use that advantage.

No rushing to get your return in

The worst thing you can do is rush your return. By rushing your return, you will either fudge the numbers or miss out on claiming deductions or credits you were eligible to claim. So, if it is nearing the deadline, and you know you do not have time to do it right, file an extension.

Enable people to pay tax in installments

To enable the salaried people to pay the tax as they earn every month. This helps the salaried persons in paying the tax in easy installments and avoids the burden of a lump sum payment.

Collect the tax at the time of payment

To collect the tax at the time of payment of income to various assesses such as contractors, professionals etc.

Tax deducted at source help the government to get funds

Government requires funds throughout the year. Hence, advance tax and tax deducted at source help the government to get funds throughout the year and run the government smoothly.

It helps to spread the tax net wide enough to include persons who might otherwise have evaded taxes. The minimum thresholds are raised and the rates are reasonable and comparable with the rates prevailing in other countries.

NEGATIVE IMPACT OF TDS

You still need to pay.

Although filing an extension will give you more time to file your return, it does not give you more time to pay the IRS if you owe them money. It is a costly but common misconception that filing an extension allows you to postpone tax payments as well. If you owe money to the IRS, then be sure to send in a payment when you file your extension. You must pay 90% of the amount you owe in taxes by April 15 or be subject to a late payment penalty. Notwithstanding that payment, you will be subject to interest on whatever is owed if not paid by April 15.

E filing no longer and option.

One major inconvenience to filing for a tax extension is that it will prohibit you from being able to file electronically past the deadline. After April 15 has past, you will be required to send in your tax forms through regular “snail” mail. This may seem scary to those of us used to doing everything online, but is really not as intimidating as it sounds.

IRS does not always notify you.

When you send in your return forms, the IRS will notify you that they have received them. However, the IRS will likely not notify you when they receive your extension. If you do file one, then it is a good idea to call the IRS and verify they received it. Also, for your benefit always make and keep a photocopy of any tax documents you send out.

Delaying the inevitable.

Hey, you might be getting some stress relief in April, but the stress will rear its ugly head again sometime between now and October. So, you had better find some time to get prepared.

You really still need to pay!

There is a reason this on here twice—people fail to pay-up when filing for an extension and it ends up costing them thousands of extra dollars in interest and penalties. Remember that no matter the reason you file for an extension, it does not extend your obligation to pay your taxes by April 15. If you do not know how much to pay, look to last year's return for some guidance.

DEMOGRAPHIC CLASSIFICATION OF RESPONDENTS

TABLE:-1

S.No.	Age Group	No. of respondents
1.	20-40 years	29
2.	40-60 years	20
3.	60 and above	1

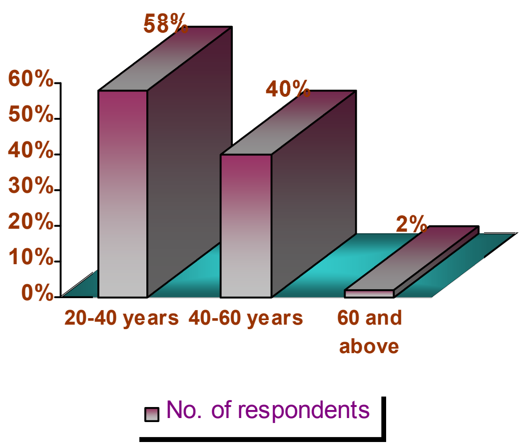


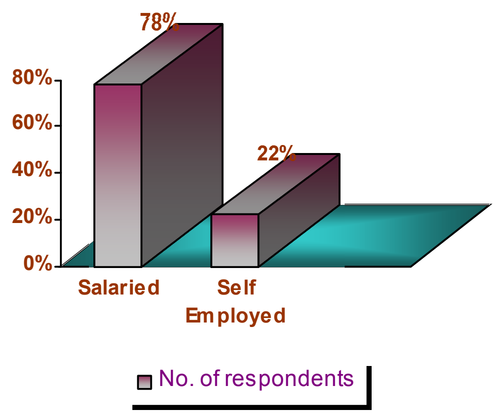
TABLE:-2

S.No.	Occupation	No. of respondents
1.	Salaried	39

INTERPRETATION:

It has been seen that most of the respondents of my research are salaried persons and they are really TDS dealers.

