

“A Study of Tax Deduction at Source”

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INTRODUCTION

TDS, or Tax Deducted at Source, is a tax collection mechanism in which the tax is deducted at the source of income. It applies to various types of income such as salaries, interest, commissions, and rent. Tax Deducted at Source (TDS) is a mechanism by which the government collects taxes from individuals or entities at the time of making certain specified payments, such as salary, interest, commission, rent, etc. TDS or Tax Deducted at Source is income tax reduced from the money paid at the time of making specified payments such as rent, commission, professional fees, salary, interest etc. by the persons making such payments. Usually, the person receiving income is liable to pay income tax. But the government with the help of Tax Deducted at Source provisions makes sure that income tax is deducted in advance from the payments being made by you. The recipient of income receives the net amount (after reducing TDS). The recipient will add the gross amount to his income and the amount of TDS is adjusted against his final tax liability. The recipient takes credit for the amount already deducted and paid on his behalf. This will help the government to collect the taxes in advance and to track the transactions in an effective manner. It reduces the chance of tax evasion by the payee.

REVIEW OF LITERATURE:

1. Neeraj Katoch Income Tax - Articles- Trending 14 Nov 2021 The concept of TDS was introduced by government through Chapter-XVII-B with an aim to collect tax from the very source of income. As per this concept, a person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government. The deductee from whose income tax has been deducted at source would be entitled to get credit of the amount so deducted on the basis of Form 26AS or TDS certificate issued by the deductor.

2. Ram Dutt Sharma Year Of Publication- 2020 He has return in his book “Deduction Of Tax At Source (TDS) & Collection Of Tax At Source (TCS)” In the present scenario, the provisions of the Income Tax Act relating to Tax Deduction at Source “TDS” are of immense importance when TDS collections account for almost 40% of total collection of Direct Taxes. TDS is a mechanism of collecting tax which combines twin concepts of “pay as you earn” and

“collect as it is being earned.” It is one of the modes or mechanisms of collecting tax under the Indian Income Tax Act, 1961. It facilitates the Government with a continuous flow of funds and at the same time, eases the burden on the taxpayer

3. Taxman 2 June 2021 Income Tax Act, 1961 is an act to levy, administer, collect & recover Income-tax in India. It came into force from 1st April 1962. Income Tax including surcharge (if any) & cess is charged for any person at the rate as prescribed by Central Act for that assessment year. Income-tax Act has provided separate provisions with respect to levy of tax on income received in advance as well as the income with respect of which the amount has not yet been received.

4. Ankita Gupta (2020) - studied the major trends in the taxation of personal income in India after the tax reforms initiated in the liberalization era. It was revealed that tax reforms have favourable impact on the growth of personal income tax. The study concluded that simplification of tax rate and broadening of tax base are the important reforms undertaken for reforming the tax structure and

increasing its responsiveness.

RESEARCH METHODOLOGY

Primary data is collected by

1. Using questionnaire method by interviewing some of the clients about their tax saving investments.
2. Primary data was also collected by using observation method during my training and on job training in the company
3. Primary data is more accommodating as it shows latest information.
4. Primary data is also more reliable as it is collected first hand by the researcher to fulfil the purpose of the research.

Secondary data is collected by

1. Secondary data is the data already collected by someone else. This data is not especially collected to solve present or specific problems.
2. This information is relevant and can be used for our purpose. After doing the data collection in primary method the researcher did the collection through the secondary data.
3. Reading books related to income tax.
4. Surfing websites like clear tax and the websites of the company in which I interned in the company.
5. Form 16 of the clients which are generated by the organization in which the client is working.

4.1 Sample Design

The sample design is the procedure of selecting units for the sample, for this research the sampling method used to design the sample was convenience sampling of the company clients. The company clients were conveniently available to me, hence by using convenience sampling they were chosen as the sample for this study.

4.2 Sample Size

The sample size for this research was 30 clients of the company. The number of respondents were less due to lack of time.

