

Union Budget 2024 Tax Deducted at Source



Withholding tax collections

Gross income-tax collections for FY 2023-24 is INR 22,270 billion. Of the said collections, withholding tax collections are INR 10,445 billion. Therefore, withholding tax collections contributes 46.9 percent to total income-tax collections.

Proposed amendments in the Finance (No. 2) Act 2024

A. Tax deducted at source ('TDS')

- I. Agents, e-commerce operators, certain individuals or HUFs, and mutual fund/Unit Trust of India ('UTI') would benefit on account of rationalisation/omission of TDS rates:

Section	Present TDS rate	Proposed TDS rate	With effect from
194D Insurance commission to non-corporates ¹	5 percent	2 percent	1 April 2025
194DA – Life insurance policy payments	5 percent	2 percent	1 October 2024
194G – Commission on sale of lottery tickets	5 percent	2 percent	1 October 2024
194H – Payment of commission or brokerage	5 percent	2 percent	1 October 2024
194-IB – Payment of rent by certain individuals or HUFs	5 percent	2 percent	1 October 2024
194M – Payment of sums by certain individuals or HUFs	5 percent	2 percent	1 October 2024
194-O – Payments by e-commerce operator to e-commerce participants	1 percent	0.1 percent	1 October 2024
194F – Payments on repurchase of units by Mutual Fund or UTI	20 percent	Omitted	1 October 2024

¹ Please note that while this TDS rate change has been included in the Explanatory Memorandum, it is not included as a proposed amendment in the Finance bill.

- II. TDS burden of salaried employees is proposed to be eased out by allowing the credit of TCS in addition to TDS credit, for computing the TDS on salary. The amendment will take effect from 1 October 2024.
- III. To track payment of salary, remuneration, interest, bonus or commission, in excess of INR 20,000 in one FY, by partnership firm to partners, TDS at 10 percent is proposed to be introduced from 1 April 2025.
- IV. Currently, tax is deducted at 1 percent on consideration for the transfer of immovable property. TDS does not apply where the consideration and stamp duty value of the immovable property are both less than INR 5 million. In case of transfers involving multiple transferors and/or transferees, the exemption limit of INR 5 million is proposed to apply on an aggregate basis for an immovable property. The amendment will take effect from 1 October 2024 and is expected to bring clarity for deductors while applying these provisions.
- V. With effect from 1 October 2024, it is proposed that TDS will apply at 10 percent on interest on Floating Rate Savings Bonds, 2020 (Taxable) and any notified security of the central government or state government.
- VI. There are instances of non-inclusion of taxes withheld outside India in computation of income. However, credit for such foreign taxes withheld was being claimed. To curb this practice, tax deducted and paid outside India in respect of which foreign tax credit is claimed is deemed to be income received with effect from 1 April 2025.
- VII. To provide certainty, it is proposed to exclude payments subject to section 194J from the purview of section 194C with effect from 1 October 2024.

B. Tax collected at source ('TCS')

- I. Interest for non-payment of TCS is proposed to be increased from 1 percent to 1.5 percent for every month or part thereof.
- II. It is proposed that TCS credit may be claimed by a person other than the collectee, subject to the

- satisfaction of the conditions to be prescribed. To ensure that the provision is not misused, TCS credit of a minor will be allowed only in the hands of the parent offering the clubbed income to tax.² This provision is effective from 1 January 2025.
- III. To track expenditure of high net worth persons, TCS at 1 percent is proposed to be introduced on specified luxury goods exceeding a value of INR 1 million, with effect from 1 January 2025.
 - IV. To provide relief to entities whose income is exempt from tax, no TCS shall be collected or the collection of tax shall be made at such lower rate in respect of the specified transaction, from such persons, institutions, association or body or class of institutions, associations or bodies as may be notified by the Government. The amendment will take effect from 1 October 2024.

C. TDS/TCS procedural amendments

- I. To facilitate ease of doing business, the scope of application for a nil/lower withholding tax certificate has been extended to TDS/TCS on purchase/sale of goods. These provisions will take effect from 1 October 2024.
- II. Exchanges dealing with Virtual Digital Assets (VDA) are required to file a quarterly statement for tax deposited in relation to the transfer of VDA and the said statements are not processed currently. A separate scheme is proposed to be notified for processing such statements, with effect from 1 April 2025.
- III. To reduce difficulties faced by deductees/ collectees from multiple revisions of TDC/TCS statements by deductors/ collectors, a time limit of six years (from the end of the relevant FY), is proposed for filing of correction statements. The amendment will take effect from 1 April 2025.
- IV. At present, there is a time limit of seven years (from the end of the FY in which payment is made or credit is given) to pass an order deeming a person to be an assessee in default for failure to deduct or deposit TDS in case of resident payees. However, there is no such time limit to pass an order where the payee is a non-resident. Similarly,

² Please note that this change in relation to TCS credit relating to minor has been included in the Explanatory Memorandum. However, it is not included as a proposed amendment in the Finance bill.

no time limit has been prescribed to pass an order in cases of failure to collect or deposit tax at source (TCS).

It is now proposed to provide a common limitation period of six years from the end of the FY for passing such order in case of both resident and non-resident payees. The similar timeline has also been prescribed for passing the order in case of TCS provisions.

D. Penalties/prosecution

Initiation of prosecution proceedings in case of delay in the deposit of TDS has been subject matter of concern for the taxpayer.

Prosecution provisions have been relaxed where TDS is deposited beyond the relevant due date but before the time prescribed for filing the relevant quarterly e-TDS statement.

The proposed amendment will provide relief to relevant taxpayers.

Penalty will now be imposed on late furnishing of TDS or TCS statement beyond one month instead of the existing period of 12 months from the prescribed due dates.

This will encourage the timely filing of e-TDS/e-TCS statement and thereby, enable deductees to claim eligible TDS/TCS credit in their ITR.