2.	Self Employed	11



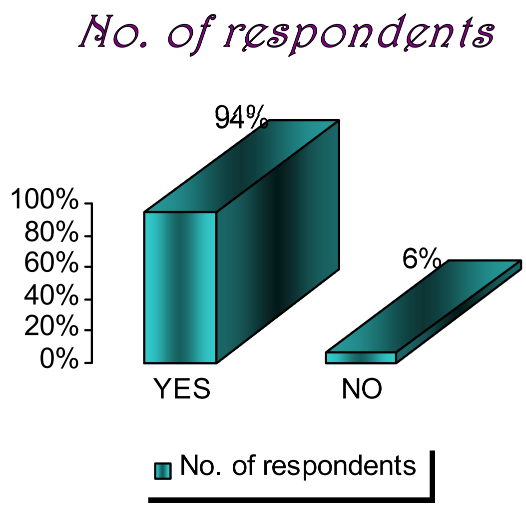
INTERPRETATION:

It has been seen that most of the respondents are from the age group of 20-40 years. And other are from 40-60 age group so there age group pay the taxes greatly.

Analysis of awareness of charges of TDS:

TABLE:-3

S.No.	Response	No. of respondents
1.	YES	47
2.	NO	3



RESULTS:

94% of the respondents said that they know the charges of TDS on their salary/remuneration While 6% of the respondents do not know.

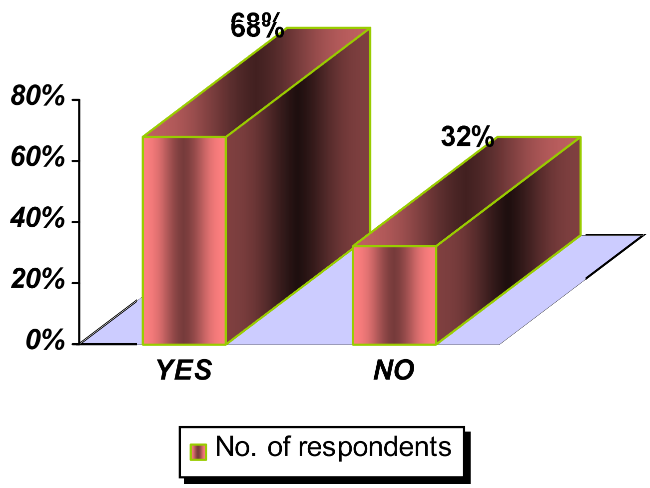
INTERPRETATION:

It has been seen that there is good awareness of TDS among respondents. Yet there is a need to make them more aware.

Analysis of awareness of calculation of TDS:

TABLE:-4

S.No.	Response	No. of respondents
1.	YES	34
2.	NO	16



RESULTS:

68% of the respondents said that they know how to calculate TDS on their salary/remuneration While 32% of the respondents do not know.

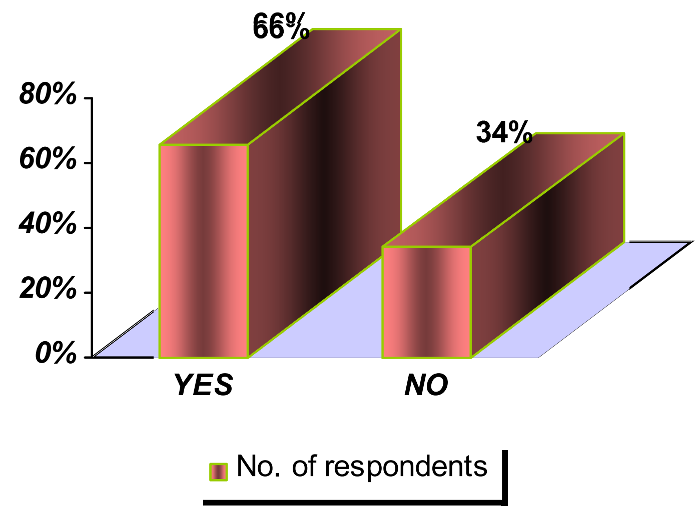
INTERPRETATION:

It has been seen that most of the respondents know how to calculate TDS on their salary/remuneration.

