

UNIVERSITY OF DELHI

BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 1 · PART B

TAX DEDUCTION AND COLLECTION AT SOURCE

The Tax that is Collected by the Payer Before the Money Reaches the Payee

Provisions • Documentation • Deposit • Returns • Certificates • Default

Sections 390 to 402 and 424, 425, with the fee in section 427

read with Rules 203 to 221 and Forms 121 to 145 and 149 to 150

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

T A X Y E A R 2 0 2 6 - 2 7

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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The Prescribed Syllabus for this Part

UNIT 1: ADVANCE PAYMENT OF TAX AND COLLECTION AND RECOVERY OF TAX (18 HOURS)

“Advance payment of Tax; Tax deduction/ collection at source: Provisions, documentation, returns and

Certificates; Interest payable by assessee/ Government; Collection and recovery of Tax.”

Discipline Specific Elective Course 5.8 for B.Com (Hons.) and 5.7 for B.Com (Prog.), Department of Commerce, University of Delhi, under the Undergraduate Curriculum Framework 2022, as notified by CNC-II/093/1(28)/ 2023-24/282 dated 13.11.2023 and revised on 02.01.2025. The syllabus of DSE 5.8 and DSE 5.7 is identical for this Unit.

THE AUTHORITY FOR THIS SYLLABUS

Resolution No. 4-1-15 — “Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted.” — **Appendix-103**

Placed before the **Executive Council of the University of Delhi, EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the **Academic Year 2026-27**.

The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in this material is in the numbering of the new Act. The corresponding provisions of the Income-tax Act, 1961 have no application to Tax Year 2026-27.

The Guidelines of 5 October 2026

GUIDELINES FOR THE PAPER — DEPARTMENT-COLLEGE INTERFACE

The guidelines for this paper were settled at an online meeting held on **5 October 2026 (Monday)** under the Department-College Interface, jointly organised by the **Department of Commerce, Faculty of Commerce and Business, Delhi School of Economics, University of Delhi** and the **Department of Commerce, Shri Ram College of Commerce** — Convenor **Prof. Naveen Mittal (SRCC)**; Department Representative **Dr. Supreet Kaur**. They fix the provisions that are to be covered under each unit, so that the paper is taught uniformly in every college.

Under **Unit 1: Advance Payment of Tax and Collection and Recovery of Tax (18 hours)** the following provisions are to be covered. The third column shows where each is studied in this series.

Provision	Section	Where studied
Advance payment of tax — Chapter XIX-C	403 to 410	Unit 1 · Part A
Deduction or collection at source and advance payment	390	Unit 1 · Parts A and B
Direct payment	391	Unit 1 · Part B, Ch. 1 this booklet
Tax deduction at source on salary	392	Unit 1 · Part B, Ch. 2 this booklet
Payments to residents — Table Sl. Nos. 1, 2, 3, 5, 6, 7 and 8(ii), (v), (vi)	393(1)	Unit 1 · Part B, Ch. 3 this booklet
Payments to non-residents — Table Sl. No. 1 (non-resident sportsman)	393(2)	Unit 1 · Part B, Ch. 4 this booklet
Payments to any person — Table Sl. Nos. 1, 2, 3, 4, 5 and 7	393(3)	Unit 1 · Part B, Ch. 4 this booklet
No deduction at source — Table Sl. Nos. 1, 2, 3, 6, 7, 8, 9, 10, 11, 12 and 18	393(4)	Unit 1 · Part B, Ch. 5 this booklet
Declaration for no deduction at source, and Form No. 121	393(6)	Unit 1 · Part B, Ch. 5 this booklet
Collection of tax at source	394	Unit 1 · Part B, Ch. 6 this booklet
Certificates, and Forms No. 128, 130, 131 and 133	395	Unit 1 · Part B, Ch. 7 this booklet
Documentation and returns — compliance and reporting	397	Unit 1 · Part B, Ch. 8 this booklet
Interpretation	402	Unit 1 · Part B, throughout this booklet

Provision	Section	Where studied
Interest for default in furnishing return of income	423	Unit 1 · Part C
Interest for default in payment of advance tax	424	Unit 1 · Part B, Ch. 10 <i>this booklet</i>
Interest for deferment of advance tax	425	Unit 1 · Part B, Ch. 10 <i>this booklet</i>
Interest on excess refund	426	Unit 1 · Part C
Interest on refunds	437	Unit 1 · Part C
When tax payable and when assessee deemed in default	411	Unit 1 · Part C
Certificate by Tax Recovery Officer and its validity	413	Unit 1 · Part C
Tax Recovery Officer by whom recovery is to be effected	414	Unit 1 · Part C
Stay of proceedings, and amendment or cancellation of the certificate	415	Unit 1 · Part C
Other modes of recovery	416	Unit 1 · Part C
Recovery through State Government	417	Unit 1 · Part C

Relevant points noted at the meeting. (1) The Income-tax Act, 2025 has been made applicable in India with effect from 1 April 2026. (2) The applicable tax year during an academic session is the current tax year — for this session, **Tax Year 2026-27** (1 April 2026 to 31 March 2027).

Unit 1 is the largest unit in the paper — eighteen of the forty-five lecture hours. It contains four distinct bodies of law that are usually taught, and examined, as separate topics. This series therefore divides Unit 1 into three booklets:

Booklet	Content	Sections of the Income-tax Act, 2025
Unit 1 · Part A	Advance payment of tax — liability, computation, instalments, default and credit	403 to 410
Unit 1 · Part B <i>this booklet</i>	Tax deduction at source and tax collection at source — provisions, documentation, returns and certificates	390 to 402; 424, 425 and 427
Unit 1 · Part C	Interest payable by the assessee and by the Government; collection and recovery of tax	411 to 422; 423, 426, 428 to 430

A Word on the Numbering

The Income-tax Act, 1961 was repealed with effect from 1 April 2026 and replaced by the Income-tax Act, 2025 (Act No. 30 of 2025). Nowhere is the change of numbering more disorienting than here. The familiar family of sections — 192, 193, 194, 194A, 194C, 194H, 194-I, 194J, 194Q, 195, 197, 201, 203, 206AA, 206C — has gone. In its place stand **eleven sections and three tables**. “Section 194C” and “section 194J” are references to a repealed statute; the provision now is “section 393(1) (Table: Sl. No. 6)”. The reckoner in Chapter 12 sets the old numbers against the new ones. It is worth learning early rather than late.

THE FIVE EXPRESSIONS THAT MUST NOT BE CONFUSED

- **Deduction at source** — the payer withholds a part of what he owes the payee and pays it to the Government on the payee's behalf. It is governed by sections 392 and 393.
- **Collection at source** — the seller or licensor *adds* a sum to what the buyer or licensee owes him, collects it, and pays it to the Government on the buyer's behalf. It is governed by section 394. Deduction reduces a receipt; collection increases a payment.
- **Rates in force** — where a Table in section 393 says “rates in force”, the rate is not in the Act at all; it is in Part II of the First Schedule to the Finance Act, 2026 [section 3(7) of that Act].

- **Threshold limit** — the figure in column D up to which no deduction is made. Once the figure is crossed, tax is deducted on the *entire* amount and not merely on the excess [section 393(1)(a)].
- **Assessee in default** — the status a payer acquires under section 398(1) when he fails to deduct, or having deducted fails to pay. It is the doorway to interest, penalty, prosecution and a charge on his assets.

How to Use this Booklet

Each chapter opens with the sections it covers. Statutory language is quoted where the words themselves carry the marks; everything else is put in the plainest English the subject allows. There are worked Illustrations inside the chapters and a set of full-length Practical Problems with solutions in Chapter 11. Every provision carries a block setting out, in one place, who deducts, from whom, at what rate, at what moment, above what figure, when the obligation does not arise, what relief the payee has and which rule and form govern it. Chapter 12 contains a ready reckoner of the old and new numbers, a table of every form, an objective-question bank and the short and long questions that this topic has attracted over the years. Every rate used is the rate in force for **Tax Year 2026-27** under the Act **as amended by the Finance Act, 2026**; the six rates of collection at source that were changed with effect from 1 April 2026 are shown alongside the old ones, so that the change may be seen.

The sources from which this material has been written

Source	What it settles in this Part
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections 390 to 402 , and 424, 425 and 427 — the whole of deduction and collection at source, with the interest on advance tax and the fee for a late statement
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	The rates in force in Part II of the First Schedule, and the recast of the collection rates in section 394(1)
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	Rules 203 to 221 , and Forms No. 121 to 145 and 149 to 150 — declarations, certificates, challans, statements and the information on a payment to a non-resident
Memorandum explaining the provisions of the Finance Bill, 2026	The reason for, and effect of, the rationalisation of the collection rates and the removal of the threshold on an overseas tour programme package

ABOUT THIS BOOKLET

This booklet has been prepared by **Artificial Intelligence — Claude Opus 5.0 (Anthropic)** — under the guidance and supervision of **Advocate Dr. S. B. Rathore** from the bare text of the **Income-tax Act, 2025** and the **Income-tax Rules, 2026** as downloaded from incometaxindia.gov.in.

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SUGGESTIONS AND CORRECTIONS ARE WELCOME

Teachers of other colleges who teach this paper, and students, are invited to send their comments, suggestions and corrections. They will be considered for the next update of this booklet.

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The Scheme of Collection at Source

Sections 390, 391, 393(10) and (11), 396 and 401 · Rule 203 Why the State does not wait for the assessment, and how the money that a payer withholds becomes the payee's tax.

1.1 The four channels [section 390]

Section 390(1) opens Chapter XIX of the Act and states that the tax on income shall be payable —

- (a) by **deduction or collection at source**; or
- (b) by **advance payment**; or
- (c) by **payment under section 392(2)(a)** — the tax that an employer chooses to pay out of his own pocket on a non-monetary perquisite given to his employee.

Four propositions follow, and each of them is examinable:

Provision	What it lays down
390(2)	The tax is payable under this Chapter even though the assessment of that income will be made in a later tax year . Collection precedes assessment; it does not depend on it.
390(3)	Nothing in section 390 affects the charge of tax under section 4(1) . Deduction at source is a machinery provision, not a charging provision. If income is not chargeable, no deduction can create a charge.
390(4)	Payment under this Chapter is in addition to any other mode of recovery. The Department does not surrender its other remedies by having taken tax at source.
390(5)	The sum deducted, collected or paid to the Central Government is treated as payment of tax on behalf of the person from whose income it was deducted, from whom it was collected, or in respect of whose income it was paid.
390(6)	The Board may make rules for giving credit of the tax — and for the tax year for which the credit is to be given. Those rules are in Rule 203.

1.2 Deduction at source distinguished from advance tax

Both are payments before assessment, but they differ in almost every other respect. The distinction is a favourite short-answer question.

Point of distinction	Deduction / collection at source	Advance tax
Who pays	The payer, out of a sum owed to the payee; or the buyer, on a sum added by the seller	The assessee himself, out of his own funds
Sections	390 to 402	403 to 410
Basis	The transaction — a particular payment or receipt	The estimated total income of the whole year
Threshold	A separate threshold for each entry in the Tables	A single threshold of ₹10,000 [section 404]
When	At credit or payment, whichever is earlier (with stated exceptions)	On four fixed dates — 15 June, 15 September, 15 December, 15 March
Consequence of failure	The payer becomes an assessee in default [section 398]; interest at 1% and 1.5%; fee; penalty; prosecution	Interest under sections 424 and 425 on the assessee himself
Effect on the other	Reduces the advance tax payable [section 405(1)]	Has no effect on the obligation to deduct

1.3 Direct payment by the assessee [section 391]

Section 391(1) provides that income-tax on any income shall be payable **directly by the assessee** where —

- (a) there is no provision in Chapter XIX to deduct tax on such income at the time of payment; or
- (b) income-tax **has not been deducted** as required by the Chapter.

