



Independent
Skill Development
Mission



ISDM (INDEPENDENT SKILL DEVELOPMENT MISSION)

INCOME TAX & TDS (WEEKS 7-8)

TAX SLABS, PAN, TAN & FILING PROCESS – STUDY MATERIAL

CHAPTER 1: UNDERSTANDING TAXATION IN INDIA

1.1 Overview of Taxation System in India


The **Indian taxation system** is structured into **Direct Taxes** and **Indirect Taxes**. Direct taxes, such as **Income Tax**, are levied on individuals and businesses based on their earnings. Indirect taxes, like **GST (Goods and Services Tax)**, are imposed on goods and services at various stages of production and distribution.

Understanding taxation is essential for businesses and individuals to comply with government regulations, file returns on time, and avoid penalties.

Types of Taxes in India:

- ✓ **Direct Taxes:** Income Tax, Corporate Tax, Capital Gains Tax.
- ✓ **Indirect Taxes:** GST, Customs Duty, Excise Duty.

✦ **Example:** A salaried employee earning **₹12 lakhs per annum** falls under the **30% tax slab**. They must file an **Income Tax Return (ITR)** annually.

 **Exercise:** List five types of direct and indirect taxes applicable in India and explain the difference between them.

CHAPTER 2: UNDERSTANDING INCOME TAX SLABS IN INDIA

2.1 What Are Tax Slabs?

Income Tax Slabs define the tax percentage applicable to different income levels. The **Indian government** revises these slabs periodically in the **Union Budget**.

There are **two taxation regimes**:

1. **Old Tax Regime:** Includes **exemptions & deductions** (like HRA, 80C, 80D).
2. **New Tax Regime:** Offers **lower tax rates** but without deductions.

2.2 Income Tax Slabs for FY 2024-25

Annual Income (₹)	Tax Rate (Old Regime)	Tax Rate (New Regime)
Up to ₹2,50,000	Nil	Nil
₹2,50,001 - ₹5,00,000	5%	5%
₹5,00,001 - ₹7,50,000	20%	10%
₹7,50,001 - ₹10,00,000	20%	15%
₹10,00,001 - ₹12,50,000	30%	20%
₹12,50,001 - ₹15,00,000	30%	25%

Above ₹15,00,000	30%	30%
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✦ **Example:** A person earning ₹8 lakhs per year under the **New Tax Regime** will pay ₹37,500 (5% on ₹2.5L) + ₹25,000 (10% on ₹2.5L) + ₹37,500 (15% on ₹2.5L) = ₹1,00,000 in tax.

✦ **Exercise:** Calculate tax payable under both tax regimes for a person earning ₹10 lakhs per year.

CHAPTER 3: PAN (PERMANENT ACCOUNT NUMBER)

3.1 What is PAN?

The **Permanent Account Number (PAN)** is a **10-character alphanumeric identifier** issued by the **Income Tax Department** to individuals and businesses. It is required for financial transactions, tax filing, and identity verification.

3.2 Structure of PAN

- ◆ **First 5 Characters:** Letters (e.g., ABCDE)
- ◆ **Next 4 Characters:** Numbers (e.g., 1234)
- ◆ **Last Character:** Letter (e.g., F)

✦ **Example:** PAN: ABCTY1234F

- **A to Z:** Represents an entity type (individual, company, etc.).
- **Fourth Letter:** 'P' for Individuals, 'C' for Companies, 'H' for Hindu Undivided Family (HUF).

3.3 Importance of PAN

- ✓ Mandatory for **filing Income Tax Returns (ITR)**.
- ✓ Required for **bank account opening & high-value transactions**.
- ✓ Helps in tracking **financial transactions & preventing tax evasion**.

✦ **Example:** A person buying a car worth ₹10 lakhs must provide their **PAN card** for tax compliance.

✦ **Exercise:** Find out how to apply for a **PAN card online** and list the documents required.

