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CERTIFICATE COURSE ON TDS

Today's Content – TDS u/s 194DA, 194E, 194F, 194EE, 194G, 194H

I. Section 194DA

Section 194DA mandates that **any sum paid** under a **life insurance policy**, including the bonus, **which is not exempt under section 10(10D)**, will attract **TDS** (Tax Deducted at Source).

📌 Background Before Section 194DA

Before Section 194DA came in (introduced by the **Finance Act, 2014** with effect from **1st October 2014**), there was **no TDS** provision for payments received from life insurance policies — even when such proceeds were **not fully exempt** under Section 10(10D).

Result?
Many people would receive maturity proceeds that were **partly taxable**, but:

- They often **did not report** this taxable portion in their Income Tax Returns (ITR).
- The tax department had **no way** to track these transactions because no TDS trail existed.
- This led to **tax leakage** and non-compliance.

🎯 Purpose of Introducing Section 194DA

The government's aim was simple:
✅ Bring such insurance proceeds **into the TDS net**.
✅ Create a **traceable record** for the Income Tax Department.

✅ Make sure policyholders **disclose** taxable income in their returns.
✅ Encourage taxpayers to pay correct tax if the maturity amount is **partly taxable**.

⚖️ Key Points Behind the Rationale

- **Not all life insurance proceeds are tax-free:** The exemption under **section 10(10D)** is conditional — if premiums are high compared to sum assured, the exemption is denied.
- Many taxpayers **ignored this condition** and claimed full exemption anyway.
- By introducing **TDS**, the department created a **checkpoint** to ensure tax gets collected at least partly upfront, or at least the taxpayer discloses it in the return.

✅ Applicability

1. **Who must deduct TDS?**
   - Any **person responsible for paying** to a resident any sum under a life insurance policy, including the bonus.
2. **To whom does it apply?**
   - Payment made to a **resident individual or HUF**.
   - Payment **not covered under section 10(10D)**.

When is Section 10(10D) exemption NOT available?

The maturity proceeds of a life insurance policy are generally exempt under **section 10(10D)**. However, **this exemption does NOT apply if:**

- **Policy issued on or after 1 April 2003:** Premium payable in any year **exceeds 20%** of the actual sum assured.
- **Policy issued on or after 1 April 2012:** Premium payable in any year **exceeds 10%** of the sum assured.
- For policies issued for persons with severe disability or specified diseases (u/s 80U or 80DDB), premium exceeding **15%** of sum assured (from 1 April 2013).
- **Key Point:** Section 10(10D) also does not apply if the sum is received under **Keyman Insurance Policy**.

💰 Rate of TDS under Section 194DA

- **1%** of the sum payable **(before September 1, 2019)**.
- **5% of the income component** of the sum payable **(from September 1, 2019 onwards)**.
- 2% of the income component of the sum payable (from 1st October 2024)

🔍 **Important:** The rate is 2% **only on the income portion**, i.e., **maturity amount minus total premiums paid**.

🗓️ Time of Deduction

TDS must be deducted at the time of **payment**.

💵 Threshold Limit

TDS under section 194DA applies **only if the aggregate amount payable during the financial year is ₹1,00,000 or more**.

So, if the maturity proceeds are below ₹1 lakh in a FY, **no TDS** under section 194DA.

⚠️ Other Points

- The payee can submit Form **15G / 15H** (self-declaration for non-deduction) **if eligible**.
- TDS must be deposited within prescribed due dates.
- The deductor must issue **TDS Certificate Form 16A** to the policyholder.
- The deductor must file quarterly TDS returns (Form 26Q).

✅ Example

Suppose:

- Sum assured: ₹5,00,000
- Premium paid every year: ₹60,000
- Policy term: 5 years
- Total premiums paid: ₹3,00,000
- Maturity amount: ₹5,50,000

☞ Premium exceeds 10% of sum assured (₹60,000 is more than 10% of ₹5,00,000). So, **section 10(10D) exemption not available**.

Income component = ₹5,50,000 – ₹3,00,000 = ₹2,50,000

TDS = 2% of ₹2,50,000 = ₹5000.

📚 Relevant Section

Section 194DA: *Payment in respect of life insurance policy*.
Proviso to Section 10(10D): Specifies conditions for exemption.