Sub-section (2) deals with the employee of an eligible start-up under section 140 who receives specified security or sweat equity shares: the direct payment of tax is to be made in accordance with section 289(3).

Sub-section (3) is the sting. Where any person, *including the principal officer of a company*, who is required to deduct tax, or who is the employer referred to in section 392(2)(a), does not deduct, or having deducted fails to pay, and **the assessee has also failed to pay the tax directly**, that person shall — apart from any other consequence — be **deemed to be an assessee in default within the meaning of section 398(1)** in respect of such tax.

READ SECTIONS 391(3), 398 AND 401 TOGETHER

Section 401 forbids a direct demand on the payee to the extent tax has been deducted from his income. Section 391(1) permits a direct demand where no deduction was made. Section 391(3) allows the Department to proceed against the *payer* where neither the payer deducted nor the payee paid. The Department therefore has one recovery, not two: it may look to the payee where nothing was deducted, and it must look to the payer where a deduction was in fact made.

1.4 Tax deducted is income received [section 396]

Section 396 declares that the following shall be **deemed to be income received** for the purpose of computing the income of an assessee —

- (a) sums deducted under Chapter XIX; and
- (b) income-tax paid outside India by way of deduction, in respect of which the assessee is allowed a credit against the tax payable under this Act,

except (i) tax paid by the employer under section 392(2)(a) on a non-monetary perquisite, and (ii) tax deducted under section 393(3) (Table: Sl. No. 5) on a cash withdrawal from a bank.

The rule is one of arithmetic honesty. A professional who bills ₹1,00,000 and receives ₹90,000 after a deduction of ₹10,000 must show **₹1,00,000** as his receipt and then claim credit for ₹10,000; he cannot show ₹90,000 and also claim the credit. The two exceptions are logical: the perquisite tax under section 392(2)(a) is exempt in the employee's hands under Schedule III, and the deduction on a cash withdrawal is not a deduction out of any income at all — it is a deduction out of the assessee's own money.

1.5 Grossing up where the payer bears the tax [section 393(10)]

Where, under an agreement or arrangement, the tax chargeable on the payee's income is **to be borne by the payer**, then for the purpose of deduction the income shall be **increased to an amount which, after deduction of tax, becomes equal to the net amount payable** under that agreement. The case of section 392(2)(a) is expressly kept out.

The formula follows at once:

$$\text{Grossed-up amount} = \text{Net amount payable} \times 100 \div (100 - \text{rate of TDS})$$

1.6 Credit to a suspense account [section 393(11)]

The credit of any income or sum to any account, whether called a “suspense account” or by any other name, in the books of the person liable to pay it, is deemed to be a credit to the account of the payee, and the Chapter applies accordingly. A payer therefore gains nothing by parking the amount in “Sundry Payables”, “Provision for Expenses” or “Outstanding Liabilities”. The one recognised exception in practice is a *year-end provision where the payee is not identifiable*; but the safer course, and the one the Department accepts, is to deduct.

1.7 Bar against direct demand [section 401]

“Where tax is deductible at the source under this Chapter, the assessee shall not be called upon to pay the tax himself **to the extent to which tax has been deducted** from that income.”

Two words decide the cases. *Deductible* is not enough; the section protects the payee only to the extent tax **has been deducted**. If the payer deducted but never deposited, the payee is still protected — the default is the payer's and section 398 answers it. If the payer never deducted at all, section 401 gives the payee no shelter and section 391(1)

(b) makes him pay directly.

1.8 Credit for the tax deducted or collected [Rule 203]

Rule 203, made under section 390(6), governs who gets the credit and in which year.

Sub-rule	Rule
203(1)	Credit is given on the basis of the information furnished by the deductor or collector — to the deductee (the person paid or credited) and to the collectee (the person from whom collected or whose account was debited).
203(2) and (3)	Where the deductee files a declaration that the income is assessable in the hands of another person, the deductor must report the deduction in that other person's name and the credit goes to him. The declaration must carry the name, address and PAN of the other person, the details of the payment and the reasons; the deductor keeps it in his custody.
203(4)	The certificate is issued in the name of the person in whose name the credit is shown.
203(5)	Credit is given for the tax year for which the income is assessable — not for the year of deduction and not for the year of payment.
203(6)	Where the income is assessable over a number of years, the credit is spread in the same proportion in which the income is assessable. The same rule applies to tax collected where a lease or licence relates to more than one year.
203(7)	For a cash withdrawal [section 393(3) Sl. No. 5] and for TCS on a motor vehicle, an LRS remittance and an overseas tour package [section 394(1) Sl. Nos. 6, 7 and 8], credit goes to the person from whose account the tax was deducted or collected, for the tax year of the deduction or collection.
203(8)	Credit is granted on the basis of that information <i>and</i> the claim in the return, subject to verification under the Board's risk-management strategy.

1.9 Illustrations

ILLUSTRATION 1.1 — THE DEDUCTION THAT WAS NEVER DEPOSITED

Mohan, a resident architect, raised a bill of ₹5,00,000 on Deepak Ltd. in December 2026. The company deducted ₹50,000 and paid him ₹4,50,000, but it never deposited the ₹50,000 with the Government. Mohan's Form No. 168 therefore shows no credit. *Can the Assessing Officer recover ₹50,000 from Mohan?*

No. Section 401 bars a direct demand on the assessee to the extent tax *has been deducted* from his income. Tax was deducted. The failure that followed was the company's, and section 398(1) makes the company an assessee in default, liable to the tax, to interest at 1.5% per month under section 398(3)(a)(ii) from the date of deduction to the date of payment, and to prosecution under section 476. Mohan must, however, show ₹5,00,000 as his receipt under section 396 and claim the credit of ₹50,000.

Change one fact — suppose the company had never deducted at all. Section 401 would then give Mohan no protection; section 391(1)(b) would require him to pay the tax directly, and the company would still be an assessee in default under section 398(1) unless it could bring itself within section 398(2).

ILLUSTRATION 1.2 — GROSSING UP UNDER SECTION 393(10)

Nirmala Ltd. engages a resident to render technical services which are **not professional services** within section 402(28), and agrees to pay him **₹90,000 net of tax**, the company bearing the tax. The rate of deduction on fees for technical services under section 393(1) (Table: Sl. No. 6(iii)(a)) is **2%**. *What must the company deduct and what does it debit to its profit and loss account?*

Grossed-up amount = ₹90,000 × 100 ÷ (100 – 2)	₹91,836.73
Rounded off under section 516	₹91,840
Tax to be deducted at 2%	₹1,836.80, say ₹1,840
Paid to the consultant	₹90,000
Debited to the profit and loss account	₹91,840

The recipient shows ₹91,840 as his receipt under section 396 and claims credit for ₹1,840. Had the service been a professional service — technical consultancy is itself a professional service under section 402(28) — the rate would have been 10% under Sl. No. 6(iii)(b) and the grossed-up figure ₹1,00,000.

ILLUSTRATION 1.3 — THE SUSPENSE ACCOUNT

On 31 March 2027 Sudha Enterprises passes a year-end entry debiting “Professional Charges” and crediting “Provision for Expenses” with ₹4,00,000 in respect of audit fees for the year, the bill not yet having been received. *Is the firm required to deduct tax?*

Yes. Section 393(11) deems a credit to any account, however named, to be a credit to the account of the payee. The credit was made on 31 March 2027; the tax is deductible on that date at 10% under section 393(1) (Table: Sl. No. 6(iii)(b)) and must be paid to the credit of the Central Government **on or before 30 April 2027** under Rule 218(2)(a). If it is not, 30% of ₹4,00,000 is disallowed under section 35(b)(i).

Deduction from Salaries

Section 392 · Rules 204 to 207 · Forms No. 122, 123, 124, 130 and 138

The only deduction in the Act that is made at the assessee's own average rate, on an estimate, and adjusted month by month.

2.1 The charge [section 392(1)]

The provision at a glance — read the block, then the discussion that follows unpacks it.

Section 392(1) to (6) — Salary	
Nature of the income or sum	Salary chargeable under the head Salaries
Payer and payee	Employer , being the person responsible for paying the salary to Employee
Rate	The average rate of income-tax, worked out on the estimated salary income for the whole tax year at the rates in force
Time of deduction	At the time of actual payment of the salary — never on credit
Threshold	No fixed figure. Deduct once the estimated salary for the year exceeds the maximum amount not chargeable to tax
No deduction where	The estimated salary does not exceed the exemption limit. The employer may also choose to pay the tax on a non-monetary perquisite out of his own pocket instead of deducting it [section 392(2)(a)]
Relief	The employee furnishes particulars of his other income, house-property loss, relief under section 157 and other tax deducted, so that the employer may adjust the deduction [section 392(4)]
Rule and Form	Rule 204, Form No. 122 (other income); Rule 205, Form No. 123 (evidence of claims); Rules 206 and 207 (foreign currency). Quarterly statement in Form No. 138 ; certificate in Form No. 130 by 15 June of the following year

“Any person responsible for paying any income chargeable under the head ‘Salaries’ shall deduct income-tax on the amount payable and this deduction shall be made **at the time of such payment** at the **average rate of income-tax** computed on the basis of the **rates in force for the tax year in which the payment is made**, on the **estimated income** of the assessee under this head for such year.”

Five features distinguish section 392 from every other deduction provision in the Chapter:

Feature	Section 392	Every other provision
Who is the payee	An employee . There must be a relationship of employer and employee	A contractor, professional, landlord, depositor and so on
Rate	The average rate on the estimated salary income — that is, the assessee's own slab rate	A flat percentage, or the rates in force
Time	At the time of payment only	At credit or payment, whichever is earlier
Threshold	None stated. Deduction is required whenever there is a tax liability on the estimated salary — in practice, when the estimated income exceeds the maximum amount not chargeable to tax	A stated threshold limit in column D
Surcharge and cess	Both apply , because the average rate is worked out on the full computation	Neither applies where the payee is a resident

“Rates in force for the tax year” means, for Tax Year 2026-27, the rates in **section 202(1)** of the Act — the default regime — unless the employee has intimated that he opts out under section 202(4), in which case the rates in Part I-B of the First Schedule to the Finance Act, 2026 apply.

Total income	Rate of tax [section 202(1)]
Up to ₹4,00,000	Nil
From ₹4,00,001 to ₹8,00,000	5%
From ₹8,00,001 to ₹12,00,000	10%
From ₹12,00,001 to ₹16,00,000	15%
From ₹16,00,001 to ₹20,00,000	20%
From ₹20,00,001 to ₹24,00,000	25%
Above ₹24,00,000	30%

To this is added the rebate under section 156(2) for a resident individual whose total income does not exceed ₹12,00,000 (100% of the tax or ₹60,000, whichever is less, with marginal relief built into section 156(2)(b)); the surcharge under section 3(4)(b) of the Finance Act, 2026 (nil up to ₹50,00,000, then 10%, 15% and 25%, with no rate of 37% under the default regime); and the health and education cess at 4%.

2.2 The average rate — how it is worked out

The average rate of income-tax is the tax on the estimated income, divided by that income, expressed as a percentage. In practice the employer does not compute a percentage at all; he computes the tax for the year and divides it by the number of months remaining. The five steps are:

1. **Estimate the salary** for the whole tax year — basic pay, dearness allowance, bonus, commission, allowances and perquisites — and deduct the exemptions and the deductions allowable under the head.
2. **Add the other income** that the employee has reported in Form No. 122, and set off a loss under the head “Income from house property” if he has reported one.
3. **Allow the deductions** under Chapter VIII for which he has furnished evidence in Form No. 124.
4. **Compute the tax** at the rates in force, deduct the rebate under section 156, add surcharge and the cess, and allow the relief under section 157 where he is entitled to it.
5. **Divide** by the number of months of employment remaining in the year, and deduct that sum from each month's salary; adjust in later months under section 392(5)(c) for any excess or deficiency.