CHAPTER 4: TAN (TAX DEDUCTION AND COLLECTION ACCOUNT NUMBER)

4.1 What is TAN?

The **Tax Deduction and Collection Account Number (TAN)** is a **10-digit alphanumeric code** issued by the **Income Tax Department** for businesses required to **deduct Tax at Source (TDS)**.

4.2 Structure of TAN

- ◆ **First 4 Characters:** Letters (e.g., ABCD)
- ◆ **Next 5 Characters:** Numbers (e.g., 12345)
- ◆ **Last Character:** Letter (e.g., Z)


✦ **Example:** TAN: **MUMT12345Z**

- **MUM** indicates the issuing city (Mumbai).
- **T** represents the **TDS category**.

4.3 Importance of TAN

- ✓ **Mandatory for businesses deducting TDS** from salaries, contractor payments, etc.
- ✓ Required for **TDS return filing** and **challan payments**.
- ✓ Helps the government **track tax deductions & compliance**.

✦ **Example:** A company deducts **TDS @ 10%** on professional fees paid to a consultant. The business needs **TAN** to file a **TDS return** for these deductions.

 **Exercise:** Research the process of applying for a **TAN number** online and its cost.

CHAPTER 5: INCOME TAX FILING PROCESS

5.1 Steps to File Income Tax Returns (ITR)

Filing **Income Tax Returns (ITR)** is mandatory for individuals and businesses earning above the exempted income limit.

- ◆ **Step 1: Collect Required Documents**
 - PAN Card
 - Form 16 (For Salaried Employees)
 - Bank Statements
 - Investment Proofs (80C, 80D Deductions)
- ◆ **Step 2: Choose the Right ITR Form**
 - **ITR-1:** For Salaried Individuals.
 - **ITR-2:** For HUFs, Capital Gains.
 - **ITR-3:** For Business Owners.
 - **ITR-4:** For Presumptive Taxation.
- ◆ **Step 3: File Online on Income Tax Portal**
 - Visit <https://www.incometax.gov.in/>.
 - Login using PAN and password.
 - Select **e-File > File Income Tax Return**.
- ◆ **Step 4: Verify and Submit ITR**

- Use **Aadhaar OTP, Net Banking, or Digital Signature** to verify.
- Submit return and **download acknowledgment receipt**.

◆ **Step 5: Refund Processing (if applicable)**

- If excess tax was paid, the refund is credited to the bank account within **2-3 months**.

✦ **Example:** A salaried person earning **₹7 lakhs** files **ITR-1 online**, claims **80C deductions** and receives a refund of **₹5,000** due to extra TDS deduction.

✦ **Exercise:** Visit the **Income Tax e-filing portal**, explore the different ITR forms, and list which form applies to various income types.

Conclusion

Understanding **Tax Slabs, PAN, TAN, and the Income Tax Filing Process** helps individuals and businesses comply with tax regulations and avoid penalties. Proper tax planning ensures **better financial management and tax savings**.

✦ **Final Exercise:**

1. Calculate **income tax payable** for an individual earning **₹12,00,000** per annum under **both tax regimes**.
 2. Apply for a **dummy PAN or TAN** using the online government portal.
 3. Visit the Income Tax portal and explore the **ITR filing process**.
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TDS SETUP, TRANSACTIONS & REPORTS IN TALLY – STUDY MATERIAL

CHAPTER 1: INTRODUCTION TO TDS (TAX DEDUCTED AT SOURCE) IN TALLY

1.1 Understanding TDS (Tax Deducted at Source)

Tax Deducted at Source (TDS) is a mechanism in which tax is **deducted at the time of payment to a party** and deposited with the government. It ensures that tax is collected **at the source of income generation**, preventing tax evasion and improving tax compliance.

TDS applies to various payments like **salaries, rent, professional fees, contractor payments, and commissions**. The deducted amount is deposited with the **Income Tax Department** and adjusted against the recipient's tax liability.

Why is TDS Important?

- ✓ **Ensures Timely Tax Collection** – Reduces tax evasion by deducting tax at the source.
- ✓ **Reduces Tax Liability at Year-End** – Helps taxpayers avoid bulk payments at year-end.
- ✓ **Mandatory for Businesses** – Organizations must deduct and deposit TDS as per tax laws.

