Dipen D Shah & Associates
CHARTERED ACCOUNTANTS

KEY REFORMS

Related to Tax deducted at source and Tax collect at source in union Budget 2025

Opening Remarks

- Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) have long been essential elements of India's taxation framework, aimed at ensuring efficient tax collection, reducing tax evasion, and expanding the tax base. However, over time, the complexities associated with these provisions have led to compliance difficulties for taxpayers.

- In her speech on the Direct Tax proposals of union budget 2025, the Finance Minister noted that the new bill would offer a clearer and more straightforward text, with nearly half of the current law—both in terms of chapters and word count—being revised.

- That being said, the reforms proposed in Budget 2025 represent a substantial step toward a more streamlined and efficient tax system. These changes are expected to lower compliance costs and improve tax administration, making the system more robust and more user-friendly for taxpayers.

- Additionally, as part of ongoing efforts to simplify tax processes, the government introduced in Budget 2024 a clear six-year timeline for filing TDS/TCS correction statements. This move aligns with the broader objectives of Budget 2025 to enhance transparency, simplify procedures, and create a more business-friendly tax environment.

– Team Dipen D Shash & Associates

A Table Showing rates and threshold limits applicable for deduction of Tax at source with effect from 1.4.2025.

Sr. No	Section	Current threshold	Proposed threshold	Rate
1	192- Payment of Salary	Rs. 2,50,000/-		Normal Tax Slabs
2	192A- Premature withdrawal from EPF	Rs. 50,000/-		With PAN: 10% Without PAN: 20%
3	193 - Interest on securities	Nil	Rs. 10,000/-	10%
4	194A - Interest other than Interest on securities	(i) Rs. 50,000/- for senior citizen;	(i) Rs. 1,00,000/- for senior citizen	10%
		(ii) Rs. 40,000/- in case of others	(ii) Rs. 50,000/- in case of others	
		when payer is bank, cooperative society and post office	when payer is bank, co- operative society and post office	
5	194 - Dividend for an individual shareholder	Rs. 5,000/-	Rs. 10,000/-	10%
6	194K - Income in respect of units of a mutual fund or specified company or undertaking	Rs. 5,000/-	Rs. 10,000/-	
7	194B - Winnings from lottery, crossword puzzle, etc.	Aggregate of Rs. 10,000/-.	Rs. 10,000/- in respect of a single transaction	30%
8	194BA - Income from online games	Aggregate of Rs. 10,000/-.	Rs. 10,000/- in respect of a single transaction	30%

Sr. No	Section	Current threshold	Proposed threshold	Rate
	194BB - Winnings from horse race	Aggregate of amounts exceeding Rs. 10,000/- during the financial year	Rs. 10,000/- in respect of a single transaction	
10	194C- Payment to contractor/sub-contractor:-	One-time Rs. 30,000/- and aggregate of Rs. 1,00,000/-.		
	(a) Individuals/HUF			1%
	(b) Other than Individuals/HU			2%
11	194D - Insurance commission	Rs. 15,000/-	Rs. 20,000/-	
	(a) Domestic Companies			10%
	(b) Other than companies			5%
12	194DA- Insurance pay-out in respect of a life insurance policy	Rs. 1,00,000/-		5% (before 1st October 2024) and 2% (from 1st October 2024)
13	194E- Payment to non-resident sportsmen/sports association	Not Applicable		20% + surcharge + 4% cess
14	194-EE Payment of amount standing to the credit of a person under National Savings Scheme (NSS)	Rs. 2,500/-.		10%
15	194F- Payment for the repurchase of the unit by Unit Trust of India (UTI) or a Mutual Fund	No limit		20%

Sr. No	Section	Current threshold	Proposed threshold	Rate
16	194G - Income by way of commission, prize etc. On lottery tickets	Rs. 15,000/-	Rs. 20,000/-	5% (before 1st October 2024) and 2% (from 1st October 2024)
17	194H - Commission or brokerage	Rs. 15,000/-	Rs. 20,000/-	5% (before 1st October 2024) and 2% (from 1st October 2024)
18	194-I Rent	Rs. 2,40,000/- during the financial year	Rs. 50,000/- per month or part of a month that is Rs. 6 lakhs for the year	
	194-I(a) Rent on plant and machinery			2%
	194-I(b) Rent on land/building/furniture/fitting			10%
19	194-IA Payment in consideration of transfer of certain immovable property other than agricultural land.	Rs. 50,00,000/-.		1%
20	194-IB Rent payment by an individual or HUF not covered u/s. 194-I	Rs. 50,000/- (per month)		5% (before 1st October 2024) and 2% (from 1st October 2024)
21	194-IC Payment under Joint Development Agreements (JDA) to Individual/HUF	No limit		10%
22	194J - Fee for professional or technical services	Rs. 30,000/-	Rs. 50,000/-	10%