🔍 **Why not TDS on full payout?**

Initially, TDS was **1% of the total payout**, which often exceeded the actual taxable portion. This was unfair because:

- Premium paid is **not taxable** — only the **income component** is.
- So, from **1 September 2019**, the TDS was rationalized to **5% of only the income part** (i.e., maturity amount minus premiums paid).

This balanced the intent:
✔ Government gets a traceable tax trail.
✔ Taxpayer not forced to pay TDS on the non-taxable portion.

II. Section 194E

Section 194E of the Income-tax Act, 1961 was introduced by the Finance Act, 1986 to address the taxation of income earned in India by **non-resident sportsmen, athletes, and sports associations or institutions**. It provides for **deduction of tax at source (TDS)** to ensure such income does not escape the Indian tax net.

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2. Statutory Provision

Obligation:
Any person responsible for paying income to a non-resident sportsman (including an athlete) or a non-resident sports association/institution is required to **deduct tax at source** on such payments if the income is of the nature specified in **Section 115BBA**.

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3. Income Covered

Section 115BBA specifies the categories of income covered by Section 194E:

- **Non-resident sportsmen/athletes:**
  - Income received directly or indirectly for participation in any game or sport in India (excluding winnings from card games, gambling, etc.).
  - Income from advertisements or articles relating to any such game or sport performed in India.
- **Non-resident sports associations/institutions:**
  - Any amount guaranteed to such association or institution for organising games or sports in India.

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4. Rate of TDS

- TDS must be deducted at the rate of **20%** on the gross amount payable.
- No deduction is allowed for any expenditure incurred for earning such income.
- Surcharge and health & education cess are not to be added at the TDS stage but may apply at the final tax liability stage.

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5. Time of Deduction

TDS must be deducted:

- **At the time of credit** of such income to the payee's account, **or**
- **At the time of payment**, whichever is earlier.

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6. Threshold

There is **no minimum threshold** under Section 194E. TDS applies to **any amount paid**, irrespective of value.

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7. Compliance Requirements

- **TDS Certificate:** The deductor must issue a TDS certificate in **Form 16A** to the non-resident payee.
- **TDS Return:** Such deductions must be reported in **Form 27Q** (quarterly return for payments to non-residents).
- **PAN:** If the payee does not furnish a valid PAN, **Section 206AA** applies and tax may be deducted at the higher of 20% or the prescribed rate.

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8. Double Taxation Avoidance Agreement (DTAA)

At the TDS stage, the deductor must apply the **rate prescribed under Section 194E**. The non-resident payee may subsequently claim the benefit of the relevant DTAA, if applicable, while filing their income tax return in India.

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9. Legislative Intent

The principal rationale behind enacting Section 194E is to ensure **effective tax collection** on income earned in India by non-residents who may otherwise be outside the Indian tax net:

- Non-resident sportsmen and teams often participate in events in India but do not stay long enough for the tax authorities to effectively enforce recovery.
- Without a TDS mechanism, such income could easily escape taxation.
- The provision ensures the tax base is protected, revenue is secured, and the compliance burden is shifted to the payer who is within India's jurisdiction.

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10. Illustrative Example

Example:
An Indian cricket board pays ₹50 lakh to a foreign cricketer for participating in a series in India.

- The entire ₹50 lakh is taxable under Section 115BBA.
- The board must deduct TDS @ 20% = ₹10 lakh under Section 194E.
- The cricketer may claim DTAA relief, if applicable, by filing a return in India.

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11. Summary Table

Particulars	**Details**
Section	194E
Applicable to	Non-resident sportsmen, athletes, sports associations/institutions
Relevant Income	Income covered under Section 115BBA
Rate of TDS	20% of gross amount
Threshold	No minimum threshold
Deduction Allowed	None — gross basis
DTAA Benefit	To be claimed at return filing stage
Time of Deduction	At credit or payment, whichever is earlier
Forms	TDS Certificate: Form 16A, TDS Return: Form 27Q

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12. Conclusion

Section 194E plays a vital role in protecting India's right to tax income generated within its territory by ensuring that payments to non-resident sportsmen and sports associations are subject to tax deduction at source. By doing so, it addresses practical enforcement challenges, prevents revenue leakage, and promotes compliance in an area where income is inherently mobile and difficult to track.