Analysis of awareness of TDS Refundable schemes:

TABLE:-5

S.No.	Response	No. of respondents
1.	YES	33
2.	NO	17



RESULTS:

66% of the respondents said that they know TDS refundable schemes While 34% of the respondents do not know.

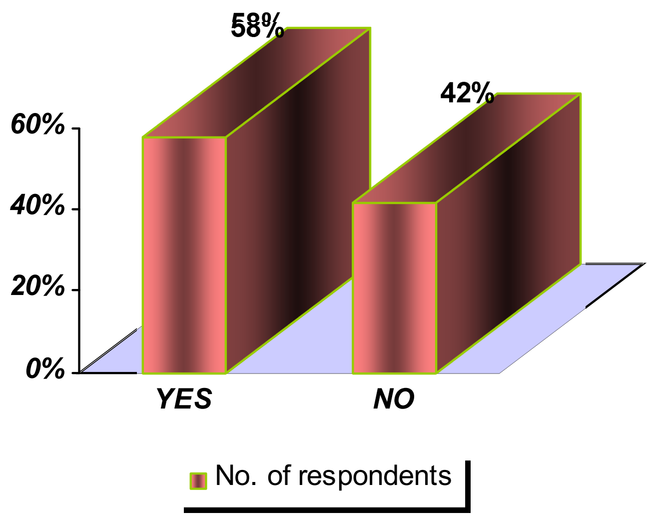
INTERPRETATION:

It has been seen that most of the respondents know TDS refundable schemes but seeing by huge number of respondents who were unaware of this scheme.

Analysis of awareness of process of TDS reimbursement:

TABLE:-6

S.No.	Response	No. of respondents
1.	YES	29
2.	NO	21



RESULTS:

58% of the respondents said that they know the process of TDS reimbursement While 42% of the respondents do not know.

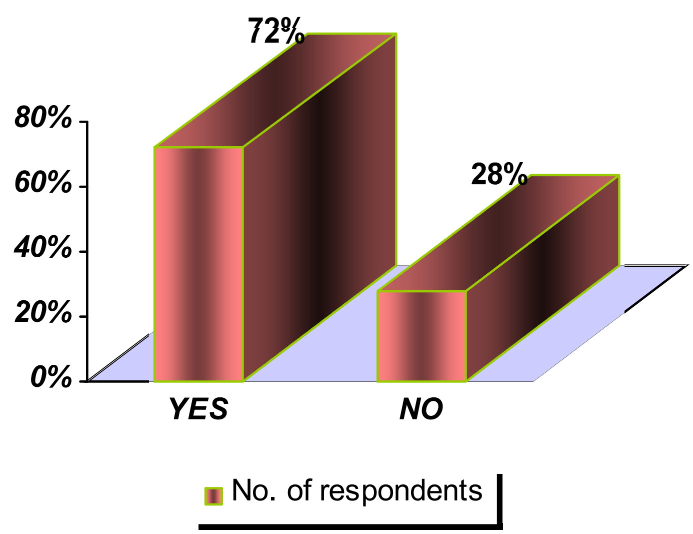
INTERPRETATION:

It has been seen that most of the respondents know process of TDS reimbursement Yet there is a need to make them more aware.

Analysis of awareness about time of reimbursement of paid TDS:

TABLE:-7

S.No.	Response	No. of respondents
1.	YES	36
2.	NO	14



RESULTS:

72% of the respondents said that they get reimbursed their TDS duly While 28% of the respondents do not.

