**What is TDS(Tax Deducted at Source), TDS Rates, Returns & Deduction Rules**

TDS is the amount of tax which is deducted by the employer (or deductor) of an assessee and is deposited to the Income Tax Department on behalf of him/her. The TDS rates are set on the basis of the age bracket and income of different individuals.

TDS or Tax Deducted at Source, is a means of [indirect tax](https://www.bankbazaar.com/tax/indirect-tax.html) collection by Indian authorities according to the Income Tax Act, 1961. TDS is managed by the Central Board of Direct taxes (CBDT), which comes under the Indian Revenue Services (IRS).

TDS is collected as a means to keep a stable revenue source for the government throughout the year, while desisting people from avoiding taxes.

## What is TDS?

Tax Deducted at Source or TDS is a type of tax that is deducted from an individual’s income on a periodic or occasional basis. TDS can be applicable for income that are regular as well as irregular in nature. Income Tax Act, 1961 regulates TDS in India through Central Board of Direct taxes (CBDT) under the Indian Revenue Services (IRS). TDS rule directs the payee or employer to deduct a certain amount of tax before making full payment to the receiver. TDS is applicable for salary, commission, professional fees, interest, rent, etc.

Since TDS is collected at the source of one’s income, it effectively minimises evasion of tax by getting the income taxed, whether completely or moderately at that point of time

## Where is TDS applicable?

Tax Deducted at Source or TDS is applicable in the following cases:

* Income from salary: The TDS is deducted by the employer from the salary and deposited on behalf of the employee. The salary is taken into consideration along with the deductions and exemptions. The rate of TDS varies from employee to employee on the basis of their income, deductions, and exemptions.
* Income from interest: The TDS is deducted in this case if the total income from interest is more than Rs.10,000 for a year. The tax on fixed deposits (FDs) and recurring deposits (RDs) is deducted and deposited by the banks on behalf of the individual. In this case, the rate of TDS is 10% if the details of Permanent Account Number or PAN is provided. Otherwise, it is 20% of the total income from interest.
* Income from sale of property: In case of disposal of a property, TDS will be applicable in case the value of the property is more than Rs.50 lakh. The rate of TDS will be 1% of the sale value if the PAN is provided. However, if the PAN is not provided, the TDS rate will be 20% of the sale value.
* Income from EPF withdrawals: TDS will be applicable to withdrawals from the Employees’ Provident Fund (EPF) if the withdrawal is made before the end of 5 years of service. However, if the amount of the withdrawal does not exceed the mark of Rs.30,000, TDS is not applicable. The rate of TDS is 10% in case the PAN is provided and it is 20% otherwise

## TDS Rate Chart

Whether the taxable income of an assessee is regular or irregular in nature, the Tax Deducted at Source or TDS is calculated on the basis of the [**TDS Rate Chart**](https://www.bankbazaar.com/tax/tds-rates-chart.html) . The TDS Rates vary for different types of income and is mainly dependent on the slab under which the taxable income falls.

## TDS Calculation

Payments such as salaries, interest payment, commission, fees to lawyers and freelancers etc. are subject to TDS. For salaries, the percentage of TDS will be based on income slabs rates. Similarly, each type of income has its own percentage of tax that is calculated when the amount meets certain limit.

Since TDS is collected at source without the calculation of investment that is eligible for tax deductions, hence, an individual can declare and submit his investment proof in order to file a return and claim for the TDS refund.

### TDS Deduction

If an individual has paid excess TDS when compared to the liable tax amount, the deducted or payee can file a claim for a refund of the excess amount. The TDS deductions are calculated based on various factors for individuals from different types of income categories.

Calculate GST using: [GST Calculator](https://www.bankbazaar.com/tax/gst-calculator.html)

## How is TDS Deducted?

Income and expenditure such as salary, lotteries, interests from banks, payment of commissions, rent payment, payments to freelancers, etc. fall under the ambit of TDS. When making payments under these segments, a percentage of the overall payment is withheld by the source that is making the payments. This source, which can be a person or an organization, is known as the Deductor. The person whose payment is getting deducted is called the Deductee. For instance, a deductor is the employer paying salary to an employee (the deductee).

Under the law stated by TDS, any kind of payment being made from one party to another will be subject to TDS while complying with the provisions of the Income Tax Act, 1961. The tax will be deducted at source and will thereon be deposited to the department of Income Tax.