III. Section 194F

Section 194F of the Income-tax Act, 1961 deals with **TDS on payments made to a unit holder by specified entities when units are repurchased** or when certain units are bought back from the holder.

📌 Who is Responsible to Deduct Tax?

The obligation to deduct tax arises for:

- **Any person** responsible for paying to any person **any amount** by way of consideration for the **repurchase** of a unit,
- Or payment for **buy-back** under any scheme of mutual fund or Unit Trust of India (UTI) referred to in **Section 80CCB(2)**.

📌 When does it apply?

It applies when:

- Units have been bought under the **Equity Linked Savings Scheme (ELSS)** or any other notified scheme under **Section 80CCB(2)**.
- The unit holder sells or repurchases those units **before maturity** — triggering a situation where the tax benefit previously claimed under Section 80CCB must be withdrawn.

📌 Rate of TDS

- TDS is to be deducted at the rate of **20%** on the **amount of income** that is subject to tax under **Section 80CCB(2)**.
- This means the tax applies only on the amount that becomes taxable because the repurchase/buy-back cancels the earlier tax deduction.

📌 Time of Deduction

- The tax must be deducted **at the time of payment** of the repurchase consideration to the unit holder.

📌 Threshold Limit

- There is **no threshold** under Section 194F.
  Even small amounts are covered if the conditions are met.

✅ Relevant Linked Provision — Section 80CCB

- **Section 80CCB** provided deductions for investments in certain units (e.g., UTI Master Equity Plan, ELSS).
- If the units are repurchased before the minimum lock-in period, the deduction earlier allowed becomes **taxable in the year of repurchase** under Section 80CCB(2).

So, **Section 194F** ensures that this tax is **collected at source** by making the repurchasing entity responsible to deduct it.

🎯 Intention / Rationale behind Introducing Section 194F

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1 Prevent Abuse of Tax Incentives

- The government offered tax deductions under **Section 80CCB** to encourage long-term investments in specified equity-linked savings schemes.
- Investors were required to hold the units for a **minimum lock-in period** to retain the tax benefit.
- Many investors used to withdraw or repurchase units **prematurely**, defeating the purpose of the lock-in.

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2 Ensure Withdrawal of Ineligible Deductions

- When units are prematurely repurchased, the earlier deduction must be added back to the investor's income.
- Without a TDS provision, there was no practical way to enforce this, especially for small investors who might not declare it voluntarily.

3️⃣ Collect Tax at Source

- Section 194F shifts the **compliance burden** to the mutual fund or repurchasing entity.
- By mandating TDS, the law ensures that the tax benefit withdrawn is **collected upfront**, reducing chances of tax evasion.

4️⃣ Simplicity of Enforcement

- Investors might not file or disclose the withdrawal of the deduction correctly.
- TDS makes the process automatic and ensures easy enforcement without chasing thousands of small investors.

⚖️ In Short — Legislative Intent

Section 194F was introduced to plug the loophole of investors claiming tax benefits under Section 80CCB and then prematurely encashing their investments without paying tax on the benefit withdrawn.
It ensures that such tax is deducted at source by the entity making the repurchase payment.

✅ Example

Example:
An investor buys units under ELSS worth ₹1 lakh and claims a deduction under Section 80CCB.
If the units are repurchased before the lock-in period ends, the earlier ₹1 lakh deduction must be added back to the investor's income.
The mutual fund must **deduct 20% TDS** on this amount at the time of repurchase.

📑 Key Features Summary

Aspect	**Provision**
Section	194F
Applies to	Repurchase of units under schemes covered by Section 80CCB
Who deducts	Mutual fund / UTI / entity repurchasing units

Aspect	Provision
Rate of TDS	20%
Time of deduction	At the time of payment
Threshold	No minimum threshold
Purpose	To withdraw earlier tax deduction claimed under Section 80CCB

✅ Current Status

It's worth noting that **Section 80CCB** is no longer relevant for new investments since new deductions for ELSS are now covered under **Section 80C**. However, Section 194F remains applicable to **old investments** that may still be redeemed under legacy schemes.