2.3 Tax on a non-monetary perquisite borne by the employer [section 392(2)]

Section 392(2)(a) allows the person responsible for paying income in the nature of a **non-monetary perquisite** chargeable under section 17(1) to pay, **at his option**, the tax on the whole or part of such income **without making any deduction from it**, at the time when the tax was deductible under sub-section (1).

Clause (b) provides that such tax is determined at the average rate on the salary income *including* that perquisite, and is to be construed as if it were tax deductible at source from salary, and is subject to the whole of the Chapter.

THREE CONSEQUENCES WORTH REMEMBERING

- The tax so paid is **exempt in the employee's hands** — Schedule III (Table: Sl. No. 10) — and section 396 expressly excludes it from the deemed receipt.
- It is **not allowed as a deduction to the employer** — section 35(a)(ii).
- The employer must nevertheless issue a **certificate** to the employee under section 395(4)(b) stating the amount of tax paid and the rate.

2.4 Sweat equity and the start-up deferral [section 392(3)]

An **eligible start-up** referred to in section 140 which pays income of the nature specified in section 17(1)(d) — specified security or sweat equity shares allotted free of cost or at a concessional rate — deducts or pays the tax on the basis of the rates in force for the tax year **in which the security or share is allotted or transferred**, but within the time specified for the payee in **section 289(3)**. The effect is a deferral: the perquisite is taxed at the rates of the year of allotment, while the payment of the tax is postponed to the time laid down in section 289(3).

The three dates in section 289(3) are — fourteen days after (a) the expiry of **sixty months** from the end of the relevant tax year;

(b) the date of sale of the specified security or sweat equity share; or (c) the date on which the assessee ceases to be the employee of the employer who allotted it — **whichever is the earliest**.

2.5 Other income and other losses [section 392(4), Rule 204]

The employee may, **at his option**, furnish particulars in **Form No. 122** (Rule 204) and the employer must take them into account. The particulars are —

- salary due or received from any other employer during the tax year;
- relief under section 157, where the employee is a Government servant or an employee of a company, co-operative society, local authority, university, institution, association or body;
- a loss under the head “**Income from house property**” for the same tax year;
- income under any other head, **not being a loss** under such head; and
- tax deducted or collected at source under the Chapter for the same tax year.

THE RULE THAT IS ASKED EVERY YEAR

Under section 392(4)(b), the tax deductible from salary **shall not be reduced in any case** except on account of — (i) a loss under the head “Income from house property”, and (ii) tax deducted and collected under other provisions of the Chapter. So an employee may ask his employer to *increase* the deduction for his bank interest, but he may not ask him to *reduce* it for a business loss or a capital loss. Only the house-property loss travels.

2.6 Statements, evidence and adjustment [section 392(5), Rule 205]

Clause	Obligation	Form
392(5) (a)	Furnish a statement with correct and complete particulars of perquisites or profits in lieu of salary and their value	The relevant columns of Form No. 130 where the salary is not more than ₹1,50,000; otherwise Form No. 123 [Rule 204(2)]
392(5) (b)	Obtain from the employee the evidence or proof or particulars of the prescribed claims, including a claim for set-off of loss	Form No. 124 [Rule 205]
392(5) (c)	May increase or reduce the amount deducted, to adjust any excess or deficiency arising out of a previous deduction or a failure to deduct during the tax year	—

Rule 205(2) sets out what evidence is required for which claim:

Nature of claim	Evidence or particulars
House rent allowance	Name, address and PAN of the landlord or landlords where the aggregate rent paid during the tax year exceeds ₹1,00,000 , and the relationship with the landlord, if any
Leave travel concession or assistance	Evidence of expenditure
Interest under the head “Income from house property”	Name, address and PAN of the lender

Nature of claim	Evidence or particulars
Deduction under Chapter VIII	Evidence of investment or expenditure

2.7 Provident and superannuation funds [section 392(6) and (7)]

The provision at a glance — read the block, then the discussion that follows unpacks it.

Section 392(7) — Recognised provident fund	
Nature of the income or sum	The accumulated balance due to an employee from a recognised provident fund
Payer and payee	Trustees of the fund, or the authorised person <i>to Employee</i>
Rate	10%
Time of deduction	At the time of payment of the accumulated balance
Threshold	₹50,000 in the aggregate
No deduction where	The aggregate does not exceed ₹50,000, or the balance is not includible in total income under Schedule XI, Part A, Para 8
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]
Rule and Form	Rule 211, Form No. 121 . Quarterly statement in Form No. 140 ; certificate in Form No. 131

- **392(6)(a)** — The trustees of a **recognised provident fund**, or a person authorised by its regulations, deduct at the time of payment of the accumulated balance in the cases to which paragraph 9 of Part A of Schedule XI applies, the deduction being that provided in paragraph 10 of that Part.
- **392(6)(b)** — Where an employer's contribution to an **approved superannuation fund**, with interest, is paid to the employee, the trustees deduct to the extent provided in paragraph 7 of Part B of Schedule XI.
- **392(7)** — The trustees of the **Employees' Provident Funds Scheme, 1952**, or a person authorised under it, deduct at **10%** at the time of payment of the accumulated balance where the aggregate payment is **₹50,000 or more** and the balance is includible in the employee's total income because paragraph 8 of Part A of Schedule XI does not apply — that is, on a withdrawal before five years of continuous service.

A deduction under section 392(7) is reported not in the salary statement but in Form No. 140 [Rule 219(1), Sl. No. 3], and the certificate is Form No. 131.

2.8 Salary in foreign currency [section 392(8), Rules 206 and 207]

Section 392(8) requires the rupee value of salary payable in a foreign currency to be calculated at the prescribed rate of exchange. Rule 207 prescribes the **telegraphic transfer buying rate** of the State Bank of India **as on the date on which the tax is required to be deducted**; where no such rate is published on that date, the last published rate is taken. Rule 206 gives the corresponding rule for converting income expressed in foreign currency for the purpose of computing the income itself.

2.9 Illustrations

ILLUSTRATION 2.1 — COMPUTING THE MONTHLY DEDUCTION FROM SALARY

Shri Anil Bhatia, aged 44 and resident, is employed with Vishwas Ltd. from 1 April 2026 at a basic salary of ₹80,000 a month and a dearness allowance of ₹20,000 a month, the whole of which enters into retirement benefits. He is provided rent-free unfurnished accommodation in Delhi owned by the company, the perquisite value of which is ₹1,20,000 for the year. He has reported bank interest of ₹40,000 in Form No. 122 and has furnished evidence of a contribution of ₹1,50,000 to a recognised provident fund. He is taxed under the default regime. *Compute the tax to be deducted each month.*

Basic salary — ₹80,000 × 12	9,60,000
Dearness allowance — ₹20,000 × 12	2,40,000
Perquisite — rent-free accommodation	1,20,000
Gross salary	13,20,000
Less: standard deduction — section 19(1) (Table: Sl. No. 2)	(75,000)

Income under the head “Salaries” 12,45,000

Add: income from other sources reported in Form No. 122	40,000
Gross total income	12,85,000
Less: deduction under Chapter VIII — not available under section 202(1)	Nil
Total income	12,85,000
Tax at the rates in section 202(1) — 5% of ₹4,00,000 + 10% of ₹4,00,000 + 15% of ₹85,000	72,750
Less: rebate under section 156(2) — total income exceeds ₹12,00,000 and the tax of ₹72,750 does not exceed the excess of ₹85,000	Nil
Add: health and education cess at 4%	2,910
Tax deductible for the year	75,660
Monthly deduction — ₹75,660 ÷ 12	₹6,305

Note the two workings that carry marks. First, the bank interest is added because section 392(4)(a)(iv) permits income other than a loss to be taken into account; had Shri Bhatia reported a business loss instead, section 392(4)(b) would have forbidden any reduction. Second, no threshold appears anywhere: section 392 has none.

ILLUSTRATION 2.2 — THE EMPLOYER BEARS THE TAX ON A PERQUISITE

Sunrise Ltd. provides its manager a non-monetary perquisite valued at ₹3,00,000 and elects under section 392(2)

- (a) to bear the tax on it. His income under the head “Salaries” excluding the perquisite is ₹15,00,000, and he is taxed under the default regime. What is the tax the company must pay, and what is its treatment?

Total income including the perquisite — ₹15,00,000 + ₹3,00,000	18,00,000
Tax under section 202(1) — 5% of ₹4,00,000 + 10% of ₹4,00,000 + 15% of ₹4,00,000 + 20% of ₹2,00,000	1,60,000
Add: health and education cess at 4%	6,400
Tax on the whole	1,66,400
Average rate = ₹1,66,400 ÷ ₹18,00,000	9.2444%
Tax on the perquisite = ₹3,00,000 × 9.2444%	₹27,733, say ₹27,730

The average rate is applied to the salary income *including* the perquisite [section 392(2)(b)] — not to the perquisite standing alone, and not at any flat rate.

The company pays ₹27,730 out of its own funds and deducts on the balance of the salary in the ordinary way. In the manager's hands ₹27,730 is exempt under Schedule III (Table: Sl. No. 10) and is not a deemed receipt under section 396. In the company's hands it is **not deductible** — section 35(a)(ii). The company issues the certificate required by section 395(4)(b).

ILLUSTRATION 2.3 — PREMATURE WITHDRAWAL FROM THE PROVIDENT FUND

Shri Vikas resigns after three years and eight months of service and withdraws the accumulated balance of ₹2,80,000 from the Employees' Provident Fund on 12 August 2026. He does not furnish his Permanent Account Number. *What must the trustees deduct?*

Because the service is less than five years, paragraph 8 of Part A of Schedule XI does not apply and the balance is includible in his total income. The aggregate payment exceeds ₹50,000, so section 392(7) applies and the rate is **10%**. But no PAN has been furnished, so section 397(2)(b)(i) requires deduction at the **higher** of the rate in the provision, the rates in force, or **20%**. The trustees deduct **₹56,000** (20% of ₹2,80,000), report it in Form No. 140 and issue Form No. 131.

Advocate Dr. S. B. Rathore

Deduction from Payments to Residents — Section 393(1)

Section 393(1) and the definitions in section 402

One section, one table, eight heads of payment — and the whole of what used to be sections 193 to 194T

3.1 The architecture of section 393

Section 393 is the longest section in the Act. It is built out of eleven sub-sections and four tables, and once the architecture is seen the section becomes manageable.

Sub-section	What it contains	Payee
393(1)	Table of eight heads of income or sum, with payer, rate and threshold	A resident
393(2)	Table of seventeen entries, with payee, payer and rate	A non-resident
393(3)	Table of seven entries — winnings, cash withdrawal, lottery commission, a partner's remuneration	Any person , resident or not
393(4)	Table of nineteen cases in which no deduction is to be made	—
393(5)	Four payees from whom no deduction is ever made	—
393(6) and (7)	The self-declaration of nil liability, and its delivery to the Department	—
393(8) and (9)	Offshore Banking Unit interest; the New Pension System Trust	—
393(10)	Grossing up where the payer bears the tax	—
393(11)	Credit to a suspense account is a credit to the payee	—

3.2 The four commands of section 393(1)

Where income or a sum of the nature specified in column B is **credited or paid or distributed** by the person specified in column C during the tax year **to a resident**, the person responsible for paying it shall deduct income-tax —

- on the **entire amount** of the income or sum, where the amount or the aggregate of amounts **exceeds the threshold limit** in column D (or on the sum computed under Note 1 for Sl. No. 8(ii));
- at the **rate** specified in column D;
- at the time of **credit** of the income or sum to the account of the payee, **or** at the time of its **payment** in cash or by cheque or draft or by any other mode, **whichever is earlier**; and
- subject to sub-sections (4), (5), (6), (8) and (9).

