HOW TO HANDLE TDS DEFAULTS DUE TO INOPERATIVE PAN OF DEDUCTEE

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A **The TDS defaults on account of Inoperative PANs have created a lot of issues among the taxpayers. What are some major issues faced by them?**

- The original rate of TDS under the act are 1%, 2% 5% and 10% however for inoperative PANs the higher rate of TDS applicable is 20% for all transactions irrespective of the original rate. Thus Contractors whose TDS was to be originally deducted by 1% is now being deducted @ 20% which is harsh on the taxpayers.

- The deductors are asked to discharge the difference amount in TDS along with interest @ 1 percent from month of deduction till the date of payment, which affects their operating cash flows.

- Primarily in case of One Time Transactions it is difficult for the deductors to recover such amount from the deductees.

- Even after subsequent linking of PAN with Aadhar within the same financial year, the deductors are required to discharge the liability at higher rate and revise their return.

- The department expects the deductors to check PANs of each and everydeductees as on the date of deduction, which is practically not feasible and is against the ease of doing business.

- The Deductors shall first focus on discharging the tax liability raised as delay in resolving the issues would result in increase in the outstanding interest liability.

- The deductors shall debit the deductees with such difference amount, where such amount is recoverable and shall legally recover the amount from the deductees.

- For existing deductees, the deductors shall verify the PANs of all the vendors as a single time activity through TRACES and deduct TDS for all inoperative PANs at higher rate henceforth.

- For new deductees, the deductors shall verify the PAN status as on the time of Vendor Registration itself.

- It's a revenue neutral activity and if the Income Tax Returns have been regularly filed by the deductees, even the Delhi High Court has ruled in favour of deductor in case of such lower deduction.

- The deductors who are in disagreement with the notices can adopt the path of litigation to resolve their issues.

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What are the probable solutions that can be implemented for resolving such issues?

- If the PAN is linked with Aadhar in the same financial year, the acknowledgment of such compliance shall be sufficient compliance of law and all the defaults shall be resolved.

- Lower rates shall be prescribed for higher rate of deduction based on the existing original rates of TDS.

- An utility or methodology shall be issued for deductors to verify the PAN status of all their deductees with ease.

Thank you

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