IV. Section 194EE

Section 194EE deals with **deduction of tax at source (TDS)** on **payments made under the National Savings Scheme (NSS)** or deposits under **National Savings Scheme, 1987**, or any similar scheme referred to in **Section 80CCA(2)(a)**.

📌 Who is Liable to Deduct TDS?

- Any **person responsible for paying** to any person (resident) any amount **in respect of withdrawals** from an account under the NSS, 1987 or similar notified scheme must deduct tax under this section.

📌 When is TDS Applicable?

TDS applies when:

- Any amount is **withdrawn** from the account of the depositor under the scheme.
- The payee is a **resident individual** (or HUF).

📌 Rate of TDS

- TDS must be deducted at the rate of **10%** on the amount of **payment**.

📌 Threshold Limit

- TDS is to be deducted **only if the amount of payment or aggregate payments in a financial year exceed ₹2,500**.
- No deduction is required if the total payment in a year **does not exceed ₹2,500**.

📌 Exemption for Nominees/Legal Heirs

- No TDS is required if the payment is made to **heirs/nominees** of the deceased account holder.

📌 Time of Deduction

- TDS must be deducted **at the time of payment** of the withdrawal amount.

📌 PAN Requirement — Section 206AA

- If the payee fails to provide a valid PAN, TDS shall be deducted at the **higher of**:
    - the rate specified (10%); or
    - 20% under Section 206AA.

✅ Relevant Linked Provision — Section 80CCA

- Section 80CCA allows deductions for contributions to certain savings schemes like the NSS.
- If the amount is withdrawn prematurely or on maturity, the amount withdrawn (to the extent it was claimed as a deduction earlier) becomes **taxable**.

🎯 Intention Behind Introducing Section 194EE

1️⃣ Ensure Taxability of Withdrawn Amounts

When individuals claim a deduction under Section 80CCA for contributions to the NSS, that portion of income escapes tax in the year of investment.
However, when the amount is **withdrawn**, it becomes taxable to the extent it was deducted earlier.
To ensure that this income does not escape taxation, **Section 194EE** requires the payer to deduct tax at source.

2️⃣ Plug Revenue Leakages

Many investors might withdraw their savings but fail to declare the withdrawal as income in their tax return.
Section 194EE plugs this gap by mandating **TDS at source**, ensuring compliance and safeguarding government revenue.

3️⃣ Facilitate Ease of Tax Collection

Section 194EE shifts the compliance burden to the entity responsible for making the payment, typically post offices or other notified deposit offices, which are within India's jurisdiction.
This ensures systematic tax collection from thousands of small depositors.

4️⃣ Encourage Transparency

It acts as a compliance mechanism to keep track of taxable withdrawals under tax-saving schemes and encourages correct self-reporting by depositors.

✅ Key Exceptions

- **Payments to heirs or nominees** are not subject to TDS under Section 194EE, recognizing that the withdrawal is part of the estate and taxed differently in the hands of the original depositor.
- **Small withdrawals (up to ₹2,500)** are exempt to avoid administrative hardship.

📘 Example

Example:
A person withdraws ₹20,000 from their National Savings Scheme account in FY 2024–25.

- The institution must deduct TDS at 10% of ₹20,000 = ₹2,000.
- If the amount withdrawn was originally claimed as a deduction under Section 80CCA, it must be included in the depositor's total income.
- The TDS will appear in the depositor's Form 26AS and can be adjusted while filing their return.

✅ Key Features Summary

Particulars	Details
Section	194EE
Applicable to	Withdrawals from National Savings Scheme (NSS), 1987
Who deducts	Post Office or notified entity making the payment
Rate of TDS	10%
Threshold Limit	No TDS if withdrawal ≤ ₹2,500
Exception	No TDS on payments to nominee/legal heir
Linked Section	80CCA (deduction for NSS deposits)
Time of deduction	At the time of payment
Higher rate	20% if PAN not furnished (Sec 206AA)

✅ Legislative Intention (In Short)

Section 194EE was introduced to secure tax collection on withdrawals under the National Savings Scheme and similar notified schemes by ensuring that tax benefits previously claimed under Section 80CCA are correctly taxed when the money is withdrawn.
The section addresses non-reporting by making the payer responsible for deducting tax upfront.

