



Download from
Dreamstime.com

This is a watermark image. Images in this gallery are for previewing purposes only.



114865217

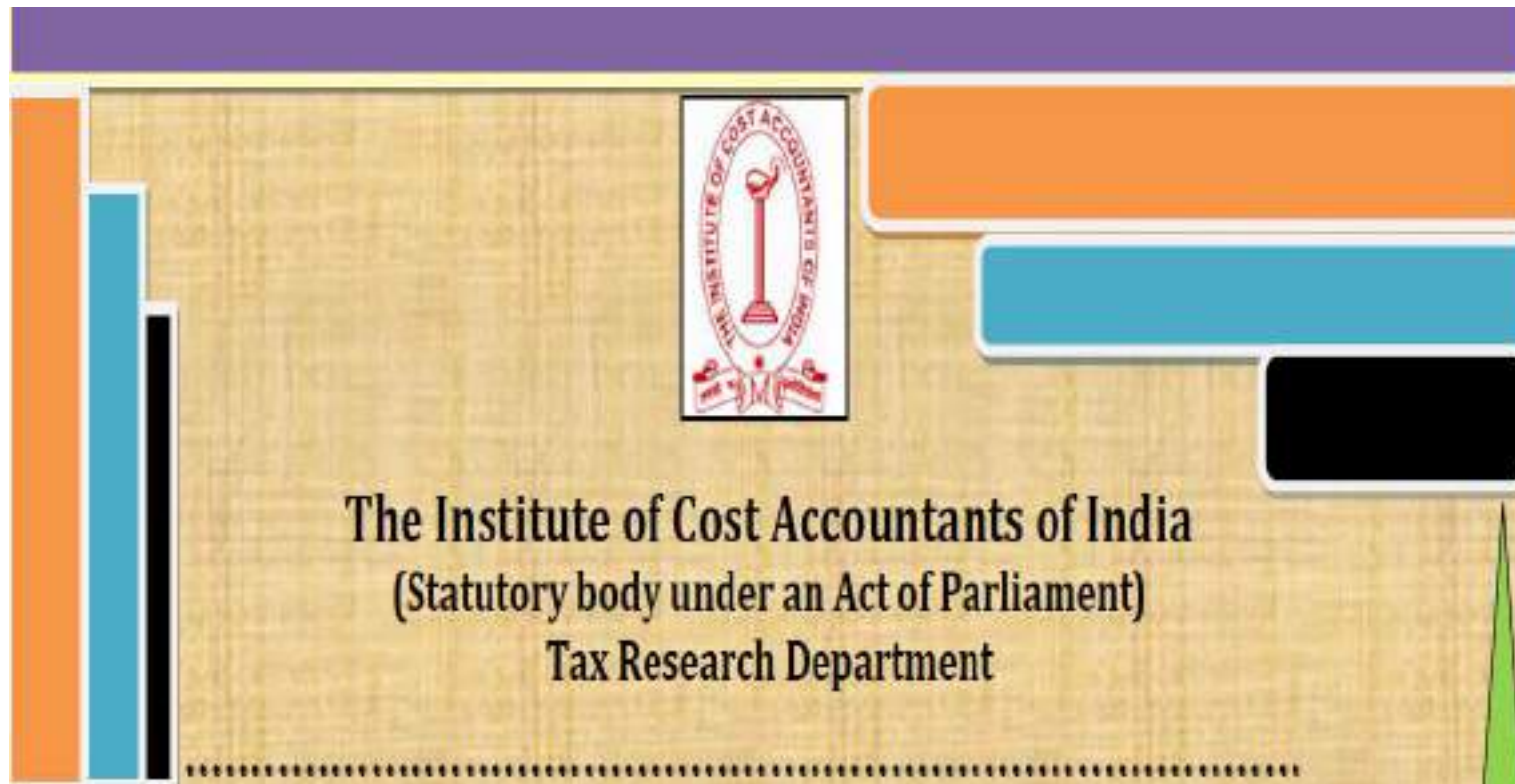


Truefellow | Dreamstime.com

CMA Kedarnath

Hyderabad

ONLINE CERTIFICATE COURSE ON TDS - CCTDS-8th Batch



TDS u/s 194K, 194LB, 194LBA, 194LBB, 194LBC, 194LC & 194LD



Introduction to TDS

- ❖ The concept of **TDS** was **introduced** with an aim to collect tax from the very source of income
- ❖ It means where the income is generated, tax shall be deducted at respective rates on the said income
- ❖ The objective of TDS is to catch and bring more number of tax payers in the society into taxation nest
- ❖ Tax is deducted only if amount is Taxable in the hands of the receiver
- ❖ Parties involved in TDS
 - I. Deductor / Payer →>>>>> Recipient (who makes payment)
 - II. Deductee / Payee →>>>>> Supplier
- ❖ As per this concept, a person (Deductor) who is liable to make payment of specified nature to any other person (Deductee) shall deduct tax at source and remit the same into the account of the Central Government.
- ❖ The Deductee from whose income tax has been deducted at source would be entitled to get credit of the amount so deducted on the basis of Form 26AS or TDS certificate issued by the deductor in form 16 / 16A



When to Deduct TDS

❖ TDS requirement arise:

✓ At the time of **Payment**

(or)

✓ At the time **crediting** the a/c of payee (in the books of payer) >>>> in simple, At the time of Accounting

❖ But in the following cases TDS deducted only **at the time of payments**:

✓ Salary

✓ EPF Payment

✓ Winnings

✓ Maturity of Life Insurance Policy

✓ Compensation on compulsory acquisition of property

TDS Rates

❖ TDS Rates are Fixed:

- ✓ 1%
- ✓ 2%
- ✓ 5%
- ✓ 10%

❖ If a person NOT furnishing PAN Copy

Higher TDS deducted

- Rates prescribed in the respective section, (or)
- Rates prescribed in the Annual Finance Act, (or)
- 20%