THE THRESHOLD IS A SWITCH, NOT AN EXEMPTION

Once the threshold is crossed, tax is deducted on the **whole** of the amount and not on the excess. If a specified person pays a resident ₹52,000 of brokerage in the year, the threshold of ₹20,000 having been crossed, the deduction is 2% of **₹52,000** and not of ₹32,000. The two exceptions where the Act itself says otherwise are the purchase of goods under Sl. No. 8(ii) — where Note 1(b) directs deduction “on the sum exceeding fifty lakh rupees” — and the ₹50 lakh in Sl. No. 3(i), which is a condition of applicability rather than a slab.

3.3 The map of section 393(1)

Section 393(1) carries one Table with eight groups and twenty-four entries. This is the map of it — what each entry catches, and where in this chapter it is taken up. Every entry opens its section with a block giving the payer and payee, the rate, the moment of deduction, the threshold, the cases in which nothing is deducted, the relief open to the payee and the rule and form that govern it, so none of that is repeated here.

Sl. No.	What the entry catches	Discussed at
1. Commission or brokerage		
1(i)	Insurance commission — soliciting or procuring insurance business	3.4
1(ii)	Commission or brokerage, not being insurance commission	3.4
2. Rent		
2(i)	Rent of land, a building or land appurtenant — payer not a specified person	3.5
2(ii)	Rent of any kind — payer a specified person	3.5
3. Transfer of immovable property other than agricultural land		
3(i)	Consideration for the transfer	3.6
3(ii)	Consideration, not in kind, under a joint development agreement	3.6
3(iii)	Compensation on compulsory acquisition	3.6
4. Income from the capital market		
4(i)	Units of a Mutual Fund, the Administrator or the specified company	3.7
4(ii)	Distributed income of a business trust	3.7
4(iii)	Units of an investment fund	3.7
4(iv)	Investment in a securitisation trust	3.7
5. Interest		
5(i)	Interest on securities	3.8
5(ii)	Other interest — payer a bank, banking co-operative society or post office	3.8
5(iii)	Other interest — payer a specified person	3.8
6. Contractors, professionals and technicians		
6(i)	Carrying out any work under a contract — payer a designated person	3.9
6(ii)	Work, professional fees or commission — payer an individual or HUF	3.9
6(iii)	Professional and technical fees, a director's fee, royalty, s.26(2)(h)	3.9
7. Dividend		
7	Any dividend declared by a domestic company	3.10
8. The other cases		
8(i)	A sum under a life insurance policy	3.11
8(ii)	Purchase of goods above ₹50 lakh	3.11
8(iii)	Total income of a specified senior citizen	3.11
8(iv)	A benefit or perquisite from business or profession	3.11
8(v)	Sale of goods or services through an e-commerce operator	3.11
8(vi)	Transfer of a virtual digital asset	3.11

One caution about column D of the Act's own Table. Where it says “**rates in force**” — entries **1(i)**, **5(i)**, **5(ii)**, **5(iii)** and **8(iii)** — the figure is not in section 393 at all but in **Part II of the First Schedule to the Finance Act, 2026**. For Tax

Year 2026-27 it is **10%** in every one of them except insurance commission, where it is **2%** for a resident who is not a company and **10%** for a domestic company. On the threshold, see the box in **3.2**: it is a switch, not an exemption.

3.4 Commission or brokerage [Sl. No. 1]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 1(i) — Insurance commission	
Nature of the income or sum	Remuneration or reward, by way of commission or otherwise, for soliciting or procuring insurance business , including the continuance, renewal or revival of policies
Payer and payee	Any person to Insurance agent
Rate	Rates in force — <i>2% where the payee is a resident other than a company; 10% where it is a domestic company</i>
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹20,000
No deduction where	The commission does not exceed ₹20,000
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 1(ii) — Commission or brokerage	
Nature of the income or sum	Commission or brokerage , not being insurance commission
Payer and payee	Specified person [section 402(33)] to Recipient of the commission or brokerage
Rate	2%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹20,000
No deduction where	The commission does not exceed ₹20,000; and in every case where it is payable by BSNL or MTNL to a public call office franchisee [section 393(4) Sl. No. 1]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

“Commission or brokerage” is defined in section 402(7) to **include** any payment received or receivable, directly or indirectly, by a person acting on behalf of another person — (a) for services rendered, **not being professional services**; (b) for any services in the course of buying or selling of goods; or (c) in relation to any transaction relating to any asset, valuable article or thing, **not being securities**.

- **Sl. No. 1(i)** — insurance commission. The payer is **any person**, however small. The rate is the rate in force: **2%** where the agent is a resident other than a company, and **10%** where the agent is a domestic company.
- **Sl. No. 1(ii)** — all other commission and brokerage, at **2%**, but only where the payer is a **specified person**. An individual who is not in business, or whose turnover is below the limits, deducts nothing.
- Brokerage on the purchase or sale of **securities** is outside the definition, and so outside the entry.
- The exemption in section 393(4) (Table: Sl. No. 1) covers commission or brokerage payable by BSNL or MTNL to their **public call office franchisees**.

3.5 Rent [Sl. No. 2]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 2(i) — Rent, by a payer who is not a specified person	
Nature of the income or sum	Income by way of rent — for this entry alone “rent” means only land, a building, and land appurtenant to a building [section 402(29)]
Payer and payee	Person other than a specified person <i>to</i> Landlord or owner
Rate	2%
Time of deduction	At credit or payment, whichever is earlier, for the last month of the tax year or of the tenancy
Threshold	₹50,000 for a month or part of a month
No deduction where	The monthly rent does not exceed ₹50,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. The declaration in Form No. 121 is not available here — the Table to section 393(6) names Sl. No. 2(ii), not 2(i). Where the higher rate for want of a PAN applies, the deduction cannot exceed one month's rent [section 397(2)(e)]
Rule and Form	This is one of the three no-TAN deductions [section 397(1)(c)(i)] — deposit with a challan-cum- statement in Form No. 141 within 30 days from the end of the month [Rule 218(3)], and issue the certificate in Form No. 132 [Rule 215]

393(1) Table Sl. No. 2(ii) — Rent, by a specified person	
Nature of the income or sum	Income by way of rent
Payer and payee	Specified person <i>to</i> Landlord or owner
Rate	(a) 2% — machinery, plant or equipment; (b) 10% — land, a building including a factory building, land appurtenant, furniture or fittings
Time of deduction	At credit or payment, whichever is earlier, for the last month of the tax year or of the tenancy
Threshold	₹50,000 for a month or part of a month
No deduction where	The monthly rent does not exceed ₹50,000; and in every case where the rent is paid to a real estate investment trust for a real estate asset it owns directly [section 393(4) Sl. No. 2]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

“Rent” is defined in section 402(29) as **any payment, by whatever name called**, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of land, building (including factory building), land appurtenant to a building, machinery, plant, equipment, furniture or fittings — **whether or not any or all of them are owned by the payee**. For Sl. No. 2(i) only, the definition is cut down to land, building and land appurtenant.

Point	Sl. No. 2(i)	Sl. No. 2(ii)
Who deducts	A person other than a specified person — in substance, an individual or HUF below the turnover limits	A specified person

Point	Sl. No. 2(i)	Sl. No. 2(ii)
What is caught	Only land, building and land appurtenant	The whole of the definition — including plant, machinery, equipment, furniture and fittings
Rate	2%	2% for plant, machinery and equipment; 10% for land, building, furniture and fittings
Threshold	₹50,000 for a month or part of a month — a monthly test, not an annual one	
Time of deduction	Once in the year — at credit or payment for the last month of the tax year or the last month of the tenancy [Note 1]	At credit or payment, whichever is earlier — that is, ordinarily every month
TAN	Not required [section 397(1)(c)(i)]	Required
Deposit and statement	Within 30 days from the end of the month of deduction, with a challan-cum-statement in Form No. 141 [Rules 218(3) and 219(5)]	By the 7th of the following month; quarterly statement in Form No. 140
Certificate	Form No. 132 , within 15 days of the due date for Form No. 141	Form No. 131 , within 15 days of the due date for the quarterly statement

A ceiling protects the tenant who deducts at the higher rate for want of a PAN: under section 397(2)(e), the deduction in a case falling under Sl. No. 2(i) **shall not exceed the rent payable for the last month** of the tax year or of the tenancy.

3.6 Transfer of immovable property [Sl. No. 3]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 3(i) — Consideration for the transfer	
Nature of the income or sum	Consideration for the transfer of any immovable property other than agricultural land
Payer and payee	Transferee — any person other than one covered by Sl. No. 3(iii) <i>to</i> Transferor , being a resident
Rate	1% of the consideration, or of the stamp duty value , whichever is higher
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹50,00,000 — aggregated over all transferees and all transferors for the same property (Note 1)
No deduction where	Both the consideration and the stamp duty value do not exceed ₹50,00,000 (Note 3)
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	This is one of the three no-TAN deductions [section 397(1)(c)(i)] — deposit with a challan-cum-statement in Form No. 141 within 30 days from the end of the month [Rule 218(3)], and issue the certificate in Form No. 132 [Rule 215]

393(1) Table Sl. No. 3(ii) — Joint development agreement	
Nature of the income or sum	Consideration, not being in kind , under a joint development agreement referred to in section 67(14)
Payer and payee	Any person <i>to</i> Owner of the land or building
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier

393(1) Table Sl. No. 3(ii) — Joint development agreement

Threshold	Nil — deduct on the whole sum
No deduction where	Nothing is excluded. Where Sl. No. 3(i) and 3(ii) both fit the same sum, the deduction is made under 3(ii) alone (Note 2)
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 3(iii) — Compulsory acquisition

Nature of the income or sum	Compensation or enhanced compensation, or consideration or enhanced consideration, on the compulsory acquisition of immovable property other than agricultural land
Payer and payee	The acquiring authority paying the compensation <i>to</i> Owner of the property
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹5,00,000
No deduction where	The compensation does not exceed ₹5,00,000; and in every case where the award or agreement is exempt under section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 [section 393(4) Sl. No. 3]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

- **Sl. No. 3(i)** — the buyer of any immovable property other than agricultural land deducts **1%** of the consideration **or the stamp duty value, whichever is higher**. “Immovable property” means any land other than agricultural land, or any building or part of a building [section 402(19)]. “Consideration” **includes** club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee and any similar incidental charge [section 402(9)].
- **Note 1** — the consideration is the aggregate of the amounts paid or payable by **all the transferees to all the transferors**. Two buyers who each pay ₹30,00,000 for a flat of ₹60,00,000 cannot escape by pointing to their individual shares.
- **Note 3**, as substituted by the Finance Act, 2026 — tax is deducted where the consideration **or** the stamp duty value is **equal to or greater than ₹50,00,000**. The threshold is a condition of applicability; once it is met, the deduction is on the whole of the higher of the two figures.
- **No TAN** is required [section 397(1)(c)(i)]. Payment is within 30 days of the end of the month of deduction with a challan-cum-statement in Form No. 141, and the certificate is Form No. 132.
- **Sl. No. 3(ii)** — a joint development agreement under section 67(14). Where both 3(i) and 3(ii) could apply, the deduction is made under **3(ii) only** [Note 2].
- **Sl. No. 3(iii)** — compulsory acquisition, at 10%, threshold ₹5,00,000. Here “agricultural land” **includes** land in an urban area [section 402(2)(b)], so compensation for urban agricultural land is outside the entry. An award exempt under section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 attracts no deduction [section 393(4), Table: Sl. No. 3].

