

RATIONALIZATION OF TDS PROVISIONS

BUDGET BUZZ

Budget Proposal

- The Finance (No. 2) Bill, 2024 has proposed rationalization of TDS rates from 5% to 2% in certain withholding tax provisions w.e.f October 1, 2024 viz.,
- Section 194DA - Payment in respect of life insurance policy
- Section 194G - Commission etc. on sale of lottery tickets
- Section 194H - Payment of commission or brokerage
- Section 194-IB - Payment of rent by individual or HUF
- Section 194M - Payment of certain sums by certain individuals or Hindu undivided family
- Section 194D - Payment of insurance commission (in case of person other than company) – *Effective from 01st April 2025*
- Section 194F which levied withholding tax @20% on payments on account of repurchase of units by Mutual Fund or Unit Trust of India is proposed to be omitted.
- Section 194O - Payment of certain sums by e-commerce operator to e-commerce participant reduced from 1% to 0.1%.

Impact

There are various provisions of Tax Deduction at Source (**TDS**) with different thresholds and multiple rates between 0.1%, 1%, 2%, 5%, 10%, 20%, 30% and above. To improve ease of doing business and better compliance by taxpayers, the TDS rates are proposed to be reduced.

However, no change is envisaged with respect to sections such as TDS on salary, TDS on virtual digital assets, TDS on winnings from lottery etc./ race horses, payment on transfer of immovable property and TDS rates on contracts etc.

ELP's Insights

The proposal to rationalize TDS rates is a welcome move and is in keeping with the government's focus on ease of doing business.

The rationalization of rates simplifies the complex and diversified TDS rates to some extent.

Pertinently, the rationalization provides a boost to online trading and transactions by substantially reducing the withholding tax rate from 1% to 0.1%.

This brings parity with offline transactions where the applicable TDS provisions were levied at 0.1% on purchase or sale of goods.