Note: If payment made to NR/Foreign Co. (or) Salary payment then "Surcharge & HEC" shall be considered for the purpose of TDS



TDS Applicability

❖ TDS will be applicable on

✓ Services

✓ Expenses

❖ TDS will NOT be applicable on Goods*

Note: W.e.f 01.07.2021 S.194Q requires the specified buyer to deduct TDS on the purchase of goods from the resident seller

❖ TDS applicable for not only Commercial purpose but also for other payments / Personal transactions

✓ Example: 1 Buying a L&B for Rs 80 Lakhs (Sale deed value), Buyer has to deduct TDS u/s 194IA @ 1% on consideration i.e., Rs 80,000

✓ Example: 2 Mr. X avails a catering from Mr. Y for his marriage to the tune of Rs 1 Cr, Mr. X has to deduct TDS @ 5% u/s 194M with effect from 01.09.2021



TDS Provisions



8

Sections 194K, 194LB, 194LBA, 194LBB, 194LBC, 194LC, 194LD

SEC 194K: TDS on Dividend Income in Respect of Units of Mutual Funds

Background

1. Existing Tax Regime:

- ❖ When some taxpayers started evading tax on capital gains by not showing the details of gain on the sale of stocks .
- ❖ The Finance Act, in 2004, introduced the Securities Transaction Tax (STT) as a tool of efficient way of collecting taxes from financial market transactions.

2. New Tax Regime:

- ❖ In The Finance Bill, 2020 government has abolished dividend distribution tax, and now the dividend income will be taxable in the hands of receivers / investors. Honorable Finance Minister in their speech inserted section **194K w.e.f 01.04.2020** for deduction of tax on income in respect of units of Mutual funds.



Responsibility of Deducting TDS

Any person who is responsible for paying to a resident “**any income**” in respect of

- a) Units of a Mutual Fund or
- b) Units from the Administrator of the specified undertaking; or
- c) Units from the specified company,

is required to deduct the TDS at the time of credit of such income to the account of the payee or at the time of payment thereof by any mode.



