

LESSON - 15

TAX DEDUCTED AT SOURCE

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15.0 INTRODUCTION

Assessee pays tax in the assessment year on the income earned in previous year. Due to this rule the tax collection is delayed till the completion of the previous year. Even sometimes people conceal their income and the tax is not paid at all. In order to overcome these problems, government started deducting some amount of tax from the amount which is receivable by the assessee. The amount of tax so deducted is called as “Tax Deducted at Source”, i.e., TDS.

15.1 OBJECTIVE

After going through this lesson you will be able to understand what is the scheme of tax deduction at source. How tax is deducted from salary income, interest and dividend income, winning from lottery, crossword puzzle, races including horse races, gambling, betting etc., and payments of Rent, contractors and Professional fees.

15.2 TDS ON SALARY

TDS on salaries [Sec 192]

Any person responsible for paying Salaries (i.e. employer) is required to deduct tax on the salaries payable by him. Tax is to be deducted at the prescribed rate applicable for P.Y.

TDS is deducted after considering the following

1. If salary exceeds minimum non-taxable limit (Rs 1,00,000/Rs. 1,35,000/Rs. 1,85,000)
2. Value of perk is to be included in salary.
3. Employee can claim deduction u/s 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80G, 80GG and 80U.
4. Salary shall be rounded off in multiple of Rs 10 and tax in multiple of Rs 1
5. Income from any other heads if disclosed by assesses shall be considered
6. If employee was earlier employed somewhere else during the P.Y. then the present employer should consider the amount of income & TDS on that for computing the TDS on total income of employee
7. TDS shall be deducted on monthly basis.

15.3 TDS ON INTEREST ON SECURITIES

TDS on Interest on securities [sec 193]

Any person responsible for paying interest on securities shall deduct interest at the prescribed rates. Tax is to be deducted at the time of:-

1. Payment of interest or
2. Making interest due; which ever is earlier

No TDS on following: -

- (a) 4 ½ % National Defence bonds
- (b) National development bonds
- (c) 7 yrs National Saving Certificates
- (d) 6 ½ % or 7% Gold Bonds
- (e) National Development Bonds
- (f) Debentures of Co-operative society

No TDS on interest on debentures issued by a listed public company if following conditions are satisfied: -

1. Interest is paid by A/c payee cheque
2. Interest is paid to an resident Individual and
3. If interest is less then Rs.2, 500 p.a.
4. Debentures are listed in a stock exchange

The rate of T.D.S is:

- 10% plus surcharge plus education cess - for Listed Debentures
- 20% plus surcharge plus education cess - for Non- Listed Debentures

15.4 TDS ON DIVIDEND

TDS on Dividends [Sec 194]

The principal officer is required to deduct tax at prescribed rates on dividend (including Deemed dividend) payment to a resident individual shareholder (both preference & equity)

No TDS on dividend paid by a Co in which public is substantially interested i.e. a public company, if following conditions are satisfied: -

1. Dividend is paid by an A/c payee cheque
2. Dividend is paid to a resident Individual
3. Dividend is less than Rs 5000 p.a.

However from 1.6.97 no TDS is required in case of dividend paid by a domestic company. Thus this section is now relevant only for non-Indian company declaring dividend in India and domestic company declaring deemed dividend

Now Indian Companies are required to pay corporate dividend tax @ 10% on dividends paid or declared u/s 115-O.

The rate of T.D.S is 10% plus surcharge plus education cess.

15.5 TDS ON WINNING

TDS on winning from lottery or crossword puzzle [Sec 194 B]

Any person responsible for paying income on winning from lottery or crossword puzzle shall deduct tax @ 30% plus surcharge plus education cess. TDS is payable if the amount of winning exceeds Rs 5,000. Thus, no TDS on payment of Rs 5,000 or less.

TDS on winning from Horse Races [Sec 194 BB]

Same provisions as in lottery & crossword puzzle. Only difference is Rs 5,000 to be read as Rs 2,500.

