

CHAPTER 18

Deduction and collection of tax at source

To avoid cases of tax evasion, the Income-tax Act has made provisions to collect tax at source on accrual of income. Cases included in the scheme are, generally, those where income can be computed at the time of accrual of income. Under this scheme, persons responsible for making payment of income covered by the scheme are responsible to deduct tax at source and deposit the same to the Government's treasury within the stipulated time. The recipient of income—though he gets only the net amount (after deduction of tax at source)—is liable to tax on the gross amount and the amount deducted at source is adjusted against his final tax liability. The details of the scheme of tax deduction and collection at source are briefly discussed in this chapter.

■ ■ WHAT IS THE SCHEME OF TAX DEDUCTION AT SOURCE (TDS)

269. The scheme of tax deduction at source can be explained with the help of the following example—

X (29 years) is a businessman. For the financial year 2025-26, his business income is Rs. 8,86,000. Besides, he has received Rs. 90,000 as interest on fixed deposit from Punjab National Bank on January 31, 2026 (gross interest earning on fixed deposit: Rs. 1,00,000, less tax deducted at source by bank : Rs. 10,000). He has deposited Rs. 60,000 in public provident fund.

At the time of assessment, the tax computation is made on the following lines—

	Rs.	Rs.
Business income (after claiming additional depreciation of Rs. 9,05,160)		8,86,000
Bank fixed deposit interest		
Net interest received from bank	90,000	
Add : Tax deducted at source by bank	10,000	
Gross interest		1,00,000
Gross total income		9,86,000
Less : Deduction under section 80C		60,000
Net income		9,26,000
Tax on net income		97,700
Add : Health and education cess		3,908
Tax liability		1,01,608

It may be noted that net interest received from bank is Rs. 90,000, whereas amount included in gross total income is Rs. 1,00,000. Rs. 10,000 that is deducted by way of tax at source by the Punjab National Bank, is included in the gross interest, although it is not actually received by X. The final tax liability according to the above computation is Rs. 1,01,608. However, X is not supposed to pay Rs. 1,01,608. He is entitled for a tax credit of Rs. 10,000, which has been deducted by the Punjab National Bank out of the interest earning. The bank will issue a certificate to X in Form No. 16A after downloading from TRACES Portal. The certificate in Form No. 16A will state the following—

	Rs.
Gross interest	1,00,000
Less : Tax deducted at source by Punjab National Bank	10,000
Net interest paid to X	90,000

The certificate in Form No. 16A will also indicate the date on which the tax deducted at source is paid by the Punjab National Bank to the Government of India. On submission of details of Form 16A, in the Income-tax return, he will get a tax credit of Rs. 10,000. Consequently, X will pay only Rs. 91,608 (*i.e.*, Rs. 1,01,608 – Rs. 10,000).

To conclude, one can say that the scheme of tax deduction at source is only payment of tax on *ad hoc* basis by the payer of income on behalf of recipient.

269.1 Payments covered by TDS scheme- TDS scheme covers payments like salary (to resident/non-resident), payment other than salary to residents (namely, interest, rent, commission/brokerage, lottery winnings, winnings of races, technical/professional fees, royalty, compensation, etc.) and payment to non-residents/foreign companies. These provisions are discussed in paras given below.

269.2 TDS rates during the financial year 2025-26 - Normal TDS rates are summarized in Appendix 1, para 0.7.

► *If recipient does not furnish his PAN to deductor [Sec. 206AA]* - If the recipient does not furnish his PAN to the deductor, tax will be deducted (by virtue of section 206AA¹) at the normal rate or at the rate of 20 per cent, whichever is higher². PAN of the deductee should be mentioned in any correspondence and document which is exchanged between the deductor and deductee.

► *When recipient is non-filer of income-tax return [Sec. 206AB]* - Under section 206AB, a higher rate of TDS is applicable if the deductee is a non-filer of income tax returns. These provisions are, however, applicable only from July 1, 2021 to March 31, 2025. Effective from April 1, 2025, these provisions have been omitted.

► *Notified jurisdictional area [Sec. 94A(5)]* - Where any person located in a notified jurisdictional area³ is entitled to receive any sum on which tax is deductible under any provision of the Act, the payer will deduct tax -

- a. at the rates in force or at the rate specified in the relevant provision of the Act (*i.e.*, rates given in Appendix 1); or
- b. at the rate of 30 per cent (surcharge or education cess cannot be added), whichever is higher.