Time of Deduction

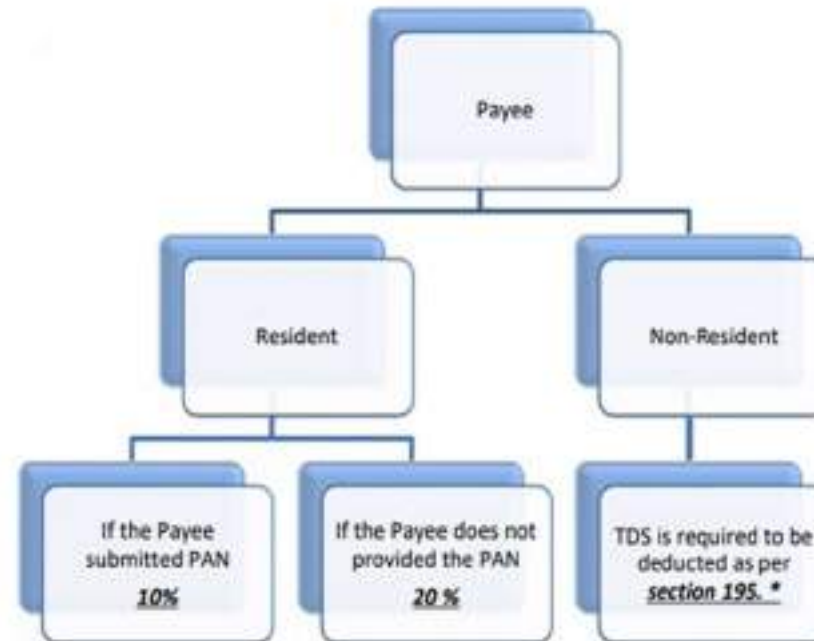
TDS is required to be deducted:

- ❖ at the time of credit of income to the account of the payee or at the time of payment thereof by any mode, whichever is earlier
- ❖ when payer credited such income to any other account whether called **“suspense account”** or by any other name, it is considered as deemed income and TDS required to be deducted.



Rate of TDS

Person paying dividend is required to deduct the TDS on income credited or paid by him if such payment exceeds the threshold limit at following rate:



**Section 194K is not applicable for payment of dividend to NRI*

Threshold Limit

- ❖ TDS is required to deduct if the aggregate amounts of such income which is credited or paid during the financial year **exceeds Rs. 5,000/-**.
- ❖ No TDS is required to be deducted for amount which does not exceed five thousand rupees.



Types of Income covered under Sec 194K

- ❖ CBDT clarified that TDS will be applicable only on **dividend payment** & no tax shall be required to be deducted by the mutual fund on income which is in the **nature of capital gains**.
- ❖ Hence TDS is required to be deducted on dividend payment by mutual funds only and not on gain arising out of redemption of units.

TDS Returns & Certificates

- ❖ The statement of return in **form No. 26Q** is required to be filled quarterly.
- ❖ The TDS certificate i.e **Form No. 16A** is required to be issued quarterly **within 15 days** from the due date for furnishing the quarterly TDS statements.



Consequences of Non Filing / Delay in Depositing TDS

Failure to deduct the TDS or to remit tax deducted in the governments account within stipulated time limit would attract interest and penalty as follows :

- ❖ **Disallowance** of Expenditure as per Section 40(a)(ia).
- ❖ **Interest @ 1%** for every month or part of a month on the amount of such tax from the date on which such tax was deductible to the date on which such tax is deducted .
- ❖ **Interest @ 1.5%** for every month or part of a month on the amount of such tax from the date on which such tax was deducted to the date on which such tax is actually paid.
- ❖ **Penalty** of an amount equal to tax not deducted or paid could be imposed under section 271C.

Old Regime VS New Regime

Existing Regime	New Regime
1. Capital Gain	
<p>a) <u>Capital gains are taxable in the hands of the taxpayer.</u> Any long-term capital gains earned from the equity-oriented mutual funds will be taxed at the rate of 10% if the gains exceed Rs 1 lakh in a year.</p> <p>b) Short-term capital gains from the mutual funds, subject to STT, will be taxed at the <u>rate of 15%.</u></p>	<p><u>A mutual fund is not liable to deduct TDS</u> on capital gains arising on redemption of units by unit holders.</p>
2. Dividend	
<p><u>Tax on the dividend (DDT)</u> which is paid by the Fund Houses (AMC) on behalf of the investors.</p>	<p><u>DDT has been abolished</u> as per the Budget 2020; from FY 2020-21, dividend income will be taxable in the hands of the receiver/investor.</p>

Other Points

Lower TDS Certificate under section 197 for a company or a Firm

A Company or a firm is not eligible to furnish **Form 15G**. However, it can apply for a Lower or Nil TDS certificate under section 197 of the Income Tax Act, 1961 and can furnish the same to the mutual fund.