This research is to understand the unique tax situation of every person and then to find out the various ways to save their taxes. Tax planning is an essential part of our financial planning.

Efficient tax planning enables us to reduce our tax liability to the minimum. This is done by legitimately taking advantage of all tax exemptions, tax saving scheme, deductions under chapter VIA,

rebates and allowances while ensuring that your investments are in line with their long-term goals.

The sample was determined with the help of convenient sampling.

The data used in this research is collected in both forms i.e. primary and secondary. The primary data was collected by using interview method, by conducting structured interview with the help of a questionnaire. The secondary data was collected by surfing various tax related websites on the internet and by surfing books. The questionnaire prepared had both open ended as well as close ended questions. This is also aims at finding out the level of awareness amongst the public regarding tax planning. Both telephone surveys as well as interview method was used to conduct the survey and interview the clients. The interviews were conducted by using a questionnaire which had both open ended as well as close ended question. Both telephone surveys and personal interview were used to conduct the survey which makes it hybrid form of survey. The data collected by using primary and secondary data collection tools was analysed by using pie charts and the answers I got by interviewing the clients.

OBJECTIVES

1. Ensure Compliance with TDS Requirements:

The objective is to calculate and deduct TDS as per Section 194C on payments made for SIP investments, where applicable, to comply with Income Tax regulations.

2. Timely Deduction and Remittance: Ensure that TDS is deducted at the appropriate rate and remitted to the government within the prescribed time frame.

3. Accurate Record Keeping: Maintain accurate records of all SIP transactions, including the TDS deducted, to provide clarity and transparency for both the investor and tax authorities.

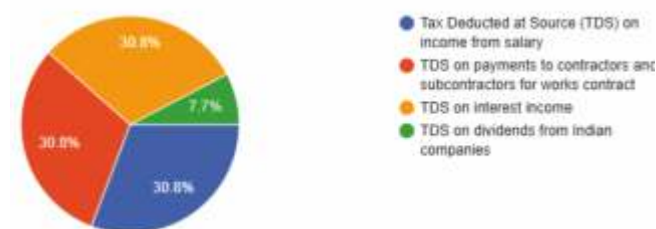
4. Provide TDS Certificates: Issue TDS certificates (Form 16A) to the investors, detailing the amount of TDS deducted, for them to claim credit during their income tax filing.

5. Monitor Threshold Limits: Continuously monitor payments to ensure they exceed the minimum threshold for TDS applicability, ensuring that deductions are only made when required under Section 194C..

DATA ANALYSIS AND INTERPRETATION:

1. What does Section 194C of the Income Tax Act, 1961 primarily deal with?

Sr. No.	Option No.	Number of Respondent	Percentage
1	Tax Deducted at Source (TDS) on income from salary	4	30.8%
2	TDS on payments to contractors and subcontractors for works contract	4	30.8%
3	TDS on interest income	4	30.8%
4	TDS on dividends from Indian companies	1	7.7%
	Total	13	100%

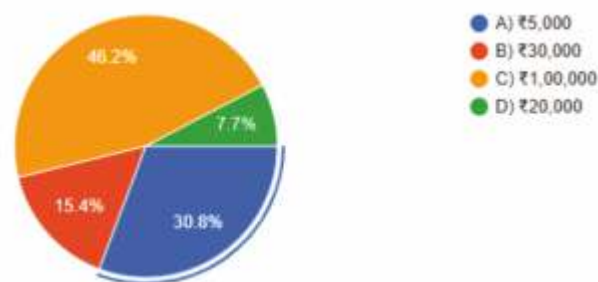


INTERPRETATION:

The survey data indicates an equal distribution of responses (30.8%) among the first three options, showing confusion about the specific focus of Section 194C. However, only 7.7% correctly ruled out dividends as unrelated. This suggests the need for better awareness of tax provisions to avoid misinterpretation.