269.2-1 SURCHARGE ON TDS PAYMENTS DURING THE FINANCIAL YEAR 2025-26- Surcharge will be applicable for the purpose of TDS during the financial year 2025-26 in the following cases (in no other case for TDS purpose, surcharge will be applicable) -

1. Payment of salary to a resident or non-resident (surcharge is applicable @ 10 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 50 lakh but does not exceed Rs. 1 crore, surcharge is 15 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 1 crore but does not exceed Rs. 2 crore, surcharge is 25 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 2 crore but does not exceed Rs. 5 crore and surcharge is 37 per cent⁴ of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 5 crore).
2. Payment/credit (other than salary) to a non-resident (individual, HUF, AOP, BOI or artificial juridical person) (surcharge is applicable @ 10 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 50 lakh but does not exceed Rs. 1 crore, surcharge is 15 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 1 crore but does not exceed Rs. 2 crore, surcharge is 25 per cent of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 2 crore but does not exceed Rs. 5 crore and surcharge is 37 per cent^{4a} of TDS if amount subject to TDS during the financial year 2025-26 exceeds Rs. 5 crore).
3. Payment/credit (other than salary) to a foreign company (surcharge is applicable only if amount subject to TDS during the financial year 2025-26 exceeds Rs. 1 crore, surcharge is 2 per cent of TDS if the payment subject to TDS is more than Rs. 1 crore but not more than Rs. 10 crore, 5 per cent of TDS if payment subject to TDS exceeds Rs. 10 crore).

269.2-2 HEALTH AND EDUCATION CESS DURING THE FINANCIAL YEAR 2025-26 - Health and education cess (at the rate of 4 per cent) is applicable only in the following cases -

1. Tax deduction from payment of salary (where recipient is resident or non-resident).
2. Tax deduction from payment/credit of any sum (other than salary) to a non-resident or a foreign company.

1. Provisions of section 206AA are not applicable in respect of payment of interest on long-term bonds as referred to in section 194LC. Moreover, section 206AA is not applicable if a few condition given by rule 37BC are satisfied.

2. If the recipient does not furnish PAN, tax shall be deducted under section 194-O or 194Q at the rate of 5 per cent (and not at the rate of 20 per cent).

3. Notified jurisdictional area is one which is notified under section 94A. On the date of publication of this book, this provision does not have any practical utility (as no notified jurisdictional area is in operation).

4. 25 per cent (if tax is payable under the new tax regime).

In the case of payment/credit (other than salary) to a resident, education cess, etc., is not applicable for TDS purposes during the financial year 2025-26.

269.3 Consequences of default - Where a person who is required to deduct tax at source, does not deduct, or after deducting fails to pay, the whole or any part of tax, as required by the Act, then such person shall be deemed to be an assessee in default in respect of such tax under section 201(1). He will be liable for payment of tax, interest, penalty and prosecution. Besides, disallowance under section 40(a) will be attracted.

► *When recipient has paid tax* - See para 82.2-1.

► *Time-limit* - No order shall be made under section 200(1) deeming a person to be an assessee in default for failure to deduct the whole or any part of the tax from any person (resident or non-resident), at any time after the expiry of 6 years from the end of the financial year in which payment is made or credit is given or 2 years from the end of the financial year in which the correction statement is delivered, whichever is later.

269.4 Other points - The following points should be noted –

► *No TDS on GST* - If GST is shown separately in the invoice, TDS is applicable on the payment (excluding GST).

► *TDS on reimbursement to agent* - Where technical fees (or any other expenditure like rent, commission, royalty, professional fees, etc.) is paid by an agent or associate enterprise on behalf of the assessee and tax is deducted properly within the legal parameters by the agent/associate enterprise, reimbursement later on by the assessee of the expenditure to his agent/associate enterprise is not again subject to tax deduction at source – Circular No. 5/2002, dated July 30, 2002.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM SALARY [SEC. 192]

270. The summarized provisions of section 192 are given below –

Who is the payer	Employer
Who is the recipient	Employee
Payment covered	Taxable salary of the employee
At what time tax has to be deducted at source	At the time of payment
Maximum amount which can be paid without tax deduction	The amount of exemption limit ^{4a}
Rate of tax deduction at source	Normal rates applicable to an individual [see para 269.2 and Appendix 1]
When the provisions are not applicable	—
Is it possible to get the payment without tax deduction or with lower tax deduction	The employee can make an application in Form No. 13 to the Assessing Officer to get a certificate of lower tax deduction or no tax deduction.

