Learning Objectives

- Understand why tax is collected at source and how the mechanism works
- Explain the TDS process from deduction to credit and certificate
- Understand the major provisions within Sections 192–196
- Distinguish Section 197 from Section 197A
- Explain TCS and Section 206C conceptually
- Compare TDS and TCS and understand TAN under Section 203A
- Apply the concepts through classroom illustrations and MCQ-style questions

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Why Does the Law Collect Tax at Source?

- Income tax is ordinarily determined for the relevant assessment period, but collection can occur earlier
- TDS/TCS creates an advance collection mechanism and improves tax compliance
- It helps create an audit trail for specified payments and transactions
- The amount deducted/collected is generally credited to the taxpayer subject to the statutory rules
- TDS/TCS is a mechanism of collection; it is not a separate tax

TDS means Tax Deducted at Source

Under the TDS system, the person who makes certain

specified payments is responsible for deducting tax

before making the payment to the recipient and

depositing that tax with the Government Treasury.

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TDS – Meaning

- TDS = Tax Deducted at Source
- Specified payments trigger an obligation on the payer/deductor to deduct tax at the prescribed rate, subject to statutory conditions
- Deduction is generally linked to payment or credit, depending on the relevant section
- The deductor deposits the tax with the Central Government and reports the transaction
- Recipient receives credit for tax deducted, subject to the law

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TDS: Core Parties

- Deductor/Payer: person responsible for making the specified payment
- Deductee/Recipient: person whose income is subject to TDS
- Government: receives the tax deducted
- PAN/TAN and reporting systems connect the payment, deduction and tax credit
- Always identify: nature of payment → relevant section → threshold/conditions → rate → time of deduction

TDS Process – Step by Step

1. Identify the nature of payment and whether a TDS provision applies
2. Check threshold, exemption, recipient status and other statutory conditions
3. Determine the applicable rate and amount
4. Deduct tax at the legally prescribed time
5. Deposit the deducted amount within the prescribed due date
6. File the prescribed TDS statement/return
7. Issue the prescribed TDS certificate to the deductee
8. Deductee claims/gets credit according to the tax records and return

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TDS Illustration

Example: A company pays professional fees to a consultant

Step 1: Identify whether the payment falls under Section 194J

Step 2: Check threshold and other conditions

Step 3: Apply the applicable statutory rate

Step 4: Deduct TDS and pay the balance to the consultant

Step 5: Deposit TDS, report it and issue the prescribed certificate

Sections 192–196: Overview

Section 192 – Salary

Section 193 – Interest on securities

Section 194 – Dividends

Section 194A – Interest other than interest on securities

Sections 194B/194BB – Certain winnings

Sections 194C, 194D, 194G, 194H – Specified contract/commission-related payments

Sections 194-I and 194J – Rent and professional/technical payments

Section 195 – Certain payments to non-residents

Section 196 – Certain payments where the law specifically provides for no deduction

Section 192 – Salary

- Employer deducts tax from salary income
- Tax is computed with reference to the estimated taxable salary for the financial year
- Deduction is generally made at the time salary is paid
- Employer considers applicable exemptions, deductions and reliefs as required by the law
- Unlike many fixed-rate TDS provisions, salary TDS is linked to the employee’s estimated tax liability
- Form 16

Section 193 – Interest on Securities

- Applies to specified interest on securities(Debenture)
- The person responsible for paying qualifying interest has the TDS responsibility
- Always verify whether the particular security/payment is covered and whether any statutory exemption applies
- This is a source-based collection mechanism for specified investment income
- TDS certificate form 16A

Section 194 – Dividends

- Deals with TDS on specified dividend payments
- Applicability depends on the nature of dividend, recipient and statutory conditions
- No TDS upto 10000 in every case
- The standard TDS rate is 10%
- Thresholds, rates and exemptions can change through Finance Acts
- For calculations, use the rate applicable to the relevant assessment year

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Section 194A – Interest Other Than Securities