3.7 Income from the capital market [Sl. No. 4]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 4(i) — Units of a Mutual Fund

Nature of the income or sum	Income in respect of units of a Mutual Fund (Schedule VII Sl. No. 20 or 21), of the Administrator of the specified undertaking, or of the specified company
Payer and payee	Any person to Unit holder
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹10,000
No deduction where	The income does not exceed ₹10,000; and in every case where it is of the nature of a capital gain [section 393(4) Sl. No. 4]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 4(ii) — Business trust

Nature of the income or sum	Distributed income referred to in section 223, payable to a unit holder
Payer and payee	Business trust to Unit holder
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	Nil
No deduction where	The income is of the nature in Schedule V [Sl. No. 3.B(b)] and the special purpose vehicle has not exercised the option under section 200 [section 393(4) Sl. No. 5]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 4(iii) — Investment fund

Nature of the income or sum	Income in respect of units of an investment fund specified in section 224, other than the exempt proportion
Payer and payee	The investment fund to Unit holder
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	Nil
No deduction where	The proportion exempt under Schedule V (Sl. No. 2) is left out of the deduction
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 4(iv) — Securitisation trust

Nature of the income or sum	Income in respect of an investment in a securitisation trust specified in section 221
Payer and payee	The securitisation trust to Investor
Rate	10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	Nil
No deduction where	None specified
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

All four entries carry a flat **10%**. Only Sl. No. 4(i) has a threshold — ₹10,000 for income in respect of units of a mutual fund. Two exemptions matter: no deduction is made under 4(i) if the income is in the nature of a **capital gain** [section 393(4), Table: Sl. No. 4], and no deduction is made under 4(ii) on income of the kind in Schedule V (Table: Sl. No. 3.B(b)) where the special purpose vehicle has not exercised the option under section 200 [section 393(4), Table: Sl. No. 5].

3.8 Interest [Sl. No. 5]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 5(i) — Interest on securities

Nature of the income or sum	Interest on securities
Payer and payee	Any person to Holder of the security
Rate	Rates in force — 10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹10,000
No deduction where	The interest does not exceed ₹10,000; and in every case of National Development Bonds , notified debentures, any Central or State Government security other than the notified taxable bonds, and interest payable to LIC, GIC and its four companies, any other insurer , or a business trust through a special purpose vehicle [section 393(4) Sl. No. 6]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 5(ii) — Interest other than interest on securities — paid by banks and post offices**Nature of the income or**

Interest **other than** interest on securities

sum	
Payer and payee	Banking company, co-operative society engaged in banking, or post office on a notified scheme
	deposit to Depositor
Rate	Rates in force — 10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹1,00,000 for a senior citizen; ₹50,000 for any other payee
No deduction where	The interest does not exceed the threshold; and in every case of a time deposit made before 1 July 1995 , interest paid by a co-operative society to a member or to another such society, deposits with a primary agricultural credit society, and the notified Government schemes [section 393(4) Sl. No. 7]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 5(iii) — Interest other than interest on securities — paid by specified person

(certain individuals/HUF or any person excluding a bank or post office)	
Nature of the income or sum	Interest other than interest on securities
Payer and payee	Specified person , other than a payer covered by Sl. No. 5(ii) to Recipient
Rate	Rates in force — 10%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹10,000
No deduction where	The interest does not exceed ₹10,000; and in every case of interest awarded by a Motor Accidents Claims Tribunal — any amount to an individual, and up to ₹50,000 a year to any other — interest on a zero coupon bond , and interest paid by a firm to its partner [section 393(4) Sl. No. 7]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

The three entries divide the field by the *character of the interest* and the *identity of the payer*.

Entry	Interest	Payer	Threshold
5(i)	On securities	Any person	₹10,000
5(ii)	Other than on securities	Bank, banking co-operative society, post office	₹1,00,000 for a senior citizen; ₹50,000 for others

Entry	Interest	Payer	Threshold
5(iii)	Other than on securities	Specified person other than the above	₹10,000

THE BRANCH RULE AND THE ADJUSTMENT RULE

Note 1 — for time deposits with a banking company or a banking co-operative society, and for deposits with a housing finance company eligible under section 32(e), where the payer **has not adopted core banking solutions**, the threshold is computed **branch by branch**. A bank on core banking must aggregate across all its branches.

Note 2 — the payer under 5(ii) and 5(iii) may, at the time of any deduction, **increase or reduce** the amount to adjust an excess or deficiency arising out of an earlier deduction or failure to deduct during the tax year. This is the only adjustment power in section 393; it mirrors section 392(5)(c) for salaries.

The exemptions in section 393(4) (Table: Sl. Nos. 6 and 7) are long and should be read at least once. They cover, among others, interest on Government securities other than the four named taxable savings bonds; interest paid to a bank, a financial corporation, LIC, UTI or an insurer; interest paid **by a firm to a partner**; interest paid by a co-operative society to a member; interest on a Motor Accidents Claims Tribunal award (an individual, or ₹50,000 in any other case, after the Finance Act, 2026); and interest on a zero coupon bond.

3.9 Contractors, professionals and technicians [Sl. No. 6]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 6(i) — Payments to contractors	
Nature of the income or sum	Any sum for carrying out any work , including the supply of labour for carrying out any work, in pursuance of a contract
Payer and payee	Designated person [section 402(11)] to Contractor
Rate	(a) 1% where the contractor is an individual or a Hindu undivided family ; (b) 2% in any other case
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹30,000 for any single sum; and ₹1,00,000 for the aggregate of such sums in the tax year — either limit crossed attracts the deduction
No deduction where	Both limits are within the figures above; a goods-carriage contractor owning not more than ten carriages furnishes a declaration with his PAN; or an individual or HUF pays exclusively for personal purposes [section 393(4) Sl. No. 8]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Note — for work of the kind in section 402(47)(e), deduct on the invoice value excluding the material where its value is shown separately, otherwise on the whole invoice
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 6(ii) — Payments by an individual or a Hindu undivided family

Nature of the income or sum	Any sum for carrying out any work, or fees for professional services , or commission (not insurance commission) or brokerage
Payer and payee	Individual or Hindu undivided family not otherwise liable to deduct under Sl. No. 6(i), 6(iii) or 1(ii) to Payee
Rate	2%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹50,00,000

No deduction where	The sum does not exceed ₹50,00,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	This is one of the three no-TAN deductions [section 397(1)(c)(i)] — deposit with a challan-cum-statement in Form No. 141 within 30 days from the end of the month [Rule 218(3)], and issue the certificate in Form No. 132 [Rule 215]

393(1) Table Sl. No. 6(iii) — Professional and technical fees, directors, royalty

Nature of the income or sum	(a) Fees for professional services ; (b) fees for technical services ; (c) remuneration, fees or commission to a director , not being salary; (d) royalty ; (e) any sum referred to in section 26(2)(h)
Payer and payee	Specified person to The professional, technician, director or recipient of the royalty
Rate	(a) 2% — fees for technical services that are not professional services, royalty for the sale, distribution or exhibition of cinematographic films, or a payee engaged only in the business of a call centre; (b) 10% in every other case
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹50,000 for items (a), (b), (d) and (e); Nil for a director's fee under item (c) — deductible from the first rupee
No deduction where	The sum does not exceed the threshold; and where an individual or HUF pays exclusively for personal purposes [section 393(4) Sl. No. 9]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

(a) Works contracts — Sl. No. 6(i)

“Work” is defined inclusively in section 402(47) to cover advertising; broadcasting and telecasting including the production of programmes; carriage of goods or passengers **by any mode other than railways**; catering; manufacturing or supplying a product to a customer's specification **using material purchased from that customer** or its associate; and — inserted by the **Finance Act, 2026** — **the supply of manpower to a person to work under his supervision, control or direction**. It does **not** include manufacture to specification out of material purchased from anyone else, nor any sum falling under Sl. No. 6(iii).

The threshold is **two-limbed**: ₹30,000 for any single sum, **and** ₹1,00,000 for the aggregate of such sums during the tax year. Either limb, once crossed, triggers the deduction.

The **Note** to Sl. No. 6(i) deals with material: where the work is manufacture to specification out of the customer's material [section 402(47)(e)], tax is deducted (a) on the **invoice value excluding the value of material** if that value is shown separately in the invoice, and (b) on the **whole** of the invoice value if it is not.

No deduction is made under Sl. No. 6(i) where the sum is paid to a **transport contractor** plying, hiring or leasing goods carriages who owns **ten or fewer** goods carriages at any time during the year and furnishes a declaration to that effect with his PAN, the payer reporting the particulars to the prescribed authority; nor where the sum is paid by an individual or HUF **exclusively for personal purposes** [section 393(4), Table: Sl. No. 8].

(b) The individual and HUF entry — Sl. No. 6(ii)

This entry catches the individual or HUF who is **not** a specified or designated person — the ordinary householder and the small proprietor. It applies to a works contract, professional fees, and commission or brokerage alike, at a single rate of **2%**, and only where the payment crosses **₹50,00,000** in the year. It requires **no TAN** [section 397(1)

(c) (i)], is deposited with a challan-cum-statement in Form No. 141 within 30 days, and is certified in Form No. 132.

(c) Professional and technical fees — Sl. No. 6(iii)

“Professional services” means services rendered in the course of the **legal, medical, engineering or architectural** profession, or the profession of **accountancy, technical consultancy, interior decoration or advertising**, or such other profession as the Board may notify [section 402(28)]. “Fees for technical services” takes its meaning from section 9(7)(b) and “royalty” from section 9(6)(b).

THE TWO RATES, AND WHY THEY DIFFER

2% is charged where the recipient's margin is thin or the receipt is close to a business turnover — fees for *technical* services that are not professional services, royalty for the sale, distribution or exhibition of cinematographic films, and a payee engaged *only* in the business of operating a call centre. **10%** is charged in every other case, including all professional fees and all other royalty. The threshold is ₹50,000 for each limb except a director's remuneration, where it is **nil** — the first rupee paid to a director otherwise than as salary bears tax at 10%.

No deduction is made under Sl. No. 6(iii) where the sum is paid by an individual or HUF **exclusively for personal purposes** [section 393(4), Table: Sl. No. 9].

3.10 Dividend [Sl. No. 7]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 7 — Dividend	
Nature of the income or sum	Any dividend , including dividend on preference shares, declared
Payer and payee	Domestic company to Shareholder
Rate	10%
Time of deduction	Before making any distribution or payment of the dividend — not on credit or payment
Threshold	Nil
No deduction where	The shares are beneficially owned by LIC, GIC and its four companies or any other insurer , or held by a business trust through a special purpose vehicle, or the payee is notified by the Central Government; or the shareholder is an individual , the dividend is paid otherwise than in cash , and it does not exceed ₹10,000 in the aggregate during the year [section 393(4) Sl. No. 10]
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213(5) — a dividend certificate carries the further conditions in Rule 213(5). Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

A domestic company deducts **10%** on any dividend, including dividend on preference shares, and the **Note** requires the deduction to be made **before** any distribution or payment. The threshold in column D is nil, but section 393(4) (Table: Sl. No. 10) exempts dividend paid to LIC, GIC and its four companies, any other insurer, a business trust through a special purpose vehicle, any notified person, and — the entry that matters to students — an **individual shareholder** where the dividend is paid **otherwise than in cash** and the amount or aggregate of dividend during the tax year does not exceed **₹10,000**.