Credit for TDS on dividend income from the units of mutual funds held by a minor child

- ❖ In case the dividend income from the units of mutual funds held in the name of a minor child is liable to be clubbed with the income of the parent of the minor child under section 64(1A) then the parent should submit a declaration under section 199 read with Rule 37BA(2) of the Income-tax Rules, 1962 to the Mutual Fund.
- ❖ If such a declaration is filed by the parent, then the **TDS will be credited to the PAN of the parent** who can claim the same in his ITR and also include the dividend income in his total income.

TDS on dividend income from units of mutual funds paid to non-residents/NRIs.

- ❖ Where dividend income in respect of units of a Mutual Fund is paid to non-residents including NRIs then the provisions of section 196A shall apply. In the case of non-residents, section 194K will **not** apply.
- ❖ Section 196A was in statute but was made inoperative from 01-04-2003 by way of inserting a proviso in section 196A. This proviso is omitted by Finance Act, 2020 and hence section 196A is once again reactivated from 01-04-2020.

Salient features of section 196A are outlined below

- ❖ Section 196A is applicable on dividend income from MF, There is no threshold limit prescribed in section 196A.
- ❖ The rate of TDS under section 196A is 20 per cent for non-resident unitholders compared to 10 per cent for residents u/s 194K.
- ❖ The rate of TDS of 20 per cent shall be required to be increased by applicable surcharge and Health & Education Cess.
- ❖ A non-resident cannot apply for a lower or nil rate of TDS certificate under section 197 because section 197 does not cover section 196A units of a mutual fund paid to non-resident unitholders.

Q&A

Q 1. What types of income are covered under Sec 194K?

Ans. CBDT has already clarified that TDS deduction as per Section 194K will be applicable only on the income one receives from dividends. So, a fund house will not make any deduction on incomes that fall under the 'Capital Gains' head.

Q 2. Is TDS deducted on dividends paid to NRI Investors?

Ans. Yes, as per provisions of Section 195 of the IT Act, an NRI investor will receive dividend income from mutual funds after the deduction of TDS. In the case of dividend income from equity mutual funds, a TDS deduction of 20% on dividends is applicable.

Q 3. What happens due to delay or non-deduction of TDS under section 194K?

Ans. For delay in TDS deduction or tax deposition to the government, the consequences can be as follows:

- > Disallowance of any expenses as stated in Section 40(a)(ia) for Resident / 40(a)(i) for NR
- > Penalty interest of 1% every month or part of a month on the TDS amount from the due date of payment to the actual date of payment
- > A penalty that is equal to the TDS amount can be levied as per Section 271C

Q 4. What are exceptions under section 194K?

Ans. A mutual fund house cannot make TDS deductions under Section 194K of the Income Tax Act in the following cases:

- > No TDS up to Rs. 5,000 for a financial year.
- > Any income in the form of capital gains is free of tax deduction under Section 194K.

Q 5. How to avoid taxes on the dividend income of Mutual Funds ?

Ans. As a taxpayer, you can submit Form 15H or Form 15G to prevent TDS deduction under Section 194K. However, the tax on your total income (including dividend income from mutual funds) has to be nil.

Sec 194LB : Income by way of Interest from Infrastructure Debt Fund

Conditions

If the following conditions are satisfied, then, the payer would be liable to deduct TDS:

- ❖ The interest income is paid by an infrastructure debt fund referred to in section 10 (47); and
- ❖ The interest income is paid to a non-resident (not being a company) or to **a foreign company**.