🏛️ Current Relevance

While Section 80CCA has limited relevance today due to the rise of Section 80C, some legacy NSS accounts still exist. Hence, Section 194EE continues to apply to such residual withdrawals.

V. Section 194G

Section 194G mandates that any person responsible for paying **commission, remuneration, or prize (in the nature of commission)** to any person **for the sale of lottery tickets** must **deduct tax at source (TDS)** at the prescribed rate.

📌 Who is Liable to Deduct TDS?

- Any **person or entity** (typically a distributor, stockist, or agent) paying commission or remuneration for **promoting, selling, or distributing lottery tickets**.

📌 Nature of Payment Covered

- Commission or remuneration **directly or indirectly** for:
  - Selling lottery tickets.

- Promoting the sale of lottery tickets.
- Distribution of lottery tickets.

❗ **Note:** This covers all kinds of payments **linked to the sale** of lottery tickets, not winnings from lotteries (which are taxed separately under **Section 194B**).

📌 Rate of TDS

- TDS must be deducted at the rate of 2**%** on the amount of commission or remuneration paid or credited.

📌 Threshold Limit

- No TDS is required if the aggregate amount paid or credited to the payee **during the financial year** does not exceed **₹20,000**.

📌 Time of Deduction

- TDS must be deducted:
  - **At the time of credit** of such commission/remuneration to the payee's account **or**
  - **At the time of payment**, whichever is earlier.

📌 Applicability of Section 206AA

- If the payee does not furnish a valid **PAN**, TDS must be deducted at the higher of:
  - The prescribed rate (2%); **or**
  - 20% under Section 206A

🎯 Purpose

Section 194G was introduced to ensure that **commission income from the sale of lottery tickets** does not escape the tax net.

📌 **Key Reasons**

1️⃣ **High-risk area for tax evasion**

- Commission on the sale of lottery tickets is often paid in cash to a large network of agents.
- Such income is easily concealed and difficult to trace.
- The industry involves multiple layers — distributors, sub-distributors, retailers — making compliance challenging.

2️⃣ **Revenue protection**

- Lottery business involves huge turnover.
- Ensuring tax on commission at source plugs revenue leakage by creating a **controlled trail of transactions**.

3️⃣ **Ease of tax collection**

- Shifts the **compliance burden** to the principal distributors or organisers who are easier to monitor than thousands of small agents.

4️⃣ **Distinction from winnings**

- Winnings from lotteries are taxed separately under **Section 194B** at 30% — no basic exemption.
- Section 194G applies to **commission** (i.e., income earned by agents for selling tickets), which is taxed at normal slab rates but TDS ensures upfront compliance.

5️⃣ **Promotes voluntary compliance**

- TDS deduction ensures agents are brought into the tax net, as the income is pre-reported in Form 26AS.

✅ 4. Key Features Summary

Aspect	**Provision**
Section	194G
Who deducts	Person paying commission/remuneration for sale/distribution of lottery tickets
Nature of payment	Commission/remuneration/prize in the nature of commission

Aspect	Provision
Rate of TDS	2%
Threshold	No TDS if total amount ≤ ₹20,000 in FY
Time of deduction	Credit or payment, whichever is earlier
No PAN (Sec 206AA)	Higher of 2% or 20%
Form	TDS Certificate: Form 16A; TDS Return: Form 26Q

✅ 5. Legislative Intention (In Short)

Section 194G was introduced to ensure effective tax collection on commission payments related to the lottery business, an area historically prone to cash transactions and under-reporting. The provision secures the tax base, ensures upfront compliance, and minimizes tax evasion in the distribution chain of lottery tickets.

VI. Section 194H

Section 194H governs the **deduction of tax at source (TDS)** on any **income by way of commission or brokerage**, except insurance commission which is covered under **Section 194D**.

📌 Who is Liable to Deduct TDS?

- Any **person**, other than an **individual or Hindu Undivided Family (HUF)**, who is responsible for paying commission or brokerage to a resident.
- **Individuals or HUFs** must also deduct TDS under Section 194H **if their total sales, gross receipts, or turnover exceed ₹1 crore (business)** or **₹50 lakh (profession)** during the preceding financial year.