2. What is the threshold limit for TDS deduction under Section 194C for payments made to contractors or subcontractors?

Sr. No.	Option	Number of Respondent	Percentage
1	₹5,000	4	30.8%
2	₹30,000	2	15.4%
3	₹1,00,000	6	46.2%
4	₹20,000	1	7.7%
	TOTAL	13	100%

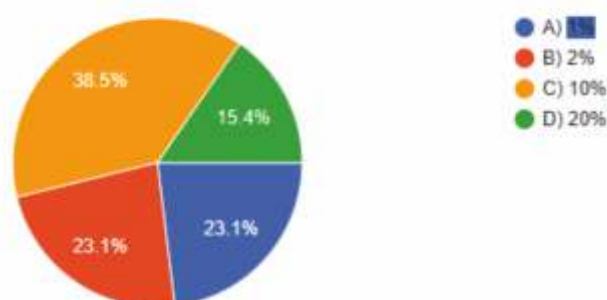


INTERPRETATION:

The survey shows that 46.2% incorrectly believe ₹1,00,000 is the single-payment threshold, while only 15.4% identified ₹30,000 correctly. This highlights significant confusion about the specific limits, emphasizing the need for better clarity and awareness of TDS provisions.

3. What is the TDS rate under Section 194C if the payee is an individual or HUF (Hindu Undivided Family)?

Sr. No.	Option	Number of Respondent	Percentage
1	1%	3	23.1%
2	2%	3	23.1%
3	10%	5	38.5%
4	20%	2	15.4%
	TOTAL	13	100%

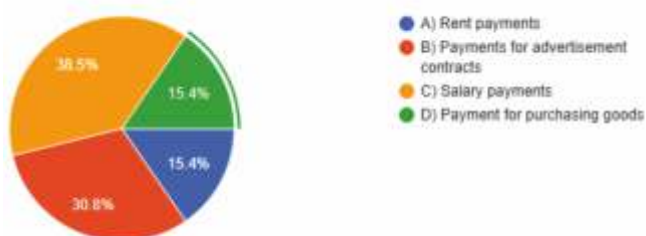


INTERPRETATION:

The TDS rate under Section 194C is 1% if the payee is an individual or Hindu Undivided Family (HUF). The survey shows that only 23.1% correctly identified this rate, while 38.5% incorrectly believed it to be 10%, and 23.1% assumed it was 2%. This indicates widespread misunderstanding of the applicable rate, highlighting the need for better dissemination of accurate information about TDS rates.

4. Which of the following payments is subject to TDS under Section 194C?

Sr. No.	Option	Number of Respondent	Percentage
1	Rent payments	2	15.4%
2	Payments for advertisement contracts	4	30.8%
3	Salary payments	5	38.5%
4	Payment for purchasing goods	2	15.4%
	TOTAL	13	100%



INTERPRETATION:

The survey reveals only 30.8% correctly identified this, while 38.5% incorrectly selected salary payments, which are covered under a different section. Rent payments and payments for purchasing goods were also misunderstood by 15.4% each. These results indicate a lack of clarity about the specific transactions covered under Section 194C.

5. When is the TDS under Section 194C deducted?

Sr. No.	Option	Number of Respondent	Percentage
1	At the time of payment	3	23.1%
2	At the time of credit	2	15.4%
3	At the earlier of payment or credit	4	30.8%
4	On the 31st of March of the financial year	4	30.8%
	Total	13	100%

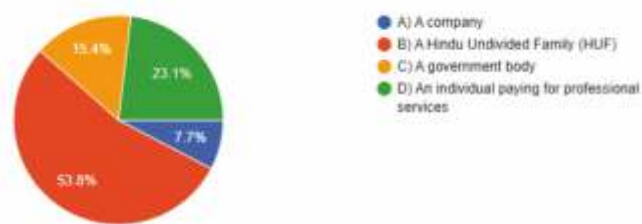


INTERPRETATION:

The survey indicates only 30.8% correctly identified this requirement, while an equal percentage (30.8%) mistakenly believed it is deducted on the 31st of March. Additionally, 23.1% and 15.4% selected "at the time of payment" and "at the time of credit," respectively, showing confusion. This highlights a need for better understanding of TDS timing rules.