✚ **Example:** A company pays a consultant ₹50,000 for services. The applicable TDS rate is **10%**, so the company deducts ₹5,000 as TDS and pays the consultant **₹45,000**. The deducted ₹5,000 is later deposited with the government.

✚ **Exercise:** List five types of payments where TDS is applicable and their respective TDS rates.

CHAPTER 2: PRE-REQUISITES FOR TDS SETUP IN TALLY

2.1 Basic Requirements for TDS in Tally

Before setting up TDS in Tally, ensure the following:

- ✓ **Tally Prime Installed** – Ensure that **Tally Prime or Tally ERP 9 (Release 6.0 or later)** is installed.
- ✓ **TAN (Tax Deduction and Collection Account Number)** – A valid TAN number issued by the Income Tax Department.
- ✓ **TDS Rates & Sections** – Knowledge of applicable **TDS rates** based on payment categories.
- ✓ **TDS Compliance Understanding** – Ensure awareness of **TDS payment and filing deadlines**.

✚ **Example:** A construction company registered under TDS obtains a **TAN (Tax Deduction and Collection Account Number)** to deduct **TDS @2% on contractor payments**.

✚ **Exercise:** Verify if a company needs to **deduct TDS on vendor payments** and determine the required **TDS rate** for different services.

CHAPTER 3: ENABLING TDS IN TALLY

3.1 Steps to Activate TDS in Tally

- ◆ **Step 1: Open Tally & Select Company**
 - Launch **Tally Prime**.
 - Select the company for which **TDS needs to be enabled**.
- ◆ **Step 2: Enable TDS in Company Features**

- Navigate to **Gateway of Tally > Features (F11) > Taxation & Compliance**.
 - Set "**Enable Tax Deducted at Source (TDS)**" to **Yes**.
 - Press **Enter** to proceed.
 - ◆ **Step 3: Enter TDS Details**
 - Enter **TAN Number**.
 - Choose the **deduction and payment frequency**.
 - ◆ **Step 4: Configure TDS Categories**
 - Define **TDS sections and rates** for payments like rent, professional fees, and contractor charges.
 - ◆ **Step 5: Save the Settings**
 - Press **Ctrl + A** to save changes.
- ✚ **Example:** A business paying rent over ₹50,000 per month enables **TDS in Tally** and sets up a **10% TDS deduction** under **Section 194I (Rent)**.
- ✚ **Exercise:** Open Tally and **enable TDS** for a business. Note the **steps you followed** and the **TDS rate applicable** to vendor payments.

CHAPTER 4: SETTING UP TDS LEDGERS IN TALLY

4.1 Creating TDS Ledgers

To record **TDS transactions**, tax ledgers must be created for different **TDS categories**.

- ◆ **Step 1: Open Ledger Creation**

- Go to **Gateway of Tally > Accounts Info > Ledgers > Create**.
 - ◆ **Step 2: Create TDS Payable Ledger**
 - **Name:** TDS Payable
 - **Group:** Duties & Taxes
 - **Type of Duty/Tax:** TDS
 - **Nature of Payment:** Select the applicable TDS category (e.g., Professional Fees, Rent, Contractor Payments).
 - ◆ **Step 3: Create TDS Deducted Ledger**
 - **Name:** TDS on Professional Fees (or any applicable payment).
 - **Group:** Duties & Taxes.
 - **Type of Duty/Tax:** TDS.
 - **TDS Section:** Select the relevant section (e.g., **194J** for professional fees).
 - ◆ **Step 4: Save the Ledgers**
 - Press **Ctrl + A** to save.
- ✚ **Example:** A consulting firm deducts **TDS @10% on professional fees** paid to vendors. They create a **TDS Ledger for Section 194J** to manage deductions efficiently.
- ✚ **Exercise:** Create TDS Ledgers for the following: **Rent, Professional Fees, Contractor Payments** in Tally.
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CHAPTER 5: RECORDING TDS TRANSACTIONS IN TALLY

