

# WICASA PUNE–ICAI Decoding Practical Aspects of Income Tax TDS

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BY

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# BRIEF CASE- 2 DAYS

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1. Framework of TDS
2. Key Points for applying TDS Provision
3. Pre-requisites for TDS
4. Discussion on Key Issues – Section 192, 194A, 194B, 194BA, 194C, 194I, 194IA, 194IB, 194IC, 194R, 194Q, 194O & 206(IH)
5. Inter Play – Accounting Policy – GST - TDS
6. Transaction Based Analysis
7. Cross Notices



# CONTENT

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1. What is TDS?
2. Why there is TDS?
3. Pre-requisites for TDS Applicability
4. How does TDS mechanism work?
5. Whether TDS is mandatory?
6. Transactions and Accounting Policy
7. Transaction and TDS Flow

# WHAT IS TDS?

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- TDS is mechanism **to collect the tax in easier and simpler manner.**
- Tax Deduction at the Source of Income.

# WHAT IS TDS?

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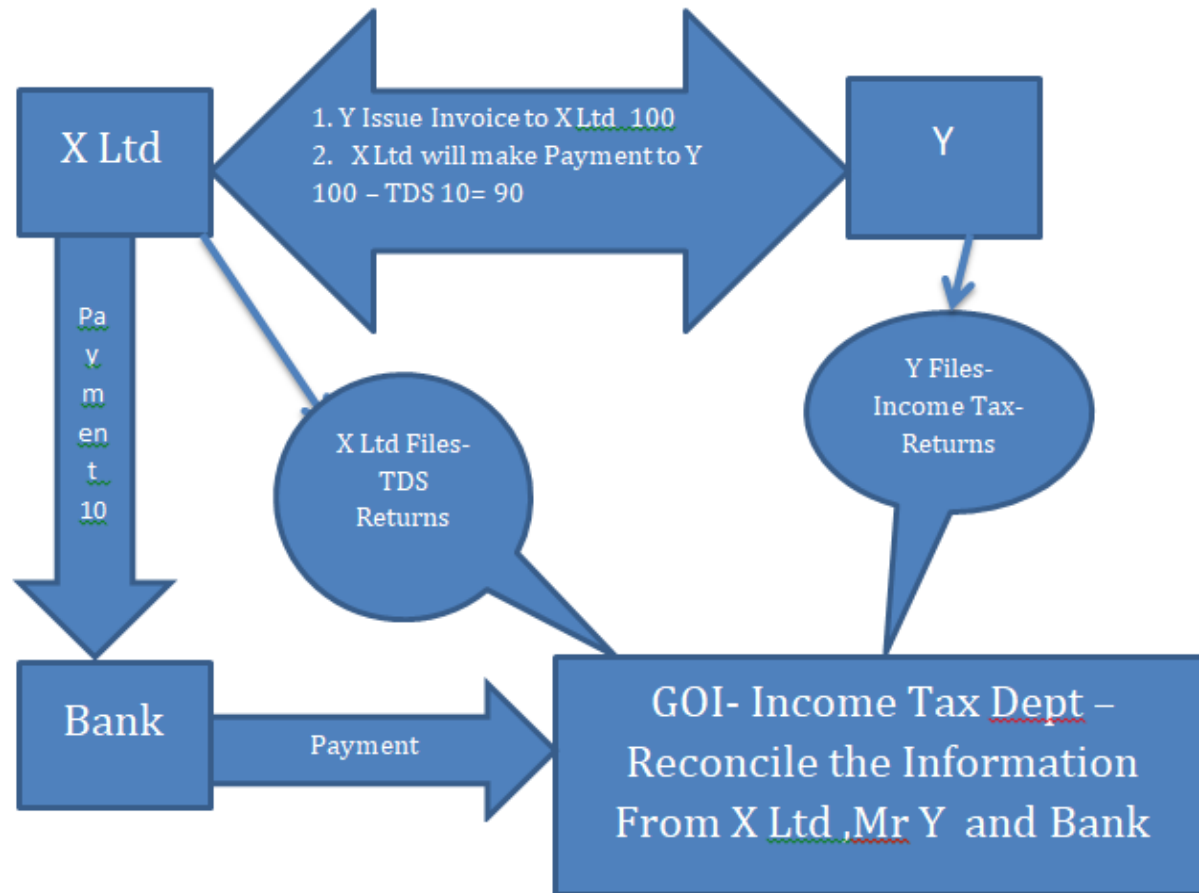
- TDS is one of the modes of collecting taxes, by which a certain percentage of amounts are deducted by a person at the time of making/crediting certain specific nature of payment to the other person and deducted amount is remitted to the Government account.
- It is similar to “**PAY AS YOU EARN**” scheme, also known as “**Withholding Tax**” in many other countries.
- The concept of TDS envisages the principle of “Pay as you earn”.
- It **facilitates** sharing of responsibility of **tax collection** between the Deductor and the tax administration.
- It ensures **regular inflow of cash** resources to the **Government**.
- It acts as a **powerful instrument to prevent tax evasion** as well as expands the tax net.