The employer 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.

270.1 How to compute taxable salary and tax thereon - For computing taxable salary, refer to Chapter 4 and Chapter 11. At the time of deducting tax at source, the person responsible for paying salary during the financial year 2025-26 should keep the following points in consideration :

► *House rent allowance exemption under old tax regime* - Exemption pertaining to house rent allowance shall be calculated by the employer on the basis of specified limits provided by section 10(13A). These limits have been given in the book in para 42.1. This exemption depends upon rent paid by the employee. The concerned employee should submit to the employer a written statement in Form No. 12BAA pinpointing rent paid, name of landlord, address of the property and PAN of landlord (PAN is required only if rent paid is more than Rs. 1,00,000 per annum) along with rent receipt given by the landlord. However, for the purpose of tax deduction, the Central

4a. Exemption limit for the assessment year 2025-26 under the new tax regime under section 115BAC (which is default tax regime) is Rs. 3,00,000 (irrespective of his age). If the assessee has opted for the old tax regime, exemption limit is Rs. 2,50,000 [higher exemption limit (a) in the case of a resident senior citizen born on or after April 2, 1945 but on or before April 1, 1965: Rs. 3,00,000; and (b) in the case of a resident super senior citizen born on or before April 1, 1945: Rs. 5,00,000].

Exemption limit for the assessment year 2026-27 under the new tax regime under section 115BAC (which is default tax regime) is Rs. 4,00,000 (irrespective of his age). If the assessee has opted for the old tax regime, exemption limit is Rs. 2,50,000 [higher exemption limit (a) in the case of a resident senior citizen born on or after April 2, 1946 but on or before April 1, 1966: Rs. 3,00,000; and (b) in the case of a resident super senior citizen born on or before April 1, 1946: Rs. 5,00,000].

Board of Direct Taxes has given a concession that rent receipt is not required if house rent allowance is Rs. 3,000 per month or less.

► *Deduction from gross total income under old tax regime* - Employer should take into consideration amount deductible under sections 80C, 80CCC, 80CCD, 80CCG, 80D, 80DD, 80DDB, 80E, 80EE, 80GG, 80GGA, 80TTA, 80TTB and 80U.

► *Tax liability* - Tax is deductible on the taxable income at the rates applicable for the financial year. These rates are given in Appendix 1. If the employee does not have PAN, tax is deductible either at the normal rate or at the rate of 20 per cent, whichever is higher. Tax is not deductible, if estimated salary of an employee does not exceed exemption limit (this rule is applicable even if the employee does not have PAN). At the request of an employee, the employer can give relief under section 89. However, this facility is available only if the employer is Government or public sector undertaking or company, co-operative society, local authority, university, institution or association or body.

► *When a person is employed by two or more employers during the financial year* - In such a case, tax will be deducted by each employer separately. However, the employee is under obligation to declare salary received (and tax deducted thereon) from other employers to one of the employers by submitting information in Form No. 12B. The employer to whom Form No. 12B is submitted shall deduct tax on the basis of aggregate salary.

► *Supporting evidence for HRA/LTC/interest on home loan/deductions under Chapter VI-A* - An employee shall furnish supporting evidence pertaining to the following in Form No. 12BB for the purpose of estimation of his income and tax deduction at source. This form should be submitted to the person responsible for tax deduction under section 192 -

Nature of claim	Evidence or particulars
House rent allowance	- Name and address of landlord/landlords - Amount of rent paid/payable - PAN of landlord/landlords (where the aggregate rent paid during the financial year exceeds Rs. 1 lakh)
Leave travel concession or assistance	Expenditure and evidence pertaining to expenditure
Deduction of interest under the head "Income from house property"	Name, address, PAN of the lender and interest paid/payable
Deduction under sections 80C, 80CCC, 80CCD, 80CCG, 80D, 80DD, 80DDB, 80E, 80EE, 80GG, 80GGA, 80TTA, 80TTB and 80U	Amount of investment/expenditure and evidence of investment/expenditure

► *Other incomes of employee* - An employee (at his option) can declare his other income in Form 12BAA to the employer. He cannot declare negative incomes (except house property loss). TDS on non-salary income, as declared by the employee in Form No. 12BAA, shall be considered by the employer for tax deduction under section 192. Similarly, tax collected from the employee by others, as declared in Form No. 12BAA, shall also be considered by the employer for tax deduction under section 192.

