

Tax Deduction at Source - Salient Areas

M. George Korah, FCA, DISA

Ram Mohan is not happy. From his monthly salary, a good amount is deducted towards tax and what he finally gets in hand seems inadequate for him & his family's needs.

Malathi Nair's sole source of income is a monthly rent of Rs. 15000 she gets from a flat that she has rented to a company. In spite of her repeated requests, the company deducts nearly Rs 2300 each month from the rent it pays to Malathi. She is wondering how she can convince the company not to deduct tax at source.

Ram Mohan's employer and Malathi Nair's tenant have no choice but to deduct tax at source, since the Income Tax Act, 1961 has made it mandatory for tax to be deducted at source from certain types of payments including salary & rent. Is there a way of avoiding this TDS? We will soon find out.

TDS is a major revenue earner for the Income Tax Department and in the recent past many assesseees have been receiving notices from the TDS cell regarding compliance of TDS provisions.

Contravention of any of the TDS provisions will result in interest/penalty/prosecution hence a proper understanding of the TDS provisions and its applicability has therefore become very necessary

What are your obligations?

When you make payments which are covered by the TDS provisions, your obligations are as follows:

- a) Obtain a Tax Deduction Account Number (TAN)
- b) Deduct tax at source at the applicable rates.
- c) Remit the tax deducted within the due date.
- d) Issue TDS certificate in the appropriate form within the due date to the payee.
- e) File Quarterly electronic returns with the Income Tax Department within the due date.

Which Payments attract TDS?

The following payments will attract the provisions of TDS.

- a) Salaries
- b) Interest
- c) Payments to Contractors/Sub-contractors
- d) Commission or Brokerage
- e) Rent
- f) Professional or Technical Services Fees.

There are other payments like winnings from Horse Racing, winnings from lotteries and crossword puzzles which also come under the TDS provisions.

We shall now discuss the TDS provisions relating to certain common type of payments in detail. These provisions are contained in Chapter XVII of the Income Tax Act, 1961. First let us see the provisions relating to deduction of tax at source from Salaries.

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 in which the payment to employees is made. The person responsible for paying the salary may, at the time of deducting tax at source, increase or decrease, the amount to be deducted for the purpose of adjusting any previous deficiency or excess deduction.

No tax is required to be deducted at source unless the estimated annual salary exceeds Rs. 145,000 for lady employees & Rs. 110,000 for others. If a senior citizen is employed, then this limit will be Rs. 195,000.

To reduce the amount of TDS from your salary, make sure your employer has considered the following points:

- ⚡ Notified allowances under section 10(14) like conveyance allowance, children education allowance, are not subject to tax deduction at source.
- ⚡ House rent allowance qualifies for exemption subject to the specified limits.
- ⚡ The value of perquisites by way of free residential accommodation, other benefits and amenities provided by the employers to their employees are

determined under rule 3 and should be taken into account for computing taxable salary.

- ⚡ Deduction is also available separately in respect of professional tax paid by an employee.
- ⚡ The employer should also take into consideration other admissible deductions under sections 80C, 80CCC, 80D, 80DD, 80DDB, 80E, 80GG, & 80U.
- ⚡ Make sure you notify your employer about your other sources of income as well as the amount of TDS on these incomes.
- ⚡ If you have taken a housing loan, then intimate your employer about the total interest & installments that you will be paying in the financial year. This can be reduced from your salary income for calculating the TDS.

Korah and Korah Chartered Accountants