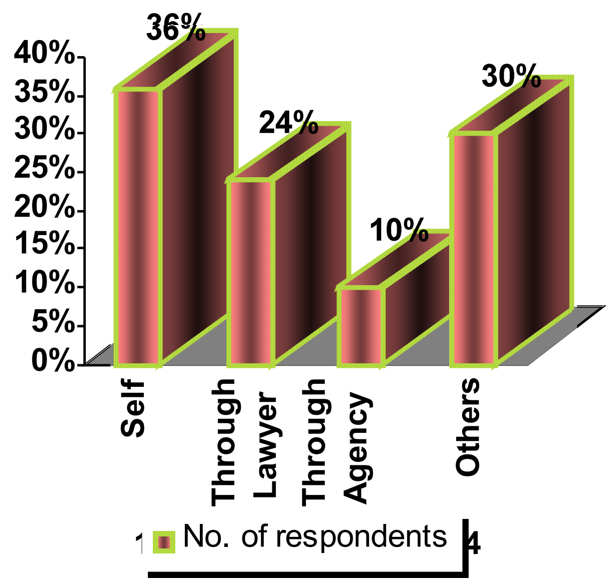
INTERPRETATION:

It has been seen that most of the respondents get reimbursed their TDS duly but the respondents who do not get duly is only because of its complexity.

Analysis of awareness about reimbursement of TDS:

TABLE:-8

S.No.	Response	No. of respondents
1	Self	18
2	Through Lawyer	12
3	Through Agency	5
4	Others	15



RESULT:

36% of the respondents said that they get reimbursed of their paid TDS by themselves.24 % of the respondents said that they get reimbursed of their paid TDS Through Lawyer. 10% of the respondents said that they get reimbursed of their paid TDS Through Agency, while 30% of the respondents said that they get reimbursed of their paid TDS by Other Sources.

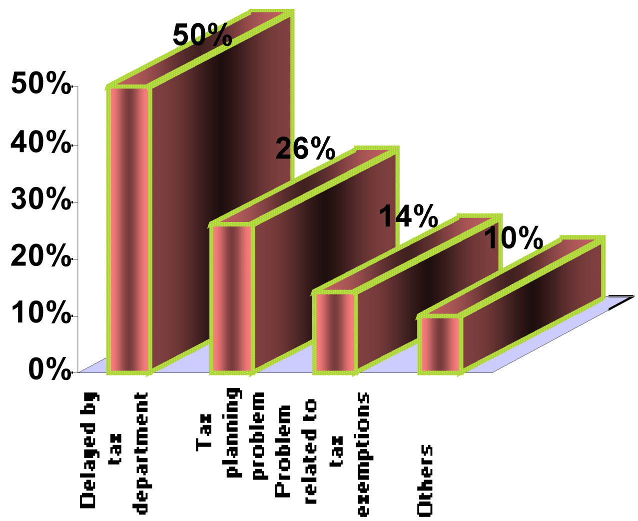
INTERPRETATION:

There is good awareness of TDS and its reimbursement process among respondents i.e. 36% who get reimbursed of their paid TDS by themselves, while other respondents get help from other sources to get reimbursed of their paid TDS.

Analysis of difficulties in reimbursement of TDS:

TABLE:-9

S.No.	Response	No. of respondents
1	Delayed by tax department	25
2	Tax planning problem	13
3	Problem related to tax exemptions	7
4	Others:-(Please specify)	5



RESULT:

50% of the respondents said that they have to face the difficulties of Delayed by tax department while refund their TDS. 26 % of the respondents said that they have to face tax-planning problem that how can they save their amount from TDS. 14% of the respondents said that they do not know the tax exemption schemes that how can they claim for exemption regarding reimbursement of paid TDS. While 10% of the respondents said that, they have to face other problems apart from this.