► *TDS certificate* - TDS certificate will be given to the employee in Form No. 16 annually on or before May 31 after the end of the financial year. This certificate has to be given in paper format. However, if a few conditions are satisfied Form No. 16 can be given with digital signature. The employer should also give a statement of perquisites/profits in lieu of salary in Form No. 12BA (if salary exceeds Rs. 1,50,000).

► *Salary without TDS or with lower TDS* - To get salary without TDS or with lower TDS, the employee will have to approach the Assessing Officer by submitting an application in Form No. 13 under section 197. These provisions are given in para 289.7.

► *Deferring TDS in respect of income pertaining to employee stock option plan (ESOP) of start-up* - If employer is a start-up (qualified for deduction under section 80-IAC) and it allots any specified security/sweat equity shares/ESOP to its employees, TDS on the perquisite may be deducted under section 192 within 14 days -

- after the expiry of 48 months from the end of the relevant assessment year; or
 - from the date of the sale of such specified security or sweat equity share by the assessee; or
 - from the date of the assessee ceasing to be the employee of the start-up,
- whichever is earlier.

Tax shall be calculated based on rates in force for the previous year in which said security or share is allotted or transferred to the employee.

► *Option for old tax regime* - For the financial year 2025-26, new tax regime is default tax regime. If an employee does not make any declaration to the employer, tax will be deducted by the employer within the parameters of new tax regime under section 115BAC [see para 194.3]. If an employee wants to pay tax under old tax regime,

he will have to intimate the same to the employer (*i.e.*, deductor). The intimation to the employer shall be only for the purpose of TDS and cannot be modified during that year.

The aforesaid intimation to the employer does not amount to exercise of option by the concerned employee under section 115BAC(6). The concerned employee is required to exercise the option under section 115BAC(6) at the time of submission of his return of income (such option could be different from the intimation made to the employer) – Circular No. 4/2023, dated April 5, 2023.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM WITHDRAWAL FROM EMPLOYEES PROVIDENT FUND SCHEME [SEC. 192A]

270A. Under section 192A, tax is deductible as follows –

1. *Who is deductor* - Tax is to be deducted by the trustees of Employees' Provident Fund Scheme, 1952 or any other person authorised under the scheme to make payment of accumulated sum to employees.
2. *Which amount is subject to tax deduction* - Tax is deductible from "taxable premature withdrawal". In other words, tax is deductible from accumulated lump sum payment (at the time of retirement or at the time of leaving job) in case the employee has not rendered continuous service of 5 years and he does not fall in any of 4 cases given below –
 - If the employee has rendered continuous service with his employer for a period of 5 years or more. For the purpose of calculating 5-year time-limit, service rendered with the previous employer shall be included, if the previous employer also maintained recognized provident fund and the provident fund balance of the employee was transferred by him to the current employer.
 - If the employee has been terminated because of certain reasons which are beyond his control (*e.g.*, ill health of the employee, discontinuation of business by employer, completion of project for which the employee was employed, etc.).
 - If the employee has resigned before completion of 5 years but he joins another employer (who maintains recognized provident fund and provident fund money with the current employer is transferred to the new employer).
 - If the entire balance standing to the credit of the employee is transferred to his account under a pension scheme referred to in section 80CCD and notified by the Central Government (*i.e.*, NPS).

Out of the lump sum payment, only amount includible in the total income of the employee is subject to tax deduction at source.

3. *Time of tax deduction* - Tax is deductible at the time of payment.
4. *Rate of TDS* - Tax is deductible under section 192A at the rate of 10 per cent (no surcharge/education cess if recipient is resident, surcharge/education cess applicable if recipient is non-resident) of "taxable premature withdrawal".
5. *What is threshold limit* - Tax is not deductible if "taxable premature withdrawal" is less than Rs. 50,000.
6. *Is it possible to get lower TDS certificate under section 197* - Lower TDS certificate under section 197 is not possible.
7. *Is it possible to avoid TDS by submitting Form No. 15G/15H under section 197A* - The recipient can give a declaration in Form No. 15G to the effect that his total income including taxable premature withdrawal from provident fund does not exceed the maximum amount not chargeable to tax and on furnishing of such declaration, no tax will be deducted. Similar facility of filing self-declaration in Form No. 15H for non-deduction of tax under section 197A is available to a senior citizen receiving pre-mature withdrawal.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM INTEREST ON SECURITIES [SEC. 193]