- Applies to specified interest payments other than interest on securities(bank interest, interest on fixed deposits, int. on recurring deposit, interest on loan)

- Common examples include qualifying interest paid by banks and other specified payers

- Threshold limits and payer-specific conditions are important

  Interest(bank/co-operative bank/post office) – senior citizen 1,00,000

  - other person 50,000

- Deduction may depend on the recipient's status and the nature of the account/payment

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Sections 194B, 194BA & 194BB

- Section 194B: specified winnings such as lottery/crossword and other specified games(Television game show, Quiz competition, gambling, betting)
- TDS deducted if single winning exceeds 10,000
- TDS rate applicable 30%

- Section 194BA: net winnings from **ONLINE GAMES**
- TDS rate applicable 30% on 1 rupee winning

- Section 194BB: winnings from **HORSE RACES**
- TDS deducted if single winning exceeds 10,000
- TDS rate applicable 30%

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Section 194C – Contractors

- Applies to specified payments to contractors/sub-contractors
- A single contract does not exceed 30,000
- The aggregate amount of the financial year does not exceeds 1,00,000
- Individual/HUF contractor – 1%
- Other contractor – 2%
- Relevant for contracts such as work, carriage of goods and certain labour related arrangements
- Thresholds and recipient classification matter
- Always test the statutory definition and exceptions before deducting

Sections 194D, 194G & 194H

- Section 194D – specified insurance commission
- Individual/HUF – 2%
- Other than individual/HUF – 10%

  Commission paid exceeds 20,000

- Section 194G – commission on sale of lottery tickets
- TDS rate 2%
- Commission paid exceeds 20,000

- Section 194H – specified commission or brokerage(sales commission, agency commission, brokerage {property , share, commodity, business transaction} etc.)

- These provisions target intermediary/commission-type payments

- TDS rate 2%
- Commission paid exceeds 20,000

Section 194-I – Rent

- Applies to specified rent payments
- Any person other than an individual or HUF(company, firm, LLP, trust, society, cooperative society)
- Coverage includes rent for land/building and specified plant, machinery, equipment,furniture,fitting
- The statutory threshold and rate depend on the nature of the asset/payment
- Machinery/plant/equipment – 2%
- Building/land/furniture/fitting – 10%
- Rent credited or paid exceeds 50,000 per month

Section 194J – Professional / Technical Services

- Applies to specified professional fees and technical service payments
- Also covers other specified categories such as royalty and certain director-related payments(fees,salary)
- Threshold limit is 50000 but the nature of service and recipient status must be checked(this limit does not applicable to director’s fees)
- Fees and technical services, royalty,commission to director – 10%

  technical service, call centre – 2%

(if director receives salary section 192 applies)

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Section 195 – Payments to Non-Residents

- Applies to certain sums chargeable to tax paid to a non-resident/foreign company, subject to the section(company,firm,LLP, individuals, HUF,trust,government,any other person)

- Tax treaty provisions may also become relevant

- Rate and scope depend on the nature of income and applicable law

TDS rate 20%

Long term capital gain rate 12.5%

Short term capital gain rate individual /firm - 30%

foreign company - 35%

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Section 196 – Certain Specified Payments

- Section 196 contains special rules for specified payments where tax is not to be deducted in the circumstances prescribed

- The provision should be read with its exact statutory categories and conditions

- Government, RBI, tax-exempted corporations(established by central act, exempt from income tax under the applicable law), mutual fund under section 10(23D) G+R+C+M

Section 197 – Lower or Nil TDS Certificate

- Where the recipient's tax liability justifies it, the Assessing Officer may issue a certificate authorising deduction at a lower rate or no deduction

- Application is made in the prescribed manner

- The certificate is issued subject to the statutory conditions and validity

- Purpose: avoid excessive withholding where the normal deduction would be higher than the recipient's likely tax liability