Section 10(47)

- CBDT notifies L&T Infra Debt Fund as Infrastructure Debt Fund under section 10(47) of Income Tax Act, 1961 for the assessment year 2018-2019 and subsequent years.
- S.O. 3122(E).—In exercise of the powers conferred by clause (47) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies the Infrastructure Debt Fund namely, the 'L&T Infra Debt Fund (PAN: AACCL4493R)' for the purposes of the said clause, for the assessment year 2018-2019 and subsequent years subject to the following conditions, namely:-
 - (i) that the Infrastructure debt fund shall conform to and comply with the provisions of the Income-tax Act, 1961, rule 2F of the Income-tax Rules, 1962 and the conditions provided by the Reserve Bank of India in this regard, and (ii) that the Infrastructure debt fund shall file its return of income as required by sub-section (4C) of section 139 of the Income-tax Act, 1961 on or before the due date.

Time & Rate of Deduction

Time:

When the above listed conditions are satisfied, and the person is liable to deduct TDS under section 194LB, in that case, the TDS is to be deducted ;

- ❖ either at the time of credit of income to the account of the recipient

(or)

- ❖ at the time of payment in cash or draft or cheque or any other mode, whichever is earlier.

Rate:

- ❖ TDS is deductible at the rate of 5%.

- ❖ HEC is to be added

- ❖ Further, if the surcharge gets applicable, then, the same should also be added.

Lower Tax Deduction

Tax cannot be deducted at lower rate. Hence, section 197 shall not be applicable in this case.

Extract of Section 194LB of Income Tax Act, 1961

Where any income by way of interest is payable to a non-resident, not being a company, or to a foreign company, by an infrastructure debt fund referred to in clause (47) of section 10, the person responsible for making the payment shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rate of five per cent.



Sec 194LBA: TDS on Certain Income from Units of a Business Trust

Responsibility to Deduct TDS

- ❖ Any person who makes payment of income [as per section 115UA] which is payable by a business trust to its unit holder is required to deduct tax at source.
- ❖ Such unit holder can be a resident, non-resident (but not a company).



Time & Rate of Deduction

Time of Deduction

❖ The time of deduction is earlier of, the credit of income to the account of the payee (receiver)

(or)

❖ Actual payment (in cash, cheque, draft or another mode).

Rate of TDS

S.No.	Particulars	Rate
1.	Distribution of dividend income (w.e.f.01.04.2020) & income referred u/s 10(23FC) & 10(23FCA) to resident	10%(7.5% w.e.f. 14.05.2020 to 31.03.2021)
2.	Distribution of dividend income (w.e.f. 01.04.2020) & income referred u/s 10(23FC)(a) to non-resident	5%
3.	Distribution of income referred u/s 10(23FC)(b) to non-resident	10%
4.	Distribution of income referred u/s 10(23FCA) to non-resident	Rates in Force

Relevant Sections for TDS u/s 194LBA

Section 10[23FC]

Any income of a business trust by way of-

- ❖ Interest received or receivable from a special purpose vehicle; or
- ❖ Dividend referred to in sub-section [7] of section 115-O.

Explanation—For the purposes of this clause, the expression "special purpose vehicle" means an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the regulations under which such trust is granted registration.

Section 10[23FCA]

Any income of a business trust, being a real estate investment trust, by way of renting or leasing or letting out any real estate asset owned directly by such business trust.

Explanation-For the purposes of this clause, the expression "real estate asset" shall have the same meaning as assigned to it in clause [zj] of sub-regulation [1] of regulation 2 of the Securities and Exchange Board of India [Real Estate Investment Trusts] Regulations, 2014 made under the Securities and Exchange Board of India Act, 1992 [15 of 1992].

Q&A

Q 1. When payment of income is made by a business trust to its unit holder, which is a company. Is TDS deductible?

Ans. No. Any person who makes payment of income [as per section 115UA] which is payable by a business trust to its unit holder is required to deduct tax at source. Such unit holder can be a resident or non-resident, but it cannot be a company.

Q 2. When surcharge or education cess is added to the TDS rate u/s 194LBA ?

Ans. Where distributed income is of the nature referred to in section 10(23FC)(a) and Where such distributed income is payable by a business trust to its unit holder being a resident — The rate of TDS shall be 10% of such distributed income. No surcharge or education cess shall be added to the above rate.