15.6 TDS ON CONTRACTORS

Payment to contractors and subcontractors [Sec 194 C]

1. If payment is made to an OR contractor.
2. Payment should be made as a part of contract.
3. Payment should be made by:
 - a) Govt.
 - b) Local Authority
 - c) Company
 - d) Co-Operative Society under Act
 - e) Society under Act
 - f) Trust
 - g) A statutory cooperation
 - h) A firm
 - I) University established
 - j) Authority established
4. Tax to be deducted if payment exceeds Rs. 20,000.
5. Tax to be deducted at the time of making due or making payment, whichever is earlier

6. TDS rate is 2 % plus surcharge plus education cess of contract amount (1 % in case of advertising contract)

TDS on payment to Sub Contractors [Sec 194 C]

1. If payment is made to an OR subcontractor
2. Payment should be made as a part of contract
3. Payment should be made by any person, except HUF & individuals
4. Tax to be deducted at the time of making due or making payment.
5. Tax to be deducted @ 1% plus surcharge plus education cess of contract amount

15.7 TDS ON PROFESSIONAL FEES

TDS on Professional or Technical Fees [Sec 194 J]

1. Payment should be made by any person, except HUF & individuals
2. Tax to be deducted at the time of making due or making payment, whichever is earlier.
3. Tax to be deducted @ 5 % plus surcharge plus education cess of total amount.
4. No TDS on payment made due before 1.7.95
5. TDS only if amount exceeds Rs. 20,000

15.8 TDS ON RENT

TDS on Rent [Sec 194 I]

1. Payment should be made by any person, except HUF & individuals
2. Tax to be deducted at the time of making due or making payment, whichever is earlier.
3. Tax to be deducted @ 20 % plus surcharge plus education cess of total amount (15% in case payment is made to Individual or HUF)
4. TDS only if amount exceeds Rs. 1, 20,000.

CHECK YOUR PROGRESS

Activity A: What are rates of T.D.S in case of?

- Dividend
- Interest on securities
- Professional Fees
- Rent
- Contractor
- Winning from lotteries, crossword puzzles etc.

Activity B: What is the maximum amount on which Tax is not required to be deducted in case of?

- Dividend
- Interest on securities
- Professional Fees

- Rent
- Contractor Winning from lotteries, crossword puzzles etc.

15.9 LET US SUM UP

T.D.S stands for tax deducted at source, which literally means the tax required to be paid by the assessee, is deducted by the person paying the income to him. Thus, the tax is deducted at the source of income itself. Although it is worth mentioning here that whole of tax is not deducted at the source but only a certain part is deducted. In some cases it may also get excess while in other cases it may be less than the total tax liability. However, in case of salary the total tax liability can be deducted at source itself. The intention behind T.D.S is fast collection of tax and to avoid tax evasion, by concealing income.

15.10 GLOSSARY

Contractors: Contractor is a person who undertakes the work of others and completes it as per the agreement and receives the payment for the job completed by him.

Dividend: Dividend is the share of profit of any corporate which is divided among the shareholders of that corporate body.

Interest: Interest is periodic payment made for borrowing some money.

Professional: Professional is a person who has some specialized skill or knowledge which he has acquired after some formal education and training.

15.11 SELF ASSESSMENT EXERCISE

1. Discuss the provisions of the T.D.S on income from salary in the income tax act.
2. Compare the T.D.S provisions of professional and contractors.
- 3.

15.12 FURTHER AND SUGGESTED READINGS

1. Dr. Vinod K. Singhania and Monica Singhania; *Students' Guide to Income Tax*; Taxmann Publications Pvt. Ltd.; latest edition.
2. Mahesh Chandra & D.C. Shukla; *Income-tax Law and Practice*; Pragati Publications; latest edition.
3. H.C. Mehrotra; *Income-tax Law and Accounts*; Sahitya Bhawan; latest edition.
4. Girish Ahuja and Ravi Gupta; *An Elementary Approach to Income Tax & Sales Tax*; Bharat Publications; latest edition.
5. Dinkar Pagare; *Law and Practice of Income Tax*; Sultan Chand & Sons; latest edition