Section 197A – No Deduction in Certain Cases

- Provides for non-deduction of tax in specified cases subject to prescribed conditions
- Eligible persons may furnish prescribed declarations for relevant payments
- Form 15G and Form 15H are commonly associated with the declaration mechanism
- 15G and 15H are not interchangeable in every case; eligibility conditions must be satisfied

15G vs 15H – Conceptual Comparison

- Form 15G: declaration by eligible persons meeting the conditions of the provision, generally other than senior citizens
- Form 15H: declaration available to eligible senior citizens subject to the conditions
- Both are intended to support non-deduction where the law permits
- Furnishing a form does not override statutory eligibility requirements

TCS – Meaning

- TCS = Tax Collected at Source
- Under specified provisions, the collector/seller collects tax from the buyer/licensee/lessee or other specified person
- The collected amount is deposited with the Government
- TCS applies only to transactions/categories covered by the law
- TCS is a collection mechanism, not an additional tax in substance; credit is governed by the statutory framework

TCS Process

1. Identify whether the transaction is covered by Section 206C or another applicable TCS provision
2. Identify the correct category and applicable rate
3. Collect tax at the prescribed time
4. Deposit the amount within the prescribed due date
5. File the prescribed TCS statement
6. Issue the prescribed TCS certificate/statement to the collectee

Section 206C – Framework

- Section 206C contains provisions for collection of tax at source on specified goods and transactions
- Examples include specified alcoholic liquor, tendu leaves, timber/forest produce, scrap, minerals and other categories as prescribed
- The section has also been amended over time to cover additional specified transactions
- Rates, thresholds and exceptions must be checked for the relevant year
- Do not memorise a historical rate without checking the current Finance Act/rules

Section 206C

- Seller transfers a transaction covered by TCS provisions
- Seller determines whether the buyer/category/transaction meets the statutory conditions
- Seller collects the prescribed TCS amount in addition to the underlying transaction amount where applicable
- Seller deposits and reports the collection
- Buyer/collectee receives credit according to the tax statement and applicable law

TDS vs TCS – Key Difference

TDS: tax is deducted by the person making a specified payment

TCS: tax is collected by the specified seller/collector from the specified buyer/collectee

TDS commonly focuses on specified income/payments

TCS focuses on specified goods/transactions and other categories covered by law

Both require compliance, deposit, reporting and certificate/credit mechanisms

TDS vs TCS – Quick Table

Who acts? TDS → payer/deductor | TCS → seller/collector

Action? TDS → deduct | TCS → collect

Core provision in this unit? TDS → Sections 192 onwards | TCS → Section 206C

Common identification number? TAN under Section 203A

Core purpose? Timely tax collection and compliance

Section 203A – TAN

- TAN = Tax Deduction and Collection Account Number
- It is a 10-character alphanumeric number allotted to persons responsible for deducting or collecting tax at source
- TAN is used in prescribed TDS/TCS statements, challans, certificates and correspondence
- TAN is different from PAN

PAN vs TAN

PAN: Permanent Account Number; identifies a taxpayer

- TAN: Tax Deduction and Collection Account Number; identifies the person responsible for TDS/TCS compliance

PAN = taxpayer identity; TAN = withholding/collection compliance identity

Identify the Provision

- A company pays salary to an employee → identify Section 192
- A business pays qualifying professional fees → consider Section 194J
- A specified seller sells goods/enters a covered transaction → consider Section 206C
- A recipient wants lower/nil withholding through the Assessing Officer → Section 197

TDS or TCS?

- Employer paying salary → TDS
- Specified payer paying professional fees → TDS
- Specified seller collecting tax on covered goods/transactions → TCS

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TDS/TCS are source-based collection mechanisms within the income-tax system

Correct application requires identifying the exact payment/transaction and statutory section

Sections 192–196 contain important TDS rules for specified categories

Section 197 provides an Assessing Officer certificate for lower/nil deduction

Section 197A provides a declaration-based non-deduction mechanism in specified cases

Section 206C is central to TCS

Section 203A → TAN

Rates and thresholds are year-sensitive: use the applicable Finance Act, Rules and official guidance for numerical work

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