# WHY THERE IS TDS?

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- **Principle of Convenience** - Convenience deals with the ease of remitting taxes.
- TDS provision is based on this principle.
- Collection of Tax should not cause inconvenience and hardship to citizens.

# HOW THE TDS MECHANISM WORKS?



# HOW THE TDS MECHANISM WORKS?

## INTER - LINKING FACTORS

Sr. No.	Reporting	Common Points
1	TDS payment to Bank by X Ltd	Challan Number
2	TDS Return By X Ltd	PAN and TAN
3	Income Tax Return by Mr. Y	PAN and TAN
4	26AS	Department reconciles PAN - TAN – Bank - Amount
5	AIS/TIS	Department reconciles PAN - TAN – Bank - Amount

# WHETHER TDS IS MANDATORY ?

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- **Provisions which attracts penal actions, are mandatory in nature.**
- The Penal Provisions for TDS include:
  1. Disallowance of business expenses
  2. Penalty for non-deduction
  3. Penalty for non-payment and non-compliance
  4. Prosecution for non-deduction

# Pre-requisites for TDS Applicability

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- Interpretation Rules – Basic understanding
- Books of Accounts
- Glossary/ relevant Concepts
- Documents
- Business Laws

# Remember...

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Transaction should be interpreted as –

1. Substance over form
2. Form over the substance

# Relevant Glossary /Concepts for

Business

- As defined u/s

Other Relevant  
Section 44AA , 44AB  
and 44AD

Books of Accounts

- S-2(12A) of the

Stock Valuation  
Section 145A

Method of Accounting

- S-145 of the Act

Purchase/ Expense

- How to recognize?

Income S- 2(24)

- How to identify INCOME?

# Relevant Glossary /Concepts for TDS

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Any SUM	• Any Amount
Any PERSON	• Section 2(31)
Contract	• Section 2(f) of Indian Contract Act
Consideration	• Section 2(d) of Indian Contract Act
Time of CREDIT	• Timing of Account Credit
Time of PAYMENT	• Time of actual credit

Actual Credit to  
Other Person Bank  
Account

# Relevant Glossary /Concepts for TDS

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Resident Vs NRI

- Section 6 of Act

Sale

- Section 4 of Sale of Goods Act, 1930

Supply

- Defined under GST

# Relevant Glossary /Concepts for TDS

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## Accounting Policy

- They are the principles and methods that the company has chosen to prepare financial statements.

## Deduction of Tax

- Activity to deduct the tax.

## Deposit of TDS

- Activity to deposit the Tax with GOI.

## Collection of Tax –TCS

- Activity to receive tax on behalf of GOI.

## Perquisites

- In kind benefit.

# Relevant Glossary /Concepts for TDS

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Winnings Vs Gift

- Discuss in other Slide

Revenue Vs Capital

- Basic Difference

Clauses of TAR

- Discuss in other slide

TDS Returns

- Statement of Tax deducted

GST Returns

- GSTR 1 , 2B, 3B

## Relevant Glossary /Concepts for TDS

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26AS

- Statement of Actual TDS credits

TDS  
Certificate

- Document with details of tax deducted and paid

# Relevant Documents/ Data need to be studied for Application of TDS

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1. PO /Agreement/WO
2. Invoice – if Billed
3. GSTR 2B & 3B
4. Bank Statements
5. KYC – Adhaar Card , PAN of Deductee
6. Details of Unbilled Expenses
7. List of Provisions – Unbilled
8. Lower Deduction Certificate, if any

# Relevant Documents/ Data need to be studied for Application of TDS

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- 9. Clause 27, 34 and 44 of TAR
- 10. Voucher of In-kind Payment – Cross Invoicing or on behalf Payment
- 11. Ledger of Vendor