Q 3. Is lower TDS deduction possible u/s 194LBA?

Ans. Tax cannot be deducted at lower rate. Hence, section 197 shall not be applicable in this case.

Q 4. When surcharge or education cess is added to the TDS rate u/s 194LBA ?

Ans. Where distributed income is of the nature referred to in section 10(23FC)(a) and Where such distributed income is payable by a business trust to its unit holder being a nonresident, not being a company or a foreign company — The rate of TDS shall be 5% of such distributed income. Surcharge, wherever applicable plus education cess and SHEC shall be added to the above rates.

Q5. What will be the TDS rate in case PAN is not quoted by the deductee?

Ans. The rate of TDS will be 20% in case where distributed income is of the nature referred to in section 10(23FC)(a), if PAN is not quoted by the deductee.

Sec 194LBB: TDS on Income in Respect of Units of Investment Fund

Responsibility to Deduct TDS

Any person who gives an income (as referred u/s 115UB) to a unit holder in respect of units held in an investment trust has to deduct tax under this section.



Meaning of Important Terms

Unit:

"Unit" means beneficial interest of an investor in the investment fund or a scheme of the investment fund and shall include shares or partnership interests.

Investment Fund:

"Investment Fund" means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012, made under the Securities and Exchange Board of India Act, 1992 (15 of 1992)

Time & Rate of Deduction

Time of Deduction

The time of deduction is earlier of,

❖ The credit of income to the account of the payee (receiver)

(or)

❖ Actual payment (in cash, cheque, draft or another mode).

Rate of TDS

❖ The rate of tax u/s 194LBB is 10% (if the payee is resident).

❖ If the payee is non-resident (not a company) or a foreign company then tax will be as per the rates in force during FY.

Q&A

Q 1. When TDS u/s 194 LBB is not required to be deducted?

Ans. No TDS will be deducted from payment to the government, the RBI, a mutual fund, or a corporation set up under the act, since such income is exempt from tax in their hands.

Q 2. What will be the TDS rate, in case the deductee has not filed the applicable tax return ?

Ans. If the deductee has not filed their applicable tax return for a specified period, then tax will be deducted at the rate prescribed under section 206AB.

Q 3. Is TDS u/s 194LBB applicable to Non-Residents?

Ans. Under sec 194LBB, tax will be deducted irrespective of the residential status of the person receiving such income.

S.194-LBC – Income in Respect of Investment made in a securitization trust

- ❖ Section: 194-LBC
- ❖ Nature of TDS: Income in respect of investment made in a securitization trust

- ❖ Applicability:

- ✓ Individual
- ✓ HUF
- ✓ Any Other Person

- ❖ Rate of TDS: 25% in case of Individual or HUF

- ❖ Rate of TDS: 30% in case of Other Person

- ❖ TDS is deducted: Earlier of

- ✓ At the time of **payment** (or)
- ✓ At the time of **credit** of such sum to the account

- ❖ Mode of Payment

- ✓ Cash
- ✓ Cheque
- ✓ DD or
- ✓ Any other mode



Questions And Answers

Q.1 Who is responsible to deduct tax under Section 194LBC of Income Tax Act, 1961?

Ans: Any person who gives income to an investor with respect to investment in securitization trust is required to deduct tax under this section.

Q.2 When to Deduct TDS under Section 194LBC?

Ans: The time of deduction is earlier of, the credit of income to the account of the payee (receiver) or actual payment (in cash, cheque, draft or another mode).

Q.3 What is the Rate of TDS under Section 194LBC ?