6. Which of the following is not required to deduct TDS under Section 194C?

Sr. No.	Option	Number of Respondent	Percentage
1	A company	1	7.7%
2	A Hindu Undivided Family (HUF)	7	53.8%
3	A government body	2	15.4%
4	An individual paying for professional services	3	23.1%
	Total	13	100%

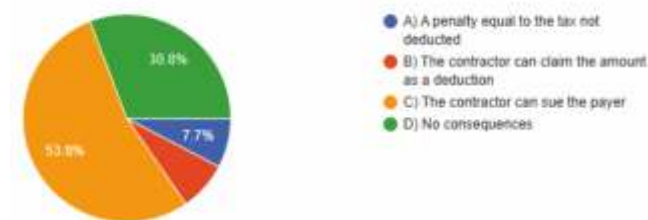


INTERPRETATION:

The survey shows that 53.8% correctly identified HUF, while others misunderstood the rule. Notably, 23.1% incorrectly thought individuals paying for professional services are exempt, despite those payments being governed under a different section. This highlights the need for better understanding of TDS applicability criteria.

7. What is the consequence if TDS is not deducted as per Section 194C?

Sr. No.	Option	Number of Respondent	Percentage
1	A penalty equal to the tax not deducted	1	7.7%
2	The contractor can claim the amount as a deduction	1	7.7%
3	The contractor can sue the payer	7	53.8%
4	No consequences	4	30.8%
	Total	13	100%



INTERPRETATION:

The survey reveals significant confusion: 53.8% incorrectly believed the contractor can sue the payer, and 30.8% assumed there are no consequences. Only 7.7% correctly identified the penalty for non-deduction. This underscores the need for better understanding of TDS-related compliance and penalties.

8. Which of the following payments are exempt from TDS under Section 194C?

Sr. No.	Option	Number of Respondent	Percentage
1	Payments for transportation contracts	0	0
2	Payments to government contractors	1	7.7%
3	Payments for labour contracts	5	38.5%
4	Payments to residents	7	53.8%
	Total	13	100%

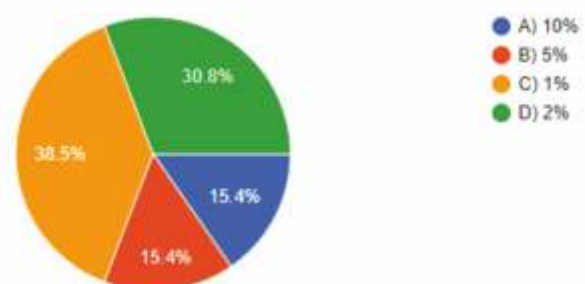


INTERPRETATION:

The survey shows none of the respondents identified this correctly. Instead, 53.8% incorrectly believed payments to residents are exempt, and 38.5% thought labour contracts are exempt. Only 7.7% selected government contractors, which is partially correct under specific circumstances. This highlights significant gaps in understanding TDS exemptions under Section 194C.

9. What is the TDS rate under Section 194C for payments to contractors (other than individuals or HUFs)?

Sr. No.	Option	Number of Respondent	Percentage
1	10%	2	15.4%
2	5%	2	15.4%
3	1%	5	38.5%
4	2%	4	30.8%
	TOTAL	13	100%

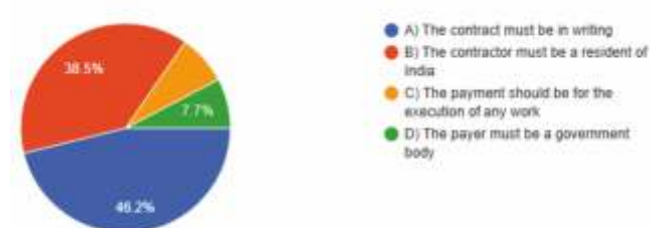


INTERPRETATION:

The survey reveals that only 30.8% correctly identified this rate, while 38.5% incorrectly believed it to be 1%, which applies to individuals or HUFs. Additionally, 15.4% each mistakenly selected 5% or 10%. This indicates widespread confusion about the applicable TDS rates, emphasizing the need for more accurate dissemination of tax information.