Sr. No	Section	Current threshold	Proposed threshold	Rate
23	194K- Payment of any income for units of a mutual fund, for example, dividend	Rs. 5,000/-		10%
24	194LA - Income by way of enhanced compensation	Rs. 2,50,000/-	5,00,000/-	10%
25	194LB- Payment of interest on infrastructure debt fund to Non-Resident	Not Applicable		5% + surcharge + 4% cess
26	194LC- Payment of interest for the loan borrowed in foreign currency by an Indian company or business trust against loan agreement or the issue of long-term bonds	Not Applicable		4%
	194LC- Payment of interest for the loan borrowed in foreign currency by an Indian company or business trust against the issue of long-term bonds listed in IFSC	Not Applicable		5%
27	194LD- Payment of interest on bond (rupee-denominated) to FII or a QFI	Not Applicable		5%
28	194LBA(1)- Certain income distributed by a business trust to its unitholder	Not Applicable		10%

Sr. No	Section	Current threshold	Proposed threshold	Rate
29	194M- Certain payments by Individual/HUF not liable to deduct TDS under Section 194C, 194H, and 194J	Rs. 50,00,000/-.		5% (before 1st October 2024) and 2% (from 1st October 2024)
30	194N- Cash withdrawal from a banking company, co-operative society engaged in the business of banking or a post office:	when filed ITR Rs. 100,00,000/- and Rs. 20,00,000/-.		2%
	Filed ITR during the last three years and cash withdrawal exceeds Rs 3 crore			2%
	In case person has not filed ITR for the last three years			2%
	- total cash withdrawn is more than ₹20 lacs and up to ₹3 Crore in a FY			5%
	- total cash withdrawn is more than ₹3 Crore is a financial year			
31	194O- Payment for the sale of goods or provision of services by the e-commerce operator through its digital or electronic facility or platform.	Rs. 5,00,000/-		1% (before 1st October 2024) and 0.1% (from 1st October 2024)
32	194P- Payment of pension or interest to specified senior citizens of age 75 years or more	Not Applicable		Normal tax slab rates

Sr. No	Section	Current threshold	Proposed threshold	Rate
33	194Q- Payments for the purchase of goods	Rs. 50,00,000/-		0.10%
34	194R- Perquisite or benefit to a business or profession	Rs. 20,000/-		10%
35	194S- TDS on the transfer of virtual digital assets	Not Applicable		1%
36	195- Income on investments made by NRI citizen	Not Applicable		20%
37	195- Income by way of LTCG referred to in section 115E in the case of NRI	Not Applicable		10%
38	195- Income by way of LTCG under section 112(1)(c)(iii)	Not Applicable		10%
39	195- Income by way of LTCG under section 112A	Not Applicable		10%
40	195- Income by way of STCG under section 111A	Not Applicable		15%
41	195- Any other income by way of LTCG	Not Applicable		20%
42	195- Interest payable on money borrowed by the government or Indian concern in foreign currency	Not Applicable		20%
43	195- Income from royalty payable by the Indian concern or the government, for the copyright in a subject referred in the first proviso of section 115A or computer software referred to in the second proviso of section 115A	Not Applicable		10%

Sr. No	Section	Current threshold	Proposed threshold	Rate
44	195- Income from royalty payable by government or Indian concern in pursuance of an agreement on matters included in the industrial policy	Not Applicable		10%
45	195- Income from royalty payable by government or Indian concern in pursuance of an agreement on matters included in the industrial policy	Not Applicable		50%
	If the agreement for such royalty payment is entered in between 31st March 1961 and 1st April 1976			
46	195- Income from royalty payable by government or Indian concern in pursuance of an agreement on matters included in the industrial policy	Not Applicable		10%
	If the agreement for such royalty payment is entered after 31st March 1976			
47	195- Income from technical fees payable by government or Indian concern in pursuance of an agreement on matters related to industrial policy			10%
48	195- Income from technical fees payable by government or Indian concern in pursuance of an agreement on matters related to industrial policy	Not Applicable		50%
	If the agreement for such payment is entered in between 29th February 1964 and 1st April 1976			

Sr. No	Section	Current threshold	Proposed threshold	Rate
49	195- Income from technical fees payable by government or Indian concern in pursuance of an agreement on matters related to industrial policy	Not Applicable		10%
	If the agreement for such payment is entered after 31st March 1976			
50	195- Any other income	Not Applicable		30%
51	195- Any other income	Not Applicable		40%
52	206AB- Payment to non-filers, i.e. those who have not filed their income tax return in the last year			2 times the rate given in the Income Tax Act or Finance Act or 5%, whichever is higher

B Table Showing rates and threshold limits applicable for collection of Tax at source with effect from 1.4.2025.