📌 Nature of Payment Covered

- Commission or brokerage means any payment received or receivable, **directly or indirectly**, by a person acting:
  - On behalf of another person,
  - For services rendered (other than professional services),
  - For services in the course of buying or selling goods,
  - Or in relation to any transaction relating to any asset, valuable article or thing (except securities).

🔑 **Note:** It covers all intermediaries, agents, distributors, dealers, or any channel partners earning commission/brokerage.

📌 Exclusions

- **Insurance commission** is specifically excluded (covered under **Section 194D**).
- Commission for professional services (such as fees for lawyers, chartered accountants) is not covered.

📌 Rate of TDS

- TDS must be deducted at the rate of **2%** on the **gross amount of commission or brokerage**.

📌 **Threshold Limit**

- TDS under Section 194H is **not required** if the **aggregate amount** of commission or brokerage paid or credited to a payee during the financial year **does not exceed ₹ 20,000**.

📌 **Time of Deduction**

- TDS must be deducted **at the earlier of**:
  - **Credit** of such income to the account of the payee, or
  - **Actual payment**, whichever is earlier.

📌 If the commission is credited to any account, whether called "Commission Payable" or "Suspense Account", it is treated as credited to the payee's account.

📌 **PAN Requirement — Section 206AA**

- If the payee does not furnish a valid **PAN**, TDS shall be deducted at the higher of:
  - 2% (regular rate), **or**
  - 20% (as per Section 206AA).

📌 **Lower or Nil Deduction**

- The payee may apply to the Assessing Officer for a **certificate for deduction at a lower rate** or **no deduction** under **Section 197**, if eligible.

✅ 3. Practical Scope

Section 194H applies widely, including:

- Sales commissions paid to agents or dealers.

- Commission to travel agents, ticketing agents, real estate brokers.
- Channel partner commissions in telecom, FMCG, retail sectors.
- Commission paid to petrol pump dealers, advertising agents, franchisees, etc.

✅ 4. Legislative Intention — Why was Section 194H Introduced?

🎯 Purpose

Section 194H was enacted to bring **commission and brokerage income** within the **TDS framework —** an area historically prone to tax leakage due to cash payments and fragmented reporting.

📌 Key Objectives

1️⃣ **Plug revenue leakage**

- Commission/brokerage is a common source of income for agents, intermediaries, distributors, brokers, etc.
- Such income, especially when paid in cash, was often under-reported.
- By introducing TDS, the government ensured **automatic tax reporting and collection at the source**.

2️⃣ **Traceability of payments**

- Ensures that every commission/brokerage payment above the threshold is captured in the **payer's books**.
- Creates an audit trail through TDS returns and Form 26AS, making evasion difficult.

3️⃣ **Widen the tax base**

- Brings a large number of small and mid-level intermediaries into the tax net who might not file returns voluntarily.

4️⃣ **Ease of administration**

- Shifts the compliance burden from the tax department to businesses and payers.
- Makes tax recovery cost-effective, especially in sectors like retail, distribution, and sales where huge volumes of small commissions are paid.

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5 **Alignment with other TDS sections**

- Section 194H complements other TDS provisions like:
  - **Section 194D** (Insurance commission),
  - **Section 194C** (Contractors and sub-contractors),
  - **Section 194J** (Professional fees).

✅ 5. Key Features Summary

Particulars	**Details**
Section	194H
Applicable to	Commission or brokerage (except insurance)
Who deducts	Any person (other than individual/HUF unless tax audit applies)
Threshold	No TDS if aggregate ≤ ₹20,000 in a FY
Rate of TDS	2%
Higher rate if no PAN	20% (Sec 206AA)
Time of deduction	Credit or payment, whichever is earlier
Form	TDS Certificate: Form 16A; Return: Form 26Q

✅ Legislative Intention (In Short)

Section 194H was introduced to ensure effective tax collection on commission and brokerage payments, which are typically scattered, often paid in cash, and prone to under-reporting. It secures the tax base, strengthens reporting through the TDS mechanism, and promotes voluntary compliance by intermediaries and agents


Q&A


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YOU
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