5.1 How to Deduct TDS on Payments

- ◆ **Step 1: Record the Purchase or Expense Entry**

- Go to **Accounting Vouchers > F9 (Purchase)**.
 - Select the **supplier ledger** and enter the invoice details.
 - ◆ **Step 2: Apply TDS Deduction**
 - Select **TDS Ledger** created earlier.
 - Tally will automatically **deduct the correct TDS percentage**.
 - ◆ **Step 3: Adjust Net Payment**
 - The net payable amount after **TDS deduction** will be calculated.
 - ◆ **Step 4: Save the Transaction**
 - Press **Ctrl + A** to save.
- ✦ **Example:** A company makes a **consulting payment of ₹50,000**. Tally automatically deducts **TDS @10% (₹5,000)**, and the consultant receives **₹45,000**.
- ✦ **Exercise:** Record a **TDS deduction** in Tally for a professional fee payment of ₹1,00,000 at **10% TDS rate**.

CHAPTER 6: GENERATING TDS REPORTS IN TALLY

6.1 Viewing TDS Reports

Tally allows businesses to generate **TDS reports** for compliance and return filing.

- ◆ **Step 1: Navigate to TDS Reports**
 - Go to **Gateway of Tally > Display More Reports > Statutory Reports > TDS Reports**.
- ◆ **Step 2: Select Report Type**

- **TDS Computation Report** – Provides an overview of TDS deductions.
- **TDS Challan Report** – Helps in filing TDS payments with the Income Tax Department.
- **TDS Return Report** – Generates a report for **quarterly TDS return filing**.

◆ Step 3: Verify and Export Reports

- Check **TDS deduction details** and **tax payments made**.
- Export reports in **Excel or JSON format** for filing.

✚ **Example:** A business generates a **TDS Computation Report** to verify **all deducted TDS amounts before filing returns**.

✚ **Exercise:** Generate a **TDS Report** in Tally and analyze the tax amounts deducted for various vendors.

Conclusion

Setting up **TDS in Tally** ensures **accurate tax deduction, compliance with tax laws, and smooth tax filing**. Businesses can efficiently manage **TDS deductions, payments, and reporting** using Tally's automated system.

✚ Final Exercise:

1. **Enable TDS** for a company in Tally.
 2. **Create TDS ledgers** for at least **three categories**.
 3. **Record a TDS transaction** for a vendor payment.
 4. **Generate a TDS Computation Report** and analyze deductions.
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ASSIGNMENT: CALCULATE TDS ON SALARY & CONTRACTOR PAYMENTS

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SOLUTION GUIDE: CALCULATING TDS ON SALARY & CONTRACTOR PAYMENTS

This guide provides a **step-by-step** method to **calculate TDS (Tax Deducted at Source)** on **Salary and Contractor Payments** as per the Income Tax Act.

PART 1: CALCULATING TDS ON SALARY

Step 1: Understand TDS on Salary

- TDS on salary is deducted under **Section 192** of the Income Tax Act.
- TDS is applicable if the **employee's total taxable income exceeds ₹2,50,000 per annum**.
- Employers deduct TDS based on **income tax slabs** applicable to the employee.

Step 2: Determine Employee's Gross Salary

- **Basic Salary**
- **House Rent Allowance (HRA)**
- **Special Allowances**
- **Bonus, Incentives**

Example Calculation:

A software engineer earns:

- Basic Salary = ₹80,000 per month
- HRA = ₹20,000 per month
- Other Allowances = ₹10,000 per month

- Annual Bonus = ₹50,000

$$\begin{aligned}\text{Total Annual Income} &= (\text{₹}80,000 + \text{₹}20,000 + \text{₹}10,000) \times 12 + \text{₹}50,000 \\ &= \text{₹}13,30,000\end{aligned}$$

Step 3: Calculate Deductions (if applicable)