10. Which of the following conditions must be met for a payment to be covered under Section 194C

Sr. No.	Option	Number of Respondent	Percentage
1.	The contract must be in writing	6	46.2%
2.	The contractor must be a resident of India	5	38.5%
3.	The payment should be for the execution of any work	1	7.7%
4.	The payer must be a government body	1	7.7%
	TOTAL	13	100%



INTERPRETATION:

The survey shows that 46.2% mistakenly believed the contract must be in writing, while 38.5% correctly identified the contractor's residency requirement. Only 7.7% understood the payment purpose condition, and another 7.7% incorrectly thought the payer must be a government body. This reflects a need for better understanding of the qualifying conditions for TDS under Section 194C.

OBSERVATION, SUGGESTION AND CONCLUSION:

Purpose of TDS:

TDS is a means of collecting income tax in India. It ensures that tax is collected at the source of income, thereby reducing the chance of tax evasion.

Types of Income Subject to TDS:

TDS applies to various types of income, including salaries, interest, dividends, professional fees, and rent. Different rates are applicable based on the nature of income.

TDS Rates:

TDS rates vary for different income categories. For instance, the rate for salary is determined by the income tax slab applicable to the individual, while rates for interest on fixed deposits and dividends can be fixed.

Threshold Limits:

TDS is only deducted when the payment exceeds certain threshold limits. For example, there are specific limits for rent and interest payments below which TDS is not applicable.

TDS Deduction Process:

The payer is responsible for deducting TDS before making the payment. The deducted amount must be deposited with the government within a specified timeframe.

Filing TDS Returns:

Payers are required to file TDS returns quarterly, providing details of the deductions made and deposited. Failure to file on time can result in penalties.

TDS Certificates:

After TDS is deducted, the deductor must issue a TDS certificate (Form 16 or Form 16A) to the payee, which can be used for filing income tax returns.

Impact on Cash Flow:

For individuals and businesses, TDS can impact cash flow, as the amount deducted is not available for immediate use. Proper planning is essential to manage cash flow effectively.

Tax Credit:

The amount deducted as TDS can be claimed as credit while filing income tax returns. This helps in reducing the overall tax liability.

TDS on Non-Residents:

TDS provisions also apply to non-residents earning income in India, with specific rates and regulations based on tax treaties.

Common Issues:

Errors in TDS deduction, such as incorrect PAN details or rates, can lead to complications for both deductors and payees. It's essential to maintain accurate records.

Government Initiatives:

The government has introduced measures to simplify TDS compliance, such as online payment and filing facilities, to enhance transparency and efficiency.

CONCLUSION

Tax Deducted at Source (TDS) is a pivotal component of India's tax system, ensuring timely tax collection and reducing the scope for evasion. It is a mechanism that benefits both the government, by securing revenue at the source, and taxpayers, by simplifying compliance.

Key insights from this study include:

The necessity for individuals and businesses to understand TDS rates, threshold limits, and compliance requirements to avoid penalties and ensure smooth financial operations.

Effective TDS management is integral to minimizing its impact on cash flow while also ensuring accurate tax credit claims during tax filings.

Proactive tax planning, record-keeping, and the utilization of tools like TDS certificates and online filing systems can significantly enhance compliance and reduce liabilities.

In conclusion, understanding and adhering to TDS provisions is essential for financial stability and legal compliance. With continued efforts to simplify processes and raise awareness, stakeholders can optimize their financial planning and contribute to a more efficient tax system.

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