3.11 The other cases [Sl. No. 8]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(1) Table Sl. No. 8(i) — Life insurance policy

Nature of the income or sum	Any sum under a life insurance policy , including the sum allocated by way of bonus, other than the amount not includible under Schedule II (Table Sl. No. 2)
Payer and payee	Any person to Policyholder
Rate	2% of the income comprised in the sum — not of the whole sum
Time of deduction	At the time of payment
Threshold	₹1,00,000
No deduction where	The sum does not exceed ₹1,00,000. The portion exempt under Schedule II is left out altogether
Relief	The payee may stop the deduction altogether by declaring under section 393(6) that his total income will bear no tax — Form No. 121 [Rule 211]. The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rules 211 and 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 8(ii) — Purchase of goods

Nature of the income or sum	Any sum exceeding ₹50,00,000 for the purchase of goods
Payer and payee	Buyer whose total sales, gross receipts or turnover exceeded ₹10 crore in the preceding tax year to Seller
Rate	0.1% , and only on the sum exceeding ₹50,00,000 (Note 1(b))
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹50,00,000 — the tax falls on the excess alone
No deduction where	The buyer's preceding-year turnover does not exceed ₹10 crore; tax is deductible or collectible under any other provision on the same sum (Note 1(a)); or the buyer is notified by the Central Government
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Where a valid PAN is not furnished the penal rate here is 5% , not 20% [section 397(2)]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 8(iii) — Specified senior citizen

Nature of the income or sum	The total income of a specified senior citizen, after the deductions under Chapter VIII and the rebate under section 156
Payer and payee	Specified bank to Specified senior citizen [section 402(39)] — 75 years or more, with pension and interest from that same bank alone
Rate	Rates in force, applied to the total income so computed
Time of deduction	At the time of computing the tax on his total income
Threshold	As applicable to his own computation
No deduction where	Not an exemption but a relief: once the bank deducts under this entry the senior citizen need not file a return for that year
Relief	He furnishes the declaration to the bank, which then gives effect to Chapter VIII and section 156 on the evidence he produces
Rule and Form	Rule 208, Form No. 125 . Quarterly statement in Form No. 138 ; certificate in Form No. 130

393(1) Table Sl. No. 8(iv) — Business benefit or perquisite

Nature of the income or sum	Any benefit or perquisite , whether convertible into money or not, arising from a business or the exercise of a profession
Payer and payee	Specified person to Resident recipient of the benefit
Rate	10% of the value or aggregate value of the benefit
Time of deduction	Before releasing the benefit; where it is wholly or partly in kind the payer must first satisfy himself that the tax has been paid (Note 2)
Threshold	₹20,000
No deduction where	The value does not exceed ₹20,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 8(v) — E-commerce

Nature of the income or sum	Sale of goods or provision of services by an e-commerce participant , facilitated through the digital facility or platform of an e-commerce operator
Payer and payee	E-commerce operator to E-commerce participant
Rate	0.1% of the gross amount of the sale or of the services
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	Nil
No deduction where	The participant is an individual or HUF , the gross amount does not exceed ₹5,00,000 during the tax year, <i>and</i> he has furnished his PAN or Aadhaar number to the operator — all three together [section 393(4) Sl. No. 11]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Where a valid PAN is not furnished the penal rate here is 5% , not 20% [section 397(2)]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(1) Table Sl. No. 8(vi) — Virtual digital asset

Nature of the income or sum	Consideration for the transfer of a virtual digital asset
Payer and payee	Any person to Transferor of the asset
Rate	1%
Time of deduction	At credit or payment, whichever is earlier; where the consideration is wholly or partly in kind the payer must first satisfy himself that the tax has been paid
Threshold	Nil , subject to the exemption below
No deduction where	The aggregate consideration during the tax year does not exceed ₹50,000 for a specified individual or HUF, or ₹10,000 for any other payee [section 393(4) Sl. No. 12]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]

393(1) Table Sl. No. 8(vi) — Virtual digital asset

Rule and Form	Deposit with a challan-cum-statement in Form No. 141 within 30 days from the end of the month [Rule 218(3)], and issue the certificate in Form No. 132 [Rule 215]. A TAN is required — the exemption in section 397(1)(c)(ii) is confined to the specified individual or HUF of section 393(4) [Table: Sl. No. 12.C(a)]. An exchange files the statement in Form No. 142 [Rule 219(2)]
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- **8(i) — life insurance.** The rate of 2% is applied not to the sum paid but to the **income comprised in it** — that is, the excess of the sum received over the premiums paid. The threshold of ₹1,00,000 is tested on the sum paid.
- **8(ii) — purchase of goods.** A “buyer” for this entry is a person whose turnover from business **exceeded ₹10 crore** in the immediately preceding tax year [section 402(6), Table: Sl. No. 1]. Tax is deducted at 0.1% **on the sum exceeding ₹50,00,000**, and the entry does not apply at all to a transaction on which tax is deductible or collectible under any other provision.
- **8(iii) — the specified senior citizen.** A resident aged **75 or more**, having only pension income and interest from the same specified bank in which he receives his pension, who files a declaration in **Form No. 125** (Rule 208). The bank computes his total income after Chapter VIII and the section 156 rebate and deducts at the rates in force. This entry **takes precedence over every other provision** in the Chapter [Note 5], and its consequence is that the assessee is relieved from filing a return of income.
- **8(iv) — business benefit or perquisite.** 10% of the value, threshold ₹20,000, payer a specified person. Note 2 requires the payer to **ensure that the tax has been paid before** providing the benefit where it is in kind.
- **8(v) — the e-commerce operator.** 0.1% of the gross amount, no threshold. Note 3 gives this entry **precedence over every other provision** of the Chapter; deems a direct payment by the customer to the participant to be a payment by the operator, and deems the operator to be the person responsible for paying. No deduction is made where the participant is an individual or HUF whose gross sales or services do not exceed **₹5,00,000** in the tax year and who has furnished his PAN or Aadhaar [section 393(4), Table: Sl. No. 11].
- **8(vi) — virtual digital asset.** 1%, no threshold, payer any person, no TAN required. No deduction where the consideration does not exceed **₹50,000** for a small individual or HUF (turnover not exceeding ₹1 crore in business or ₹50 lakh in profession in the preceding year, or having no business income) and **₹10,000** for anyone else [section 393(4), Table: Sl. No. 12]. Where both 8(v) and 8(vi) apply, deduction is made **only under 8(vi)** [Note 4].

3.12 Illustrations

ILLUSTRATION 3.1 — THE THRESHOLD APPLIES TO THE WHOLE SUM

Kaveri Ltd. pays brokerage of ₹18,000 to Shri Ramesh in July 2026 and ₹9,000 in January 2027. *What must be deducted, and when?*

The threshold in Sl. No. 1(ii) is ₹20,000 for the **aggregate** of amounts in the tax year. In July the aggregate is ₹18,000 and no deduction is made. In January the aggregate becomes ₹27,000 and the threshold is crossed; tax is then deducted at 2% on the **entire ₹27,000**, that is **₹540**, out of the January payment of ₹9,000. The company is a specified person because it is not an individual or a HUF.

ILLUSTRATION 3.2 — THE MONTHLY TEST FOR RENT

Shri Girish, an individual whose business turnover in Tax Year 2025-26 was ₹60,00,000, took a shop on rent from 1 April 2026 at ₹55,000 a month and paid it punctually. *Is he liable to deduct tax, at what rate, and when?*

His turnover does not exceed ₹1 crore, so he is **not a specified person** and Sl. No. 2(i) applies. The rent exceeds ₹50,000 for a month, so the threshold is crossed. The rate is **2%**. Under Note 1 the deduction is made **once**, at the time of credit or payment of the rent **for the last month of the tax year** — March 2027 — on the whole year's rent of ₹6,60,000, that is **₹13,200**. He needs **no TAN**; he deposits the tax within 30 days from the end of March 2027, that is by **30 April 2027**, with a challan-cum-statement in Form No. 141, and issues Form No. 132 within fifteen days thereafter.

Change one fact — had his turnover been ₹1.2 crore, he would have been a specified person, Sl. No. 2(ii) would have applied, the rate would have been 10% because a shop is a building, and the deduction would have been made every month and deposited by the 7th of the following month.

ILLUSTRATION 3.3 — BUYING A FLAT FROM A RESIDENT

Smt. Anjali and her husband jointly buy a flat in Ghaziabad for a stated consideration of ₹48,00,000. The stamp duty value of the flat is ₹56,00,000. Each pays half. *Must they deduct tax?*

Yes. Note 1 aggregates the amounts paid by all transferees, so the consideration is ₹48,00,000 and not ₹24,00,000 each. Note 3 requires deduction where the consideration **or** the stamp duty value is ₹50,00,000 or more, and the stamp duty value is ₹56,00,000. The deduction is 1% of the **higher** of the two figures — 1% of ₹56,00,000 = **₹56,000**, borne between them in the ratio of their payments. Neither needs a TAN.

ILLUSTRATION 3.4 — PROFESSIONAL FEES, AND THE SMALL PROPRIETOR

Dr. Nishant, a resident physician, receives during Tax Year 2026-27 —

- (a) ₹4,00,000 from Apex Hospitals Ltd. as consultancy fees;
 - (b) ₹60,000 from Shri Deepak, an individual whose professional receipts in Tax Year 2025-26 were ₹42,00,000, for attending on his family; and
 - (c) ₹80,000 from Shri Mohan, a proprietor whose business turnover in Tax Year 2025-26 was ₹3,00,00,000, as fees for treating his employees. *What is deducted in each case?*
- (a) Apex Hospitals Ltd. is a specified person. Sl. No. 6(iii)(b) applies at **10%** and the threshold of ₹50,000 is crossed. Deduction = **₹40,000**.
 - (b) Shri Deepak's professional receipts of ₹42,00,000 do not exceed ₹50,00,000, so he is not a specified person. Sl. No. 6(ii) could apply but the payment is far below ₹50,00,000. **No deduction**. In any event the payment is for personal purposes and section 393(4) (Table: Sl. No. 9) would exempt it.
 - (c) Shri Mohan's turnover exceeds ₹1 crore, so he **is** a specified person. Sl. No. 6(iii)(b) applies at **10%** and the threshold is crossed. Deduction = **₹8,000**. The payment is for his business and not for personal purposes, so the exemption does not help him.

ILLUSTRATION 3.5 — THE WORKS CONTRACT WITH MATERIAL

Nikhil Ltd. gives Rakesh & Co., a partnership firm, a contract to manufacture printed cartons to its own design using paper board supplied by the company. The firm raises an invoice of ₹12,00,000, of which ₹7,50,000 is shown separately as the value of the material supplied by the company. *On what amount is tax deducted, and at what rate?*

The work falls within section 402(47)(e) — manufacture to specification out of material purchased from the customer. The Note to Sl. No. 6(i) directs deduction on the invoice value **excluding** the material, its value being shown separately: ₹12,00,000 – ₹7,50,000 = **₹4,50,000**. Rakesh & Co. is a firm and not an individual or HUF, so the rate is **2%**. Deduction = **₹9,000**.

Change one fact — had the invoice shown a single figure of ₹12,00,000 without separating the material, tax would have been deducted on the whole ₹12,00,000, that is ₹24,000. The separation must be on the face of the invoice.

ILLUSTRATION 3.6 — PURCHASE OF GOODS AND THE ₹50 LAKH LINE

Sanchit Traders, whose turnover in Tax Year 2025-26 was ₹14 crore, buys goods worth ₹85,00,000 from Vinod Steels during Tax Year 2026-27. Vinod Steels has not collected any tax. *What must Sanchit Traders deduct?*

Sanchit Traders is a “buyer” under section 402(6) because its turnover exceeded ₹10 crore in the preceding tax year. Sl. No. 8(ii) applies. Note 1(b) requires deduction **on the sum exceeding ₹50,00,000** — that is, on ₹35,00,000 — at 0.1%. Deduction = **₹3,500**.

Note the contrast with every other entry in the table. This is one of the two places where the Act deducts on the excess and not on the whole.

Deduction from Payments to Any Person — Section 393(3); and the Non-resident Sportsman — Section 393(2)

Section 393(3) · section 393(2) (Table: Sl. No. 1) · section 211 · section 402(8), (25), (45) and (46)

Seven entries that do not care whether the payee is resident or not.

4.1 The table

Where income or a sum of the nature in column B is credited or paid by the person in column C during the tax year **to any person**, the person responsible for making the payment shall deduct income-tax on the entire amount where the threshold in column D is exceeded, at the rate in column D, **at the time of payment** (or as specified), subject to sub-sections (4), (5), (6), (8) and (9). Note the change of trigger: the general rule here is **payment**, not credit or payment whichever is earlier.