- Standard Deduction = ₹50,000
- 80C Deductions (PF, LIC, PPF) = ₹1,50,000
- 80D (Medical Insurance) = ₹25,000

Step 4: Compute Taxable Income

$$\begin{aligned}\text{Taxable Salary} &= \text{₹}13,30,000 - \text{₹}50,000 - \text{₹}1,50,000 - \text{₹}25,000 \\ &= \text{₹}11,05,000\end{aligned}$$

Step 5: Calculate Income Tax Payable (New Tax Regime)

Income Slab	Tax Rate	Tax Amount (₹)
0 – ₹2,50,000	Nil	0
₹2,50,001 – ₹5,00,000	5%	12,500
₹5,00,001 – ₹7,50,000	10%	25,000
₹7,50,001 – ₹10,00,000	15%	37,500
₹10,00,001 – ₹11,05,000	20%	21,000
Total Tax Payable		₹96,000

Step 6: Apply Rebate & Education Cess

- Education Cess @ 4% = ₹96,000 × 4% = ₹3,840
- Final Tax Payable = ₹99,840

Step 7: Calculate Monthly TDS Deduction

- **TDS per month** = ₹99,840 ÷ 12 = **₹8,320 per month**
- Employer will deduct ₹8,320 as **TDS from monthly salary**.

✚ **Example:** An employee earning ₹9,00,000 annually will have **TDS deducted based on applicable slab rates after deductions**.

✚ **Exercise:** Calculate the **TDS on salary** for an employee earning ₹7,50,000 annually, considering **₹50,000 standard deduction** and **₹1,50,000 80C deductions**.

PART 2: CALCULATING TDS ON CONTRACTOR PAYMENTS

Step 1: Understand TDS on Contractor Payments

- TDS on contractor payments is deducted under **Section 194C** of the Income Tax Act.
- **Applicable if payments exceed ₹30,000 per transaction or ₹1,00,000 in a financial year.**
- **Rates:**
 - ✓ **1% for individual contractors**
 - ✓ **2% for firms/companies**

Step 2: Identify Contractor Payment Amount

- Assume a **contractor is hired for construction work** and paid **₹5,00,000** in a financial year.
- Contractor type: **Firm**
- **TDS rate applicable = 2%**

Step 3: Calculate TDS Deduction

TDS Amount = ₹5,00,000 × 2% = ₹10,000

- The business must **deduct ₹10,000 before making payment** to the contractor.
- The deducted TDS must be **deposited with the government** before the **7th of the next month**.

📌 **Example:** A business pays a **freelance content writer ₹50,000** for services. Since the amount is above ₹30,000, **1% TDS = ₹500 is deducted** before making the payment.

📌 **Exercise:** Calculate the **TDS on a contractor payment** of ₹1,50,000 if the contractor is:

1. **An individual**
2. **A company**

PART 3: TDS COMPLIANCE & REPORTING

Step 1: Deposit TDS to Government

- TDS must be **deposited before the 7th of the next month** using **Challan ITNS 281**.

Step 2: File TDS Returns

- Businesses must file **Quarterly TDS Returns** in Form **24Q (Salaries)** and **26Q (Contractor Payments)**.

Step 3: Issue TDS Certificates




- Employers issue **Form 16** for employees and **Form 16A** for contractors.

📌 **Example:** A company deducts **TDS from salaries and contractor payments** and **files TDS returns** before the quarterly deadline.

 **Exercise:** Research the **TDS return filing process** and list **due dates for Form 24Q and 26Q**.

Conclusion

By following these **step-by-step** guides, businesses can efficiently:

-  **Deduct and calculate TDS on salaries & contractor payments.**
-  **Comply with tax regulations and avoid penalties.**
-  **File TDS returns accurately and issue certificates.**

Final Exercise:

1. Calculate **TDS on a salary of ₹15,00,000 annually**, considering **80C & 80D** deductions.
 2. Calculate **TDS on contractor payments of ₹2,50,000** for an individual and a firm.
 3. Explore the **Income Tax website** and find how **TDS returns are filed online**.
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