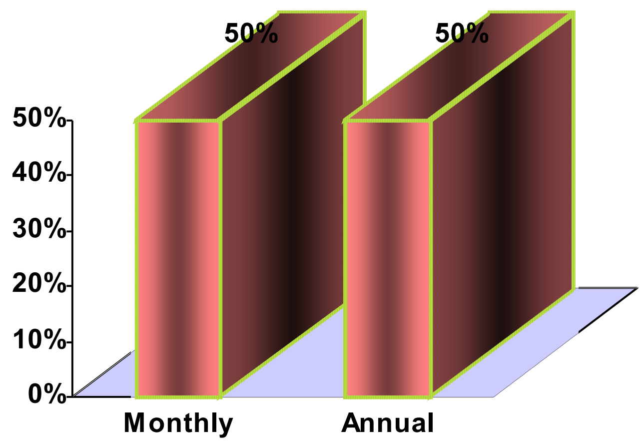
INTERPRETATION:

It has been seen that most of the respondents i.e. 50% have to face the problem of delaying by tax department. Some of the respondents do not know how they can save their amount from tax department

Analysis of mode of TDS:

TABLE:-10

S.No.	Response	No. of respondents
1.	Monthly	25
2.	Annual	25



RESULTS:

50% of the respondents said that mode of TDS on their salary charged by their own employer is annually While 50% of the respondents said that mode of TDS on their salary charged by their own employer is monthly.

INTERPRETATION:

It has been seen that the mode of TDS can be monthly and annually both.

FINDINGS

- There is good awareness among respondents about TDS.
- Most of the respondents knew how to calculate TDS on their salary/remuneration.
- 66% respondents know TDS refundable scheme but 34% respondents do not know the TDS refundable scheme due to which they have to face problems.
- 58% of the respondents know the process of TDS reimbursement while 42% do not know which is very huge number.
- 72% of the respondents said that they get reimbursed their TDS duly While 28% of the respondents do not.
- 36% of the respondents said that they get reimbursed of their paid TDS by themselves.24 % of the respondents said that they get reimbursed of their paid TDS Through Lawyer. 10% of the respondents said that they get reimbursed of their paid TDS Through Agency, while 30% of the respondents said that they get reimbursed of their paid TDS by Other Sources.
- 50% of the respondents said that they have to face the difficulties of Delayed by tax department while refund their TDS. 26% of the respondents said that they have to face tax-planning problem that how can they save their amount from TDS. 14% of the respondents said that they do not know the tax exemption schemes that how can they claim for exemption regarding reimbursement of paid TDS. While 10% of the respondents said that, they have to face other problems apart from this.

- 50% of the respondents said that mode of TDS on their salary charged by their own employer is annually While 50% of the respondents said that mode of TDS on their salary charged by their own employer is monthly.

CONCLUSIONS

- It has been seen that there is good awareness of TDS among respondents. Yet there is a need to make them more aware.
- It has been seen that most of the respondents know how to calculate TDS on their salary/remuneration.
- It has been seen that most of the respondents know TDS refundable schemes.
- It has been seen that most of the respondents know process of TDS reimbursement Yet there is a need to make them more aware.
- It has been seen that most of the respondents get reimbursed their TDS duly but the respondents who do not get duly is only because of its complexity.
- There is good awareness of TDS and its reimbursement process among respondents i.e. 36% who get reimbursed of their paid TDS by themselves, while other respondents get help from other sources to get reimbursed of their paid TDS.

- It has been seen that most of the respondents i.e. 50% have to face the problem of delaying by tax department. Some of the respondents do not know how they can save their amount from tax department.
- It has been seen that the mode of TDS can be monthly and annually both.
- The people invest their money in different securities to save their taxes.
- People do not know how they can reimburse their paid tax so they have to face problems.
- Through taxes, the Government performs many development activities.
- Due to tax, people do not disclose their income.

Hence, it is very vital to make all the persons earning the taxable income pay the tax. But, the best way to make them pay is to deduct tax at source.