**Rates for tax deduction at source 2017-18**

| **Particulars** | [**TDS Rates**](https://www.bankbazaar.com/tax/tds-rates-chart.html) **(in %)** |
| --- | --- |
| Section 192: Payment of salary | According to Income Slab as specified above |
| Section 192A: Payment of accumulated balance of provident fund which is taxable in the hands of an employee (with effect from 01.06.2015). | 10 |
| Section 193: Interest on securities |  |
| a) any debentures or securities for money issued by or on behalf of any local authority or a corporation established by a Central, State or Provincial Act; | 10 |
| b) any debentures issued by a company where such debentures are listed on a recognized stock exchange in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder; | 10 |
| c) any security of the Central or State Government; | 10 |
| d) interest on any other security | 10 |
| Section 194: Dividend other than the dividend as referred to in Section 115-O | 10 |
| Section 194A: Income by way of interest other than "Interest on securities" from banks and other sources | 10 |
| Section 194B: Income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort | 30 |
| Section 194BB: Income by way of winnings from horse races | 30 |
| Section 194C: Payment to contractor/sub-contractor |  |
| a) HUF/Individuals | 1 |
| b) Others | 2 |
| Section 194C: | Payments made to transporters (44AE), coupled with its declaration with a PAN number |
| Section 194D: Insurance commission | 5 (10% till Assessment year 2016-17) |
| Section 194DA: Payment in respect of life insurance policy | 1 (2% till 31-5-2016) |
| Section 194EE: Payment in respect of deposit under National Savings scheme | 10 (20% till 31-5-2016) |
| Section 194F: Payment on account of repurchase of unit by Mutual Fund or Unit Trust of India | 20 |
| Section 194G: Commission, etc., on sale of lottery tickets | 5 (10% till 31-5-2016) |
| Section 194H: Commission or brokerage | 5 (10% till 31-5-2016) |
| Section 194-I: Rent |  |
| a) Plant & Machinery | 2 |
| b) Land or building or furniture or fitting | 10 |
| Section 194-IA: Payment on transfer of certain immovable property other than agricultural land | 1 |
| Section 194J: Any sum paid by way of a) Fee for professional services, b) Fee for technical services c) Royalty, d) Remuneration/fee/commission to a director or e) For not carrying out any activity in relation to any business f) For not sharing any know-how, patent, copyright etc. | 10 |
| Section 194LA: Payment of compensation on acquisition of certain immovable property | 10 |
| Section 194LBA(1): Business trust shall deduct tax while distributing, any interest received or receivable by it from an SPV or any income received from renting or leasing or letting out any real estate asset owned directly by it, to its unitholders. | 10 |
| Section 194LBB: Investment fund paying an income to a unitholder [other than income which is exempt under Section 10(23FBB)] | 10 |
| Section 194LBC: Income in respect of investment made in a securitization trust (specified in Explanation of Section 115TCA) | 25% in case of Individual or HUF 30% in case of other individual |
| Any Other Income | 10 |

## TDS Return

An individual is required to file TDS return in order to receive TDS refunds and to maintain a healthy financial record. The TDS return can be carried out over the internet by visiting the website - www.incometaxindia.gov.in

The individual will need to sign onto the website by using the existing credential or by registering for the services. There are specific deadlines that an individual will be required to follow to ensure the TDS returns are filed within the due time. Depending on the income category, the individual will need to fill up the necessary form and provide required documents for the refund process to begin.

Once the individual has registered and submitted the return, he/she will need to validate the TDS Return File. The validation can be done by using the free software provided by the Income Tax Department.

If you are wondering about the possibilities of receiving a refund for the excess TDS paid, you will need to file the claim through TDS return to receive a refund for the excess amount.

Steps to [e-file ITR online](https://www.bankbazaar.com/tax/step-by-step-guide-efile-income-tax-return-online.html)

**Challan for TDS Payment**

Challan ITNS 281 is the Challan form for payment of TDS (Tax Deducted at Source) and TCS (Tax Collected at Source). Challan No. 281 is applicable for Tax Deducted at Source / Tax Collected at Source (TDS/TCS) from corporates as well as non-corporates. TDS exception is essentially a mechanism developed by the Indian Government where in there is a tax deduction at the source of an income, calculated at a specific rate and thereby becomes payable to the department of Income Tax.

**TDS Payment Challan: Filing Dates**

* If the concerned assessee is a Non-Government official: March’s tax by 30 April and the tax for some other month is calculated on the seventh day of the following month.
* If the concerned assessee is a Government official: If you are depositing the amount without Challan 281, then you have to file the challan on the same day, but, if you are depositing the tax with the challan, you will be required to file for the same on the seventh day of the following month.

**Challan TDS 281**

The challan no. 281 is used for deposits of TDS/TCS. By using the form, you will need to mention the correct 10-digit Tax Deduction Account Number (TAN), name, and address of the deductor on each challan used for depositing tax. You can verify the TAN details from Income Tax Department website - www.incometaxindia.gov.in prior to depositing TDS/TCS. As a taxpayer, you will require using separate challans to deposit tax deducted under each section and indicate the correct nature of payment code in the relevant column in the challan.