Sl. No.	Nature of income or sum	Payer	Rate	Threshold limit
1	Winnings from any lottery , crossword puzzle, card game or other game of any sort, or from gambling or betting of any form (other than an online game)	Any person	Rates in force (30%)	₹10,000 in a single transaction
2	Winnings from an online game	Any person	Rates in force (30%)	As per Note 1 — on net winnings , no monetary threshold
3	Winnings from a horse race	A bookmaker, or a person licensed for horse racing or for arranging wagering or betting in a race course	Rates in force (30%)	₹10,000 in a single transaction
4	Commission, remuneration or prize to a person stocking, distributing, purchasing or selling lottery tickets	Any person	2%	₹20,000
5	Any sum paid in cash from one or more accounts maintained by any person	A banking company; a banking co- operative society; a post office	2%	₹3 crore — recipient is a co- operative society ₹1 crore — any other recipient
6	Any amount referred to in section 80CCA(2) (a) of the Income-tax Act, 1961 — withdrawal under the National Savings Scheme	Any person	10%	₹2,500
7	Any sum by way of salary, remuneration, commission, bonus or interest paid to a partner of the firm, or credited to his account including his capital account	Any person, being a firm	10%	₹20,000

Sl. No. 6 attracts no separate discussion below; it is set out here in full.

393(3) Table Sl. No. 6 — National Savings Scheme	
Nature of the income or sum	Any amount referred to in section 80CCA(2)(a) of the Income-tax Act, 1961 — a withdrawal from a National Savings Scheme deposit
Payer and payee	Any person to Depositor
Rate	10%

393(3) Table Sl. No. 6 — National Savings Scheme

Time of deduction	At the time of payment
Threshold	₹2,500
No deduction where	The payment does not exceed ₹2,500; and in every case where it is made to the heirs of a deceased assessee [section 393(4) Sl. No. 19]
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

4.2 Winnings, and winnings in kind

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(3) Table Sl. No. 1 — Winnings from a lottery or a card game

Nature of the income or sum	Winnings from a lottery, crossword puzzle, card game or other game of any sort, or from gambling or betting of any form — an online game apart
Payer and payee	Any person to The winner
Rate	Rates in force — 30%
Time of deduction	At the time of payment
Threshold	₹10,000 in respect of a single transaction — not the total for the year
No deduction where	The single winning does not exceed ₹10,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Where the winning is wholly or partly in kind , the payer must satisfy himself that the tax has been paid before releasing it (Note 2)
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(3) Table Sl. No. 3 — Winnings from a horse race

Nature of the income or sum	Winnings from any horse race
Payer and payee	Bookmaker , or a person licensed for wagering or betting in a race course to The winner
Rate	Rates in force — 30%
Time of deduction	At the time of payment
Threshold	₹10,000 in respect of a single transaction
No deduction where	The single winning does not exceed ₹10,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Where the winning is wholly or partly in kind , the payer must satisfy himself that the tax has been paid before releasing it (Note 2)
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

393(3) Table Sl. No. 4 — Commission on lottery tickets

Nature of the income or sum	Commission, remuneration or prize on stocking, distributing, purchasing or selling lottery tickets
Payer and payee	Any person to Stockist, distributor or agent
Rate	2%
Time of deduction	At credit to the payee's account or payment , whichever is earlier
Threshold	₹20,000
No deduction where	The sum does not exceed ₹20,000
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

The threshold for Sl. Nos. 1 and 3 is **₹10,000 in a single transaction** — not the aggregate for the year. A person who wins ₹9,000 on each of six occasions suffers no deduction; a person who wins ₹11,000 once suffers deduction on the whole ₹11,000 at 30%.

Note 2 answers the classic problem of the motor car won in a lottery. Where the **winnings are wholly in kind**, or partly in kind and partly in cash where the cash is not enough to meet the whole liability, the person responsible for paying shall **ensure that the tax has been paid before releasing the winnings**. He does not sell the prize; he holds it until the winner puts him in funds. Failure to do so is prosecuted under section 476(1)(b)(i).

4.3 Net winnings from an online game

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(3) Table Sl. No. 2 — Winnings from an online game	
Nature of the income or sum	Net winnings from an online game
Payer and payee	Any person — in practice the online gaming intermediary to The user or player
Rate	Rates in force — 30% of the net winnings
Time of deduction	At the end of the tax year on the net winnings in the user account, and again on every withdrawal during the year (Note 1)
Threshold	None — the tax is on net winnings, so no threshold is needed
No deduction where	Nothing is excluded; the computation itself takes the losses into account
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]. Where the winning is wholly or partly in kind , the payer must satisfy himself that the tax has been paid before releasing it (Note 2)
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

Sl. No. 2 has **no monetary threshold**. Under Note 1, tax is deducted —

- (a) on the **net winnings in the user account at the end of the tax year**; and
- (b) where there is a **withdrawal** during the year, at the time of withdrawal, on the net winnings comprised in that withdrawal **and** on the remaining net winnings in the user account at the end of the year,

the net winnings in each case being computed in the prescribed manner. “Online game”, “computer resource” and “internet” take their meanings from section 194(2); “user” and “user account” are defined in section 402(45) and (46); and an “online gaming intermediary” is an intermediary offering one or more online games [section 402(25)].

4.4 Cash withdrawal from a bank [Sl. No. 5]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(3) Table Sl. No. 5 — Cash withdrawal	
Nature of the income or sum	Payment in cash from one or more accounts maintained with the payer
Payer and payee	Banking company , co-operative society engaged in banking, or post office to The account holder
Rate	2%
Time of deduction	At the time of payment in cash
Threshold	₹3 crore where the recipient is a co-operative society; ₹1 crore for any other recipient
No deduction where	The recipient is the Government , a banking company, co-operative society or post office, one of their business correspondents , or a white-label ATM operator [section 393(4) Sl. No. 18]
Relief	A certificate for a lower rate is not ordinarily available for this entry — the deduction is on the act of withdrawal, not on income
Rule and Form	Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

This entry is unlike every other in the Chapter, because the sum on which tax is deducted is **not income at all** — it is the assessee's own money. Three consequences follow, and each is a favourite question.

- Section **396** expressly excludes it from the sums deemed to be income received. The withdrawer does not gross up.
- **Rule 203(7)** gives the credit to the person from whose account the tax was deducted, for the tax year of deduction.
- Section 393(4) (Table: Sl. No. 18) exempts payments made to the Government, to a bank, banking co-operative society or post office, to a business correspondent, and to a white label ATM operator.

The threshold of ₹1 crore (₹3 crore for a co-operative society) is tested on the aggregate of cash paid from **one or more accounts** maintained by the recipient with that payer during the tax year.

4.5 Payment to a partner by a firm [Sl. No. 7]

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(3) Table Sl. No. 7 — Payment to a partner by a firm	
Nature of the income or sum	Salary, remuneration, commission, bonus or interest paid or credited to a partner
Payer and payee	A firm to Its partner
Rate	10%
Time of deduction	At credit — including a credit to his capital account — or payment, whichever is earlier (Note 3)
Threshold	₹20,000
No deduction where	The sum does not exceed ₹20,000. Note that interest paid by a firm to its partner is separately outside section 393(1) Sl. No. 5(iii) altogether
Relief	The payee may apply to the Assessing Officer under section 395(1) for a lower or nil rate — Form No. 128 [Rule 213]
Rule and Form	Rule 213. Quarterly statement in Form No. 140 [Rule 219]; certificate in Form No. 131 [Rule 215]

A firm paying or crediting salary, remuneration, commission, bonus or interest to a partner deducts 10% once the aggregate exceeds ₹20,000 in the tax year. Two points of construction matter. First, the credit may be to **any** account of the partner **including his capital account**, so a year-end credit of interest to capital attracts the deduction. Second, the partner's **share of profit** is not within the entry at all — it is exempt in his hands under Schedule III (Table: Sl. No.

2) and there is nothing to deduct. Interest paid by a firm to a partner is also expressly excluded from Sl. No. 5(iii) of section 393(1) by section 393(4) (Table: Sl. No. 7(c)(vii)), so the two entries do not overlap.

4.6 Payment to a non-resident sportsman, entertainer or sports association [section 393(2), Sl. No. 1]

Section 393(2) carries the Table of payments to non-residents. One entry of it — Sl. No. 1 — is part of this paper. It deducts tax from the income on which section 211 charges a non-resident sportsman, entertainer or sports association at a flat rate.

The provision at a glance — read the block, then the discussion that follows unpacks it.

393(2) Table Sl. No. 1 — Non-resident sportsman, entertainer or sports association	
Nature of the income or sum	Any income referred to in section 211 — (a) of a sportsman (including an athlete) who is not a citizen of India and is a non-resident, by way of participation in India in any game or sport (other than a game the winnings from which are taxed under section 194(1)), advertisement, or contribution of articles relating to a game or sport in India to newspapers, magazines or journals; (b) any amount guaranteed to a non-resident sports association or institution in relation to a game or sport played in India; (c) the income of an entertainer, not a citizen of India and a non-resident, from his performance in India
Payer and payee	Any person to (a) a non-resident sportsman (including an athlete) or entertainer who is not a citizen of India; or (b) a non-resident sports association or institution
Rate	20% , increased by surcharge where applicable and by the Health and Education Cess at 4%, the payee being a non-resident
Time of deduction	At credit to the payee's account or at payment — in cash, by cheque or draft or by any other mode — whichever is earlier [section 393(2)(b)]
Threshold	None — tax is deducted from the first rupee
Rule and Form	Quarterly statement in Form No. 144 [Rule 219]; certificate in Form No. 131 [Rule 215]; information on the payment to the non-resident in Form No. 145 [section 397(3)(d), Rule 220]

Why the entry exists. Section 211 taxes such income in the payee's hands at **20%**, and allows **no deduction** for any expenditure or allowance against it [section 211(2)]. The visiting player or performer is usually in India for a few days. The deduction at source at the same 20% therefore collects the whole of his tax at the point of payment, and section 211(3) completes the scheme: a non-resident whose total income consists only of such income, and from whose income the tax has been deducted under Chapter XIX-B, **need not furnish a return** under section 263(1).

Three points of construction. First, the sportsman and the entertainer must be both a **non-resident** and **not a citizen of India** — an Indian citizen who is non-resident falls outside the entry. Secondly, the payer may be **any person**, an individual included, and there is no threshold. Thirdly, the rate is the flat rate of the entry and not the rate in force, but because the payee is a non-resident the surcharge (where the payment crosses the limits) and the cess are added to it.

ILLUSTRATION 4.3 — THE VISITING TENNIS PLAYER

Courtside Events Pvt. Ltd. pays ₹15,00,000 on 10 November 2026 to a tennis player, a citizen and resident of Spain, for an exhibition match in Delhi, and ₹4,00,000 to him for appearing in an advertisement. *What must the company deduct, and must the player file a return?*

Both sums are income referred to in section 211(1)(a) — participation in a sport in India, and advertisement. Section 393(2) (Table: Sl. No. 1) applies to the aggregate of **₹19,00,000**. Tax at 20% = ₹3,80,000; no surcharge, the payment not exceeding ₹50 lakh; cess at 4% = ₹15,200. Tax to be deducted = **₹3,95,200**, at the time of credit or payment, whichever is earlier. If this is his only income in India and the tax has been deducted, he need not file a return [section 211(3)].

4.7 Illustrations

ILLUSTRATION 4.1 — THE CAR WON IN A LOTTERY

Shri Manoj wins a motor car valued at ₹8,00,000 and ₹50,000 in cash in a lottery conducted by Lucky Draws Ltd. *What must the company do before handing over the prize?*

The winnings are ₹8,50,000 and the rate in force is **30%**, so the tax is **₹2,55,000**. The cash portion of ₹50,000 is not enough to meet it. Under Note 2 to section 393(3), the company must **ensure that the tax has been paid before releasing the winnings** — that is, it must either recover ₹2,05,000 from Shri Manoj in addition to applying the ₹50,000, or pay the balance itself and recover it. It may not hand over the car and hope to collect later. If it fails to do so, it is an assessee in default under section 398(1), and the Assessing Officer may impose a **penalty equal to the tax** it failed to ensure the payment of [section 448(b)(i)].