271. The provisions of section 193 are given below –

Who is the payer	Payer of interest on securities
Who is the recipient	A resident person holding securities
Payment covered	Interest on securities
At what time tax has to be deducted at source	At the time of payment or at the time of credit, whichever is earlier
Maximum amount which can be paid without tax deduction	-

Rate of tax deduction at source	10 per cent (no surcharge, education cess, etc.).
When the provisions are not applicable	Interest on Central/State Government securities + a few more given in para 271.1
Is it possible to get the payment without tax deduction or with lower tax deduction	See paras 289.7 and 289.8

271.1 Securities interest which is not subject to tax deduction - No tax is deductible at source from the amount of interest payable on the following⁵ :

- a. debentures issued by any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank) or any other institution or authority or a public sector company notified by the Central Government;
- b. any security of the Central/State Governments [However, interest exceeding Rs. 10,000 payable during a financial year on 8 per cent Savings (Taxable) Bonds, 2003 or 7.75 per cent Savings (Taxable) Bonds, 2018 or Floating Rate Savings Bonds, 2020 (Taxable) or notified securities, are subject to tax deduction at source];
- 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;
- d. interest on debentures up to Rs. 5,000 (Rs. 10,000 from April 1, 2025) paid or payable by a widely-held company by an account payee cheque to a resident individual or a resident Hindu undivided family, and
- e. any interest payable to a "business trust", in respect of any securities, by a special purpose vehicle [referred to in the *Explanation* to section 10(23FC)].

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM DIVIDENDS [SEC. 194]

272. The provisions of section 194 are given below –

Who is the payer	Domestic company
Who is the recipient	Resident shareholder
Payment covered	Dividend [including "deemed dividend" under section 2(22) on shares]
At what time tax has to be deducted at source	At the time of payment
Maximum amount which can be paid without tax deduction	Rs. 5,000 (Rs. 10,000 from April 1, 2025)
Rate of tax deduction at source	10%
Is it possible to get the payment without tax deduction or with lower tax deduction	See paras 289.7 and 289.8

► TDS provisions of section 194 are not applicable if the recipient of dividend is LIC, General Insurance Corporation, any other insurance service provider, business trust or a person notified by the Central Government.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM INTEREST OTHER THAN INTEREST ON SECURITIES [SEC. 194A]

273. The provisions of section 194A are given below –

Who is the payer	Any person paying interest other than interest on securities (not being an individual or a Hindu undivided family whose total sales, turnover or gross receipts from the business or profession carried on by him do not exceed Rs. 1 crore in the case of business or Rs. 50 lakh in the case of profession during the financial year immediately preceding the financial year in which the income is to be credited or paid).
Who is the recipient	A resident person
Payment covered	Interest other than interest on securities
At what time tax has to be deducted at source	At the time of payment or at the time of credit, whichever is earlier

5. Only the securities which are currently in force are printed in the book.

Maximum amount which can be paid without tax deduction	See para 273.1
Rate of tax deduction at source	10%
When the provisions are not applicable	For a few cases, see para 273.1
Is it possible to get the payment without tax deduction or with lower tax deduction	See paras 289.7 and 289.8

273.1 Interest not subject to tax deduction - Tax is not deductible in the following cases –

- a. where the amount of interest credited or paid (or likely to be credited or paid) during a financial year⁶ does not exceed the amount given below –

	Interest paid or payable by –	
	Bank/co-operative bank/notified ^{6a} post office scheme	Any other person
During April 1, 2019 and March 31, 2025	Rs. 40,000 (Rs. 50,000 if recipient is senior citizen)	Rs. 5,000
From April 1, 2025	Rs. 50,000 (Rs. 1,00,000 if recipient is senior citizen)	Rs. 10,000

- b. where interest is credited or paid to any banking company, co-operative bank, public financial institutions, the Life Insurance Corporation, the Unit Trust of India, an insurance company or a co-operative society carrying on the business of insurance, or (or institutions notified before April 1, 2020);
- 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 (other than a co-operative bank) 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 Certificates VIII Issue, and Indira Vikas Patra;
- f. where interest is credited or paid in respect of deposits (other than time deposit)⁷ with a banking company or (interest to non-members on deposit) with a co-operative bank;
- g. where interest is credited or paid in respect of deposit (by non-members) with a primary agricultural society, etc.;
- h. where interest is credited or paid by the Central Government under different provisions of the direct taxes;
- i. where the interest is paid 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. where income is payable in relation to zero coupon bonds by an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or public sector company or scheduled bank;
- k. interest referred to in section 10(23FC); and
- l. interest paid or payable by an Offshore Banking Unit on deposits (or borrowing) made on or after April 1, 2005 by a person who is resident but not ordinarily resident in India.