Sr. No.	Nature of Payment	Current Threshold	Proposed Threshold	Existing TCS Rate (%)	Proposed
1	206C Scarp	Not Applicable		1%	
2	206C Tendu Leaves	Not Applicable		5%	
3	206C Timber obtained under a forest lease or other mode	Not Applicable		2.5%	
4	206C Any other forest produce not being a timber or tendu leaves	Not Applicable		2.5%	
5	206C Alcoholic Liquor for human consumption & Tendu leaves	Not Applicable		1%	
6	206C Minerals	Not Applicable		1%	
7	206C Parking Lot	Not Applicable		2%	
8	206C Toll Plaza	Not Applicable		2%	
9	206C Mining and Quarring	Not Applicable		2%	

Sr. No.	Nature of Payment	Current Threshold	Proposed Threshold	Existing TCS Rate (%)	Proposed
10	206C Sale of Motor Vehicle	Sale Value exceeding Rs. 10,00,000/-.		1%	
11	206C Bullion & Jewellery	Sale Value exceeding Rs. 2,00,000/-.		1%	
12	206C Sale in cash of any goods (other than bullion)	Sale Value exceeding Rs. 2,00,000/-.		1%	
13	206C Providing of any service (other than Ch-XVII-B)	Value exceeding Rs. 2,00,000/-		1%	
14	206C LRS – other purposes – Liberalized Remittance Scheme	Not Applicable		5% (10% for non-PAN or Aadhar)	
15	206C Tour Program Package	Not Applicable		5% (10% for non-PAN or Aadhar)	
16	206CR Sale of Goods	0.1% above Rs. 50,00,000/-	Nil	0.1% (1% for non-PAN or Aadhar)	
17	206C Timber obtained under any other mode other than forest lease	Not Applicable		2.50%	2%
18	206C LRS – Educational Loan – Financial Institution	Rs. 7,00,000/-.	Rs. 10,00,000/-.	0.50%	

C Major amendments related to provisions of TDS/TCS proposed in the budget.

(i) Removal of higher TDS/TCS for non-filers of return of income

- The provisions of section 206AB/206CCA of Income-tax Act (the 'Act') provides TDS/TCS at higher rates, in cases where the deductee/collectee (specified person) has failed to file their income of tax returns within applicable due dates.

- The definition of specified person included those who had not furnished their income-tax returns in India for 2 years, which was later rationalized to 1 year.

- Keeping in view the difficulties faced by the stakeholders and reduce the compliance burden, with effect from 01-April-2025, **it is proposed to omit section 206AB/206CCA of the Act.**

- However, the requirement to obtain / furnish PAN as per the provisions of section 206AA of the Act shall still apply. Further, where PAN is inoperative as per Section 139AA of the Act due to non-linkage of Aadhar, the higher rate as per Section 206AA of the Act shall still be applicable.

Table Covering set of scenarios wherein higher rate of deduction shall apply:

Scenario	PAN furnished (as per Section 206AA)	Return of Income Tax Filed	PAN is operative (as Section 139AA)	Higher Rate of Deduction (as per Section 206AA)
1	Yes	Yes	Yes	No
2	Yes	No	Yes	No
3	Yes	Yes	No	Yes
4	Yes	NA	No	Yes
5	No	No	NA	Yes

Other Provisions Rationalised:

(ii) Exemption from prosecution for delayed payment of TCS

- The Budget 2024 amended the provisions governing TDS, effectively decriminalizing delays in payments of TDS (with the government's treasury) up to the due date for filing the TDS return for the respective quarter. However, to much surprise no such relief was extended to TCS defaults.

- Addressing this gap, Budget 2025 proposes to introduce an enabling proviso stipulating that no prosecution shall be initiated against a taxpayer if the TCS is deposited with the government's treasury on or before the prescribed filing deadline for TCS returns for the respective quarter. This amendment has been proposed to be effective from 01-April-2025.

- However, a key issue that may arise, is the status of ongoing prosecution inquiries (for cases having defaults not exceeding the respective quarter) for the period prior to 01-April-2025. It remains to be seen whether the tax authorities will continue proceedings based on the old provisions or adopt a lenient approach by aligning with the legislative intent of decriminalization. Any attempt to pursue prosecution under the previous framework would contradict the Government's clear objective of streamlining tax compliance and reducing litigation.

(iii) In a major change, the threshold for TDS on rental income has been increased. Previously, TDS applied to individuals earning rental income of Rs 2.4 lakh or more annually. With the recent change, this limit has been raised to Rs 50,000 per month, meaning that individuals earning up to Rs 50,000 per month from rental income will no longer have TDS deducted. This update will reduce the number of people and transactions subject to TDS, making it easier for smaller taxpayers to handle their tax responsibilities easier for smaller taxpayers to manage their tax obligations.

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