**File Challan 281 Offline:**

* Challan 281 has a certain format containing its features. Download the same.
* Fill up the following information - Assessment Year, TAN number, your full name, then enter the mode of payment and any other additional information that you think might be required. Note: You have to enter the code of payment once you have mentioned your payment mode.
* Get the information on a paper via print out (of Challan 281).
* Once you are done filling up all the information, you will need to submit the same to the bank along with your total tax payable.
* Post all this, the bank will issue a receipt which will have the Challan Identification Number.

**e-Filing of TDS Return**

* Follow the instruction below for the e-filing of TDS return:
* Choose the appropriate file format.
* The file should be in a clean text ASCII format with 'txt' as the filename extension. You can also download the free software to prepare the return file using the Return Preparation Utility provided by NSDL or any other third party software.
* Once the file is prepared, validate the file using the File Validation Utility (FVU) provided by NSDL.
* Rectify the errors, if found by FVU.
* Generated .fvu file can either be submitted at TIN-FC or uploaded at www.tin-nsdl.com website

## e-Payment of TDS

The Income Tax Department provides an online option to Pay Taxes Online. The e-Payment service facilitates payment of direct taxes online. The taxpayer will require having the net-banking services from any of the authorized banks.

**Penalty for Late Filing of TDS Return**

If an individual fails to file the TDS Return within due time, he/she will need to pay a fine of Rs.200 per day until the return is filed. The fee is applicable for every day until the fine amount is equal to the total liable TDS amount.

If the taxpayer exceeds one-year time limit to file the TDS return or furnishes incorrect details of PAN, TDS amount, he/she will need to pay a penalty of minimum Rs.10,000 to Rs.1 lakh.

**Reimbursement of Expenses Related to TDS**

* The following reimbursement of expenses are considered for TDS:
* Management expenses to parent company are non-taxable
* Per-Diem expenses are non-taxable
* Relocation expenses for employees are non-taxable
* Audit fee is taxable
* Marketing expenses are taxable
* Traveling expenses are non-taxable, however, if it is taxable for FTS
* The reimbursement for visit of a foreign artist is non-taxable
* Consultant fees are non-taxable
* Infrastructure expenses are non-taxable, etc.

**Salary TDS Calculator**

In order to calculate TDS from salary, you will need to calculate the total gross income from salary as well as other sources, then calculate all the investments and exemptions. Once you have calculated the total amount, you can reduce the allowable investment and exemptions from your salary, this will give you your annual income that will be taxed on the various income slabs.

**TDS Return Due Date**

TDS return and last dates of FY 2016-17

| **Quarter** | **Quarter Period** | **Last Date of Filing** |
| --- | --- | --- |
| 1st Quarter | 1st April to 30th June | 31st July, 2016 |
| 2nd Quarter | 1st July to 30th September | 31st Oct, 2016 |
| 3rd Quarter | 1st October to 31st December | 31st Jan, 2017 |
| 4th Quarter | 1st January to 31st March | 31st May, 2017 |

## Advantages of TDS:

TDS is based on the principle of ‘pay as and when you earn’. TDS is a win-win scenario for both the taxpayers and the government. Tax is deducted when making payments through cash, credit or cheque, which is then deposited with the central agencies.

* Responsibility sharing for deductor and tax collection agencies.
* Prevents [tax evasion](https://www.bankbazaar.com/tax/tax-evasion.html).
* Widens the tax collection base.
* Steady source of revenue for the government.
* Easier for a deductee as tax gets automatically collected and deposited to the credit of the central government.

## Types and Rates of TDS:

TDS is calculated on the basis of a threshold limit, which is the maximum level of income after which TDS will be deducted from future income/payments. TDS is deducted as a percentage of overall payment, and may range from 1% to 30% of actual payable amount.

Major sections of the [Income Tax Act](https://www.bankbazaar.com/tax/income-tax-act.html) that outline TDS deductions are:

| **IT Section** | **TDS Rate** | **Threshold limit\*** |
| --- | --- | --- |
| Section 192 | According to [income slab](https://www.bankbazaar.com/tax/income-tax-slabs-and-rates-for-assessment-year-2016-17.html) | According to income slab |
| Section 193 | 10% of income from interests on securities. | NIL |
| Section 194 | 10% of income from deemed dividends | NIL |
| Section 194A | 10% of income from interests other than those on securities | Rs.5,000 |
| Section 194B | 30% of lottery or game-related winnings | Rs.10,000 |
| Section 194BB | 30% of income from horse racing | Rs.5,000 |
| Section 194C | 1% of earning from contracts or sub contracts for individuals and HUF (Hindu Unified Families) 2% for corporates | Rs.30,000 |
| Section 194D | 10% of income from insurance commissions | Rs.20,000 |
| Section 194EE | 20% of payment in NSS deposits | Rs.2,500 |
| Section 194F | 20% of payment made for repurchase of UTI or MF units | NIL |
| Section 194G | 10% of commission earned from selling lottery tickets | Rs.1,000 |
| Section 194H | 10% of commission or brokerage earnings | Rs.5,000 |
| Section 194I | 2% of rent of plant and machinery 10% of rent of land, building, fitting, or furniture | Rs.1.8 lakhs |
| Section 194J | 10% of fees for technical or professional services | NIL |
| Section 194L | 10% of compensation payment made to a resident when acquisitioning some immovable property | Rs.1 lakh |

\*Threshold limit denotes the amount of income/profit up to which TDS will not be deducted. TDS will be calculated on value of income up and over threshold limit only.

[**TDS on income from salaries.**](https://www.bankbazaar.com/tax/how-calculate-tds-from-salary.html) are deducted on an estimation made at the start of the financial year. The employer is responsible for deducting taxes every month in equal instalments. In case the deductee has switched jobs during the fiscal year, the employer will deduct taxes on the basis of all accrued income in the fiscal year. Deductees should be very careful when mentioning their overall income as tax avoidance will be penalised by relevant authorities.

## When is TDS not Deducted?

TDs is not collected on payments made to the Reserve Bank of India, the Government of India etc. TDS will not be collected when interest is credited or paid to:

* Central or State Financial Corporations.
* Banking companies.
* Interest paid under [Direct Taxes](https://www.bankbazaar.com/tax/direct-tax.html) or refund from the IT department.
* UTI, LIC and other insurance or co-operative societies.
* Interests earned from recurring deposit or savings account in cooperative societies or banks.
* Interest in Indira Vikas Party, KVP, or NSC.
* Interest earned in NRE account.
* All institutions notified under no-TDS.

Apart from these, there are other avenues also where TDS may not be applicable, such as interest on compensation from MVCT (Motor Vehicles Claims Tribunal). Therefore, taxpayers are advised to check if their interest income is liable for TDS with a particular institution or not.

## TDS Exemption:

If your TDS has been deducted under Sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194LA and 195, while at the same time if you feel that you are not eligible to pay TDS, then, in order to claim a tax deducted at source exemption, follow the below mentioned procedure:

* Contact your corresponding Income Tax official or the department through Form 13 to get permission.
* There has to be a consequent disposal of the applicants within the time frame of a month (30 days).
* All the taxpayers are advised to fill in authentic and complete information in the first occasion itself. Not doing so might result in your application being rejected by the assessing officer. In any other scenario, if the officer is satisfied with the information provided, he/she will go ahead and issue your exemption certificate under Section 197.
* Save a copy of this receipt to later attach it with the invoice that you will eventually raise in order to claim your TDS exemption.
* Your certificate will have total validation, unless the officer cancels it.

## TDS Certificate:

As TDS is collected on an ongoing basis, it can be difficult to keep track of deductions by an individual. As per Section 203 of the ITA, the deductor has to furnish a certificate of TDS payment to the deductee/payee. This certificate is also offered by banks making deductions on pension payments etc. The certificate is typically issued at the deductor’s own letterhead. Individuals are advised to request for TDS certificate wherever applicable, and if not already provided.

## Refund of Excess TDS Deductions

If a person has been subjected to excess TDS deductions, the deductor can make claims for refund of the excess amount. The difference between the tax deducted and the actual payments made by the deductor, whichever is higher, is accepted as the excess payment, and this amount will be refunded after adjusting against any tax liabilities under Direct Tax Acts.

## Quick Takeaways

* TDS denotes the tax deductions at source of an individual’s income/payments. The deductor (employer/contractor etc) is the person who is making payments to the deductee (employee, stock broker etc.).
* TDS helps in reducing tax filing burdens for a deductee and ensures stable revenue for the government.
* In most cases, TDS is collected after a certain threshold limit of earnings has been crossed. The highest TDS of 30% is applicable on winnings from horse races, and lotteries and other games.
* TDS certificate is issued wherever TDS has been collected, typically by the deductor or a bank.
* TDS is exempted on some payments made to government, RBI, cooperative societies etc.
* Refunds can be requested if there are discrepancies in the collected amount and the actual payable amount.

## TDS vs Income Tax

TDS is a small amount of tax that can be deducted monthly, annually, periodically or occasionally from the earning of an individual or a business (the earning is not limited to salary but also includes interest, commission, fee etc.). The earning could be regular or irregular in nature. Income tax is levied on the total income (salary) on an annual basis for individuals as well as businesses.