► **Notification by Central Government** - Under section 194A(5), the Central Government has power to notify that tax deduction under this section shall not be made (or shall be made at such specified lower rate), from such specified payment to such person or class of persons, as may be specified in the notification.

► **TDS by co-operative society** - In the case of a co-operative society referred to in (d) or (g) (*supra*), tax is liable to be deducted, if –

- a. total sales, turnover or gross receipts of the co-operative society exceeds Rs. 50 crore during the financial year immediately preceding the financial year in which the interest is to be credited or paid; and
- b. the amount of interest (or the aggregate amount of such interest) paid/credited during the financial year is more than Rs. 50,000 (Rs. 1,00,000 if recipient is a senior citizen).

273.2 Other points - The following points should be noted –

► **Adjustments** - The person responsible for tax deduction under section 194A can make adjustments for any excess deduction or any deficiency arising out of any previous deduction during the same year.

6. 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. However, branch-wise computation system is discontinued from June 1, 2015. From June 1, 2015, section 194A has been amended to provide that for computing threshold limit (given above), interest credited or paid by the banking company/co-operative bank which has adopted core banking solutions (CBS), shall be considered.

6a. Notified schemes for this purpose are Senior Citizens Savings Scheme, 2019 and Mahila Samman Savings Certificate, 2023.

7. Interest on "time deposit" is subject to TDS under section 194A. "Time deposit" for this purpose includes recurring deposit.

► *Interest on time deposit by bank on daily/monthly basis in CBS software* - Such interest is credited in software by different banks for the purpose of macro monitoring purposes only. No effective credit is actually given to the depositors. Tax need not be deducted in such cases – Circular No. 3/2010, dated March 2, 2010.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM WINNINGS FROM LOTTERIES OR CROSSWORD PUZZLES [SEC. 194B]

274. The provisions of section 194B are given below –

Who is the payer	Any person paying winnings from lotteries/crossword puzzles/card games/other games
Who is the recipient	Any person
Payment covered	Winnings from lotteries/crossword puzzles/card games/other games (not being winnings from online game)
At what time tax has to be deducted at source	At the time of payment
Maximum amount which can be paid without tax deduction	► <i>Applicable from April 1, 2025</i> - If the amount of payment (pertaining to a single transaction) is Rs. 10,000 or less ► <i>Up to April 1, 2025</i> - If the amount (or aggregate of the amount) of payment during the financial year is Rs. 10,000 or less
Rate of tax deduction at source	30% (no surcharge or education cess)
When the provisions are not applicable	—
Is it possible to get the payment without tax deduction or with lower tax deduction	Not possible

Provisions illustrated

X wins a lottery prize of Rs. 2,00,000 on March 22, 2026, out of which Rs. 20,000 is payable to the agent. Out of Rs. 1,80,000 payable to the winner, Rs. 54,000 (being 30 per cent of Rs. 1,80,000) shall be tax deduction at source under section 194B.

274.1 Prize 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 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, ensure that tax has been paid in respect of the winnings.

For instance, X wins a Maruti-Zen on December 15, 2025 (value of Rs. 3.70 lakh) in a draw of lot organised by Maruti Udyog. Tax liability on the prize in kind comes to Rs. 1,11,000 (*i.e.*, 30 per cent of Rs. 3.70 lakh) which may be recovered by the Maruti Udyog from X and the same can be deposited with the Government on account of tax deduction.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED FROM WINNINGS FROM ONLINE GAMES [SEC. 194BA]

274A. Section 194BA has been inserted with effect from April 1, 2023.

► *Who is responsible for tax deduction* - Any person responsible for paying to any person any income by way of winnings from any online game during the financial year, shall deduct income-tax on the net winnings in his user account, computed in the manner as may be prescribed. "Online game" means a game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device.

► *At what time tax should be deducted* - Tax should be deducted at the end of the financial year. If, however, there is a withdrawal from the user account during the financial year, tax shall be deducted at the time of such withdrawal on the net winnings comprised in such withdrawal. Moreover, tax will be deducted on the remaining amount of net winnings in the user account (mode of computation is given by rule 133) at the end of the financial year.

► *TDS rate* - Tax is required to be deducted at the rate of 30 per cent (no threshold limit) (it will be increased by applicable surcharge and HEC if recipient of winnings is non-resident). If, however, the net winnings are wholly in kind (or partly in cash and partly in kind but the part in cash is not sufficient to meet the TDS liability of the whole of the net winnings), the person responsible for paying shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings.

