

## **Explaining TDS, Its Objectives And Functions**

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The three basic tasks of any tax administration are to identify potential tax payers, to assess the appropriate tax on them and to collect that tax. These three functions have been referred to as three E's of tax administration viz., enumerate, estimate and enforce

The commonly known term TDS (Tax Deduction at Source) pertains to the last leg of these three functions viz. collection or enforcement.

TDS is one of the several modes of recovery of tax and liability of TDS is without prejudice to other modes of recovery. TDS is not an alternative tax to direct levy, it is rather a supplement. The provisions of TDS have been enacted for the purpose of easy collection of taxes and to avoid evasion thereof by suitable tailoring, i , accounts.

In the recent past, the scope of Tax Deduction at Source (hereinafter referred to as 'TDS') has been widened by enlarging the scope of 'work' in relation to contractors/sub-contractors, and by extending TDS on rent, fees for professional and technical services, and payment on compulsory acquisition, etc It is very likely that tax. TDS would be extended to certain more payments, in future, as TDS has the triple advantage of augmenting government revenue, checking tax evasion and widening the tax base.

### **Objectives of TDS**

#### *(i) Recovery of Tax*

Income Tax is primarily a tax on income and the person earning income is liable to pay tax by way of advance tax, self-assessment tax and tax on regular assessment. In this system of direct levy, the Tax Department comes into picture almost one year after the income has been earned. If the income earned has been spent away by that time, making of assessment would get reduced to a mere academic exercise, and the department would be a helpless spectator. Hence the system of direct levy has been gradually supplemented by the Tax Deduction at Source Scheme, wherein tax is deducted at specified rates from income/other payments made to the payee. The objective underlying Tax Deduction at Source is to collect taxes before disbursements are made so as to ensure collection or revenue at the earliest opportunity. In fact, this system operates as a form of forced savings,

#### *(ii) Widening of Tax Net*

The other important function of the TDS system is to provide information about tax payers and help tax administration in broad basing the tax net. This objective is achieved by scrutiny of return statements filed by the persons who deduct tax at source. Some tax payers, non-filers too, come to the tax department for claiming credit of TDS which gives an opportunity to the tax department to enquire about the tax paying status of such persons.

Even: if such person do not come forward to claim credit for the TDS, the tax department is at least benefited to the extent of TDS, which the payee would have otherwise skipped.

#### *(iii) Other objectives of TDS*

The other objectives of TDS are having regular flow of cash; preventing evasion of tax and minimizing collection expenses.

### **Kinds of TDS System**

TDS is generally of two types - provisional and final. Amounts, that are provisionally withheld, are, in effect, credited against a final yearend tax liability and are in principle subject to adjustment against the tax found due or resulting in refund.

In contrast, other withholding may be treated as the final payment with respect to certain incomes with no provision for subsequent adjustments. The rates of deduction included in Double Taxation Avoidance Agreements on dividends, technical fees, royalties, etc, are illustrations of this nature of TDS.

Both types of TDS are prevalent in different countries, but the scope and precise form in which they are applied differ widely depending on the structure of the economy and the capability of the tax department to administer the system,

### **Liability to Deduct TDS**

The persons responsible for making payment of specified incomes/sums (such as salary, interest, rent, professional/technical fees" etc) are, liable to deduct tax at source from such payments, In respect of certain sums, the liability to deduct TDS arises only if the payment exceeds the specified amount.

Certain payments or payments made to certain persons have been specifically exempted from TDS provisions.

### **Rate of TDS**

TDS is to be deducted from specified incomes/sums at the rate(s) specified in respect thereof. TDS shall not be deducted or shall be deducted at a lower rate, in certain cases, if the payee furnishes a declaration or a certificate from the Assessing Officer, as the case may be, in the prescribed form, to that effect.

### **TDS Account Number (TAN)**

Persons liable to deduct tax at source on any payment, shall obtain a TDS Account Number, for which he shall make an application in the prescribed form and manner.

### **Deposit of TDS**

The TDS should be deposited in the Government 'Treasury/authorized\ banks, along with the prescribed challan within the prescribed time. Delay in payment of TDS will make the payer liable to interest for the period of delay. Failure to deposit the tax also entails penalty.

### **TDS Certificate**

The person deducting tax at source shall issue a TDS Certificate, in the prescribed form and manner to the payee so as to enable him to claim credit for the same in his tax return.

### **Credit for TDS Refund of TDS**

The payee shall claim credit for TDS against tax payable, by enclosing the TDS Certificate issued to him, along with his return. If the tax liability of the payee is nil, TDS can be refunded to him by filing the return,

### **Offences and Penalties**

Failure to apply, for TDS Account Number (TAN), failure to deduct TDS, failure to deposit TDS, failure to issue TDS certificate, failure to furnish TDS return, etc" are certain offences' Which' entail penalties and even proseb1tion.