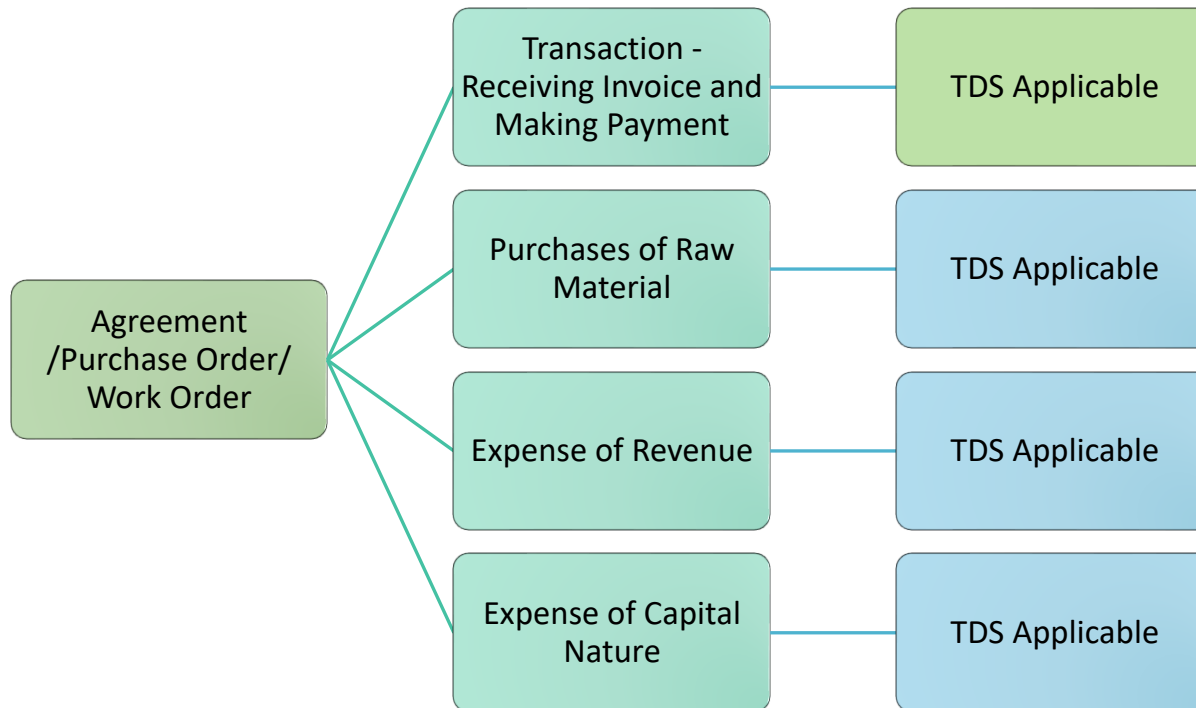
# Business Laws applicable to Financial Transactions

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1. Indian Contract Act 1872
2. Sale of Goods Act, 1930
3. Transfer of Property Act, 1882
4. Income Tax Act, 1961
5. GST Law – CGST
6. Companies Act, 2013
7. LLP Act 2008
8. Indian Partnership Act, 1932

# TRANSACTION FLOW AND TDS

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# TYPES OF EXPENSES

## Expense in Nature of Revenue - Debited to Profit & Loss A/c

Expense in Nature  
of Contracts

Interest on Loan

Professional fees

Rent - Immovable  
Property

Rent - Movable Property

Commission

Payment to NRI

## Expense of Capital Nature

Installation Charges

Interest on Loan

Commission

Professional Fees

Technical Fees

# TRANSACTIONS AND TDS

Sr. No.	Type of Expenditure/Payment	Nature	Reported
1	Purchases – Material	Revenue	P & L
2	Business Expenses	Revenue	P & L
3	Expenses for acquiring asset	Capital	Balance Sheet
4	Personal Expenses	Not Business	Bank Statement
5	Property Purchases	Capital	BS/Bank Statement
6	Property Development	Capital	BS/Bank Statement
7	Bank Withdrawals	Contra	Bank Statement

# Significant Dates for TDS Provisions

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1

- Date of Purchase order
- Date of Work order/ agreement

2

- Date of Good Received Note

3

- Date of Invoice Received

4

- Date of Booking of Invoices

5

- Date of Certificate of Completion of Service Received



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