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM WINNINGS FROM HORSE RACES [SEC. 194BB]

275. The provisions of section 194BB are given below –

Who is the payer	Any person paying winnings from horse races
Who is the recipient	Any person
Payment covered	Winnings from horse races
At what time tax has to be deducted at source	At the time of payment
Maximum amount which can be paid without tax deduction	► <i>Applicable from April 1, 2025</i> - If the amount of payment (pertaining to a single transaction) is Rs. 10,000 or less ► <i>Up to April 1, 2025</i> - If the amount (or aggregate of the amount) of payment during the financial year is Rs. 10,000 or less
Rate of tax deduction at source	30% (no surcharge or education cess)
When the provisions are not applicable	—
Is it possible to get the payment without tax deduction or with lower tax deduction	Not possible

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM PAYMENTS TO CONTRACTORS OR SUB-CONTRACTORS [SEC. 194C]

276. The provisions of section 194C are given below –

Who is the payer	A specified person [see para 276.1]
Who is the recipient	A resident contractor (contractor includes sub-contractor)
Rate of tax deduction at source	1% if recipient is an individual/HUF, otherwise 2%
Payment covered	Consideration for any “work contract”
At what time tax has to be deducted at source	At the time of payment or at the time of credit, whichever is earlier
Maximum amount which can be paid without tax deduction	See para 276.4
Is it possible to get the payment without tax deduction or with lower tax deduction	The recipient can make an application in Form No. 13 to the Assessing Officer to get a certificate of lower tax deduction or no tax deduction [see para 289.7]

276.1 Who is deductor- Any of the following persons responsible for paying any sum to a resident contractor is supposed to deduct tax at source under section 194C, if the other conditions are satisfied –

- 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; or
- h. any trust; or
- i. any university or an institution declared to be a university; or
- j. any Government of a foreign State or a foreign enterprise or any association or body established outside India; or
- k. any firm; or
- l. an individual or a Hindu undivided family (HUF) or an association of persons (AOP) or a body of individuals (BOI).

► *Additional requirement if payer is an individual/HUF/AOP/BOI* - If the payer is an individual/HUF/AOP/BOI, tax shall be deducted at source only if the following additional conditions are satisfied –

	<i>Additional requirement if payer is an individual/HUF</i>	<i>Additional requirement if payer is an AOP/BOI</i>
Payment/credit should be for business purposes	It should not be exclusively for personal purposes	No such requirement
Turnover of individual/HUF	Total sales, turnover or gross receipts of the individual/HUF (<i>i.e.</i> , deductor) from the business or profession carried on by him exceed Rs. 1 crore in the case of business (or Rs. 50 lakh in the case of profession) during the financial year immediately preceding the financial year in which the income is to be credited or paid.	

276.2 Meaning of work contract - Section 194C is applicable in respect of consideration for carrying out any works contract (including supply of labour for carrying out any work). For this purpose, "contract" shall include sub-contract.

► "Work" as defined in section 194C - The expression "work" shall also include the following five services –

- a. advertising;
- b. broadcasting and telecasting including production of programmes for such broadcasting or telecasting;
- c. carriage of goods or passengers by any mode of transport other than by railways;
- d. catering;
- e. manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer.

► It does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer (or its associates).

► In other words, the provisions of section 194C are attracted only where any sum is paid for carrying out any work (manpower is *sine qua non* and without manpower it cannot be said that work has been carried out) including supply of labour and five services noted above.

► The expression "work" does not include any sum referred to in section 194J(1). Consequently, when tax is deductible under section 194J, section 194C is not applicable.

276.3 Rate of TDS - To rationalise the TDS rates and to remove multiple classifications, the same rate of TDS will be applicable to the case of payment for advertising contracts. The following TDS rates are applicable under section 194C –

If the recipient is an individual/HUF	1%
If the recipient is any other person	2%

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

1. There is no surcharge and health and education cess.
2. If the recipient is a transport operator and he furnishes his PAN to the payer, TDS rate is *nil*. "Transport operator" is a person who is in the business of plying, hiring or leasing of goods carriages.
3. In the case of work contract being manufacturing or supplying product according to the specification of a customer by using material purchased from such customer or its associates, TDS shall be deducted on the invoice value excluding the value of material purchased from such customer/its associates, if such value is mentioned separately in the invoice. Where the material component has not been separately mentioned in the invoice, TDS shall be deducted on the whole of the invoice value.
4. Tax is deductible on the consideration excluding GST, if any.