ILLUSTRATION 4.2 — A FIRM'S PAYMENTS TO ITS PARTNER

Ganga & Sons, a firm, credits to the capital account of its working partner Shri Suresh, on 31 March 2027, working partner's remuneration of ₹6,00,000 and interest on capital of ₹1,80,000. It also credits his share of profit of ₹4,00,000. *On what amount must the firm deduct tax?*

Section 393(3) (Table: Sl. No. 7) catches the remuneration and the interest, the aggregate of ₹7,80,000 exceeding ₹20,000, and the credit to the capital account is expressly within the entry. Deduction at 10% = **₹78,000**. The share of profit of ₹4,00,000 is exempt in the partner's hands under Schedule III (Table: Sl. No. 2) and is **not** within the entry. The tax is deposited by **30 April 2027**, the credit having been made in March [Rule 218(2)(a)].

Advocate Dr. S. B. Rathore

Where No Deduction is to be Made

Section 393(4) to (9) · Rules 208, 210 and 211 · Forms No. 121 and 125 Four different ways in which the obligation to deduct is displaced — and they are not interchangeable.

5.1 The nineteen exemptions [section 393(4)]

Section 393(4) sets out a table in which column B names the deduction provision and column C states the condition in which no deduction is to be made under it. The nineteen entries, in summary, are these.

Sl. No.	Deduction provision	Condition for no deduction
1	Commission or brokerage — 393(1) Sl. No. 1(ii)	Commission or brokerage payable by BSNL or MTNL to their public call office franchisees
2	Rent — 393(1) Sl. No. 2(ii)	Rent paid to a real estate investment trust in respect of a real estate asset owned directly by it
3	Compulsory acquisition — 393(1) Sl. No. 3(iii)	An award or agreement exempt under section 96 of the Right to Fair Compensation Act, 2013
4	Units — 393(1) Sl. No. 4(i)	Where the income is of the nature of a capital gain
5	Business trust units — 393(1) Sl. No. 4(ii)	Income of the nature in Schedule V [Sl. No. 3.B(b)] where the SPV has not opted under section 200
6	Interest on securities — 393(1) Sl. No. 5(i)	National Development Bonds; notified debentures; any Central or State Government security other than 8% Savings (Taxable) Bonds 2003, 7.75% Savings (Taxable) Bonds 2018, Floating Rate Savings Bonds 2020 and other notified securities; and interest payable to LIC, GIC and its four companies, any other insurer, or a business trust through an SPV
7	Other interest — 393(1) Sl. Nos. 5(ii) and 5(iii)	Interest paid to a bank, a statutory financial corporation, LIC, UTI or an insurer; interest paid by a co-operative society to a member or to another co-operative society (subject to the ₹50 crore turnover test); deposits with a primary agricultural credit society; Government interest; interest on a notified scheme deposit; savings-bank interest with a banking company; interest on a Motor Accidents Claims Tribunal award to an individual, or to any other person where the aggregate does not exceed ₹50,000 in the tax year; interest on a zero coupon bond; and interest paid by a firm to a partner
8	Contractors — 393(1) Sl. No. 6(i)	A transport contractor owning ten or fewer goods carriages who furnishes a declaration with his PAN, the payer reporting the particulars; and a sum paid by an individual or HUF exclusively for personal purposes
9	Professional or technical fees — 393(1) Sl. No. 6(iii)	A sum paid by an individual or HUF exclusively for personal purposes
10	Dividend — 393(1) Sl. No. 7	Dividend paid to LIC, GIC and its four companies, any other insurer, a business trust through an SPV, any notified person; and to an individual shareholder where the dividend is paid otherwise than in cash and does not exceed ₹10,000 in the tax year
11	E-commerce — 393(1) Sl. No. 8(v)	The participant is an individual or HUF , gross sales or services do not exceed ₹5,00,000 in the tax year, and he has furnished his PAN or Aadhaar

Sl. No.	Deduction provision	Condition for no deduction
12	Virtual digital asset — 393(1) Sl. No. 8(vi)	Consideration in the tax year not exceeding ₹50,000 where payable by a small individual or HUF, and ₹10,000 in any other case
13 to 17	Various entries of 393(2)	Business trust income where the SPV has not opted; investment fund income not chargeable to tax; UTI units held by a non-resident Indian out of NRE funds [Rule 210]; capital gains of a Foreign Institutional Investor on securities under section 210; and exempt income of a specified fund
18	Cash payment — 393(3) Sl. No. 5	Payment to the Government , a bank or banking co-operative society or post office, a business correspondent , or a white label ATM operator
19	National Savings Scheme — 393(3) Sl. No. 6	Payment made to the heirs of an assessee

5.2 The four payees who are never subjected to deduction [section 393(5)]

“Irrespective of anything contained in this Chapter, the tax shall not be deducted by any person from any amount payable to —

- (a) the **Government**;
- (b) the **Reserve Bank of India**;
- (c) a corporation established by or under a Central Act which is exempt from income-tax on its income under any law in force;
- (d) a **Mutual Fund** specified in Schedule VII (Table: Sl. No. 20 or 21), where the amount is payable to it by way of interest, or dividend on securities or shares owned by it or in which it has full beneficial interest, or any other income accruing to it.”

This is a blanket immunity attaching to the **payee**, and it overrides every entry in every table.

5.3 The self-declaration [section 393(6) and (7), Rule 211, Form No. 121]

A person may stop the deduction at source by declaring in writing, in duplicate, that the tax on his estimated total income of the tax year will be **nil**. The declaration is in **Form No. 121** [Rule 211(1)] and may be furnished electronically after verification through an electronic process, or on paper.

Who may declare	In respect of which deduction
An individual, being a resident	(a) accumulated balance of provident fund — section 392(7); (b) insurance commission — 393(1) Sl. No. 1(i); (c) rent — 393(1) Sl. No. 2(ii); (d) income in respect of units — 393(1) Sl. No. 4(i); (e) interest — 393(1) Sl. Nos. 5(i), 5(ii) and 5(iii); (f) life insurance payment — 393(1) Sl. No. 8(i); (g) dividend — 393(1) Sl. No. 7
Any person other than a company or a firm , not being an individual covered above	The same items (a) to (f) — not dividend

THE CONDITION THAT DEFEATS MOST DECLARATIONS

The **Note** to section 393(6) provides that the sub-section does **not** apply to a person other than a **resident individual of sixty years or more**, if the aggregate of the income of the nature covered, credited or paid or likely to be credited or paid during the tax year, exceeds the maximum amount not chargeable to tax. For Tax Year 2026-27 that figure is **₹4,00,000** under the default regime.

So a person below sixty must satisfy **two** tests — estimated tax nil, *and* the covered income not exceeding ₹4,00,000. A senior citizen of sixty or more satisfies **one** — estimated tax nil. This is the successor to the distinction between Form 15G and Form 15H under the repealed Act, and the two forms have now become one.

Section 393(7), as substituted by the Finance Act, 2026, requires the payer to deliver the declaration to the prescribed income-tax authority **on or before the seventh day of the month immediately following the end of**

each quarter in which it is furnished to him. Before the amendment the delivery was monthly. Under Rule 211(3) and (4) the payer allots a **unique identification number** to each declaration each quarter and reports the particulars in the quarterly statement even where no tax has been deducted; under Rule 211(5) he must be able to produce the declaration for **seven years** from the end of the tax year in which it was received.

A further clause inserted in section 393(6) permits the declaration to be furnished **electronically to a depository** in respect of income from units, interest on securities or dividends held with it and listed on a recognised stock exchange. That clause takes effect from **1 April 2027** and does not apply to Tax Year 2026-27.

5.4 The specified senior citizen [Rule 208, Form No. 125]

A “specified senior citizen” is a resident individual who (a) is **seventy-five years or more** at any time during the tax year; (b) has **pension income and no other income except interest** received from an account in the **same**

specified bank in which he receives his pension; and (c) has furnished a declaration in **Form No. 125** [section 402(39), Rule 208]. The specified bank then computes his total income after allowing the deduction under Chapter VIII and the rebate under section 156, and deducts at the rates in force [section 393(1), Table: Sl. No. 8(iii)]. The bank must keep the declaration and the evidence and produce them to the Chief Commissioner when required.

This is not an exemption from deduction; it is a substitution of one deduction for all others, and it carries with it a relief from filing a return of income. Note 5 to section 393(1) gives it precedence over every other provision.

5.5 Two further exclusions [section 393(8) and (9)]

- **393(8)** — irrespective of section 393(6), no deduction is made from interest paid by an **Offshore Banking Unit** on a borrowing from, or a deposit made on or after 1 April 2005 by, a non-resident or a person not ordinarily resident.
- **393(9)** — irrespective of anything in the Chapter, no deduction is made from any payment to a person for, or on behalf of, the **New Pension System Trust** referred to in Schedule VII (Table: Sl. No. 41).

5.6 Illustrations

ILLUSTRATION 5.1 — WHO MAY FILE FORM NO. 121

Consider four depositors of the Punjab National Bank for Tax Year 2026-27, each of whom expects a nil tax liability. *Which of them may stop the deduction by filing Form No. 121?*

- (a) Smt. Radha, aged 52, resident, expecting bank interest of ₹3,20,000. **Yes** — her covered income does not exceed ₹4,00,000 and her estimated tax is nil.
- (b) Shri Ashok, aged 55, resident, expecting bank interest of ₹4,60,000 but with a large loss under the head “Income from house property”, so that his tax is nil. **No** — the covered income exceeds ₹4,00,000 and he is below sixty. The Note to section 393(6) defeats him. His remedy is a certificate under section 395(1) in Form No. 128.
- (c) Shri Bhola, aged 68, resident, expecting bank interest of ₹7,00,000 with deductions bringing his tax to nil. **Yes** — he is a resident individual of sixty or more, and the ceiling of ₹4,00,000 does not apply to him.
- (d) Chandra Traders, a partnership firm, expecting nil tax. **No** — section 393(6) is not available to a firm or a company at all.

ILLUSTRATION 5.2 — DIVIDEND TO A SMALL SHAREHOLDER

Vardhman Ltd., a domestic company, declares dividend in September 2026 and credits ₹9,400 by NEFT to the account of Shri Naresh, an individual, and ₹9,400 to Mahila Nidhi Trust. *Is tax to be deducted?*

On the payment to **Shri Naresh** — **no**. Section 393(4) (Table: Sl. No. 10(f)) exempts a dividend paid to an individual otherwise than in cash where the aggregate for the tax year does not exceed ₹10,000. Both conditions are satisfied.

On the payment to **Mahila Nidhi Trust** — **yes**. The exemption is confined to a shareholder “being an individual”. A trust is not an individual, and the threshold in column D for dividend is nil. Deduction at 10% = **₹940**. The trust’s remedy, if its income is exempt, is a certificate under section 395(1) or, if it is eligible, a declaration in Form No. 121.

Collection of Tax at Source — Section 394

Section 394 · section 402(6), (21), (22), (26), (31) and (33) · Rule 212 · Form No. 127 The Finance Act, 2026 rewrote six of the nine rates in this table. Learn the new figures; the old ones are given only so that the change may be seen.

6.1 The charge, and the time of collection

Section 394(1) requires every person specified in column C of the Table **to collect tax** —

- (a) on the receipts specified in column B;
- (b) at the rate specified in column D; and
- (c) at the time of **debiting the amount payable** by the buyer, licensee or lessee to his account, **or** at the time of **receipt** of the amount from him in cash or by cheque or draft or any other mode, **whichever is earlier**.

The collector adds