Ans: 25% (if the payee is resident Individual & HUF) (18.75% w.e.f. 14.05.2020 to 31.03.2021)

30% (if the payee is resident other than individual or HUF)(22.50% w.e.f. 14.05.2020 to 31.03.2021)

[At the rates in force [if the payee is non-resident (not being a company) or foreign **company**]



S.194-LC –Income by way of Interest from Indian Company or Business Trust

❖ Section: 194-LC

❖ Nature of TDS: Income by way of Interest From Indian Company or Business Trust

❖ Applicability:

- ✓ Indian Company
- ✓ Business Trust



❖ Nature of Payment:

- a. Under a loan agreement at any time on or after the 1st day of July, 2012 but before the 1st day of July, 2023
- b. by way of issue of long-term infrastructure bonds at any time on or after the 1st day of July, 2012 but before the 1st day of October, 2014
- c. by way of issue of any long-term bond including long-term infrastructure bond at any time on or after the 1st day of October, 2014 but before the 1st day of July, 2023 as approved by the Central Government in this behalf.



- d. in respect of monies borrowed by it from a source outside India by way of issue of any long-term bond or rupee denominated bond on or after the 1st day of April, 2020 but before the 1st day of July, 2023, which is listed only on a recognised stock exchange located in any International Financial Services Centre, and
- e. Interest payable in respect monies borrowed by it from a source outside India by way of issue of rupee denominated bond before the 1st day of July, 2020.

❖ **Rate of TDS: 5%**

TDS is deducted: Earlier of

- ✓ At the time of **payment** (or)
- ✓ At the time of **credit** of such sum to the account

❖ **Mode of Payment**

- ✓ Cash
- ✓ Cheque
- ✓ DD or
- ✓ Any other mode



Questions And Answers

Q. 1 Who is responsible to deduct tax under section 194LC of Income Tax Act, 1961?

Ans: If an Indian company or a business trust pays income by way of interest to non-resident (not being a company) or foreign company, has to deduct TDS under this section.

Q. 2 When to Deduct TDS under Section 194LC?

Ans: At the time of credit of such income to the account of payee or at the time of payment whichever is earlier. For this purpose, “payment” can be in cash or by issue of a cheque or draft or by any other mode.

Q.3 What is the rate of TDS under Section 194LC ?

Ans: The rate of tax u/s 194LC is 4%(w.e.f. 01.04.2020)(plus Health & Education Cess @ 4%).

Q. 4 What are the Other key points related to section 194LC

Ans: Interest does not exceed the amount of interest calculated at the rate approved by Central Government in this behalf after considering the terms of bond or loan and its repayment.

The provisions of section 206AA shall not apply in respect of payment of interest on long-term infrastructure bonds, as referred to in this section. Extract of Section 194L



S.194-LD – TDS on Interest on Certain Bonds / Government Securities

- ❖ **Section:** 194-LD
- ❖ **Nature of TDS:** TDS on Interest on Certain Bonds/Government Securities
- ❖ **Applicability:**
 - ✓ Any Person
- ❖ **Nature of Payment:**



- a. Interest Payable on or after the 1st day of June ,2013 but before the 1st day of July,2023 in respect f Investment made by the Payee in _
 - i. a rupee denominated bond of an Indian Company, or
 - ii. a Government security
 - b. On or after the 1st day of April, 2020 before the 1st day of July,2023 in respect of the Investment made by Payee in Municipal Debt Securities
- ❖ **Rate of TDS:** 5%



Questions And Answers

Q.1 Who is responsible to deduct tax under section 194LD of Income Tax Act, 1961?

Ans: Any person who is responsible for paying to a person being a Foreign Institutional Investor or a Qualified Foreign Investor any income by way of interest.

Q.2 When to Deduct TDS under Section 194LD?

Ans: At the time of credit of such income to the account of payee or at the time of payment whichever is earlier. For this purpose, “payment” can be in cash or by issue of a cheque or draft of by any other mode.

Q.3 What is Nature of Payment?

Ans: Interest payable on or after the 1st day of June, 2013 but before the 1st day of July, 2023(Amended in Finance Act,2020) in respect of investment made by the payee in—

- i. a rupee denominated bond of an Indian company ; or
 - ii. a Government security.
-
- on or after the 1st day of April, 2020 but before the 1st day of July, 2023 in respect of the investment made by the payee in municipal debt securities





The more we come out and do good to others, the more our hearts will be purified, and God will be in them.
- Swami Vivekananda



By
CA CMA Kedarnath
P Kedarnath & Associates
Chartered Accountants
Mobile No: 9985162155
kedarnath.potnuru@gmail.com