276.4 When tax is not deductible - In the following cases, tax is not deductible or deductible at lower rate under section 194C –

► **Petty cases** - To avoid tax deduction in petty cases, tax is required to be deducted at source where the amount credited or paid to a contractor exceeds Rs. 30,000 in a single payment or credit or Rs. 1,00,000 in the aggregate during a financial year. In other words, tax is not 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 does not exceed Rs. 30,000; and
- b. the aggregate of the amount of such sums credited or paid (or likely to be credited or paid) during the financial year does not exceed Rs. 1,00,000.

► **Transport operators** - If recipient (maybe an individual, firm, company, or any other person) is a transport contractor (who is in the business of plying, hiring or leasing goods carriages) and satisfies the following conditions, tax is not deductible –

- Recipient owns 10 (or less than 10) goods carriages at any time during the financial year.
- He gives a declaration to this effect to the deductor.
- Besides, he furnishes his PAN to the deductor.

Deductors who make payments to transporters without deducting TDS (as they have quoted PAN) are required to intimate these PAN details to the Income-tax Department in the prescribed format (*i.e.*, Form No. 26Q).

► *Lower rate TDS certificate under section 197 - See para 289.7.*

■ ■ WHEN AND HOW TAX IS TO BE DEDUCTED AT SOURCE FROM INSURANCE COMMISSION [SEC. 194D]

277. The provisions of section 194D are given below –

Who is the payer	Any person paying insurance commission
Who is the recipient	A resident person
Payment covered	Insurance commission
At what time tax has to be deducted at source	At the time of payment or at the time of credit, whichever is earlier
Maximum amount which can be paid without tax deduction	Any amount which is Rs. 20,000 ^{7a} , or less (to be calculated on aggregate basis for the entire financial year)
Rate of tax deduction at source	2% (if recipient is a person other than company) 10% (if recipient is a company)
When the provisions are not applicable	—
Is it possible to get the payment without tax deduction or with lower tax deduction	The recipient can make an application in Form No. 13 to the Assessing Officer to get a certificate of lower tax deduction or no tax deduction [<i>see</i> para 289.7]

■ ■ WHEN AND HOW TAX TO BE DEDUCTED AT SOURCE FROM PAYMENT OF LIFE INSURANCE POLICY [SEC. 194DA]

277A. The provisions of section 194DA are given below –

Who is payer	Any person responsible for paying to a resident any sum under a life insurance policy (including bonus)
Who is recipient	A resident person
Payment covered	Any payment pertaining to life insurance policy (whether at the time of maturity or otherwise)
At what time tax has to be deducted	At the time of payment
Maximum amount which can be paid without tax deduction	Any amount which is less than Rs. 1,00,000 (to be calculated on aggregate basis for the entire financial year)
Rate of tax deduction	2% (prior to October 1, 2024: 5%) of the amount of income comprised in payment
When the provisions are not applicable	If the payment is exempt in the hands of recipient under section 10(10D)
Is it possible to get the payment without tax deduction or with lower tax deduction	If the recipient submits Form No. 15G/15H under section 197A, tax is not deductible.

► *Exemption under section 10(10D)* - If exemption is available to the recipient under section 10(10D), then the above TDS provisions are not applicable. Consequently, in the following cases TDS provisions of section 194DA are applicable –

- a. any payment under a keyman insurance policy;
- b. any payment under section 80DD(3) or section 80DDA(3);
- c. any payment under life insurance policy issued during April 1, 2003 to March 31, 2012 where annual insurance premium is more than 20 per cent of capital sum assured;
- d. any payment under life insurance policy issued after March 31, 2012 where annual insurance premium is more than 10 per cent of capital sum assured;
- e. any payment under life insurance policy issued after March 31, 2013 to a person covered under section 80U or 80DDB where annual insurance premium is more than 15 per cent of capital sum assured;
- f. any payment under unit linked insurance plan (ULIP policy) issued on or after February 1, 2021 if insurance premium payable in any previous year during the term of such policy exceeds Rs. 2.50 lakh, or
- g. any payment under a life insurance policy issued after March 31, 2023 where annual insurance premium exceeds Rs. 5 lakh.

In cases covered by (c), (d), (e), (f) or (g), tax is not deductible if the payment is made on the death of a person.

^{7a} Rs. 15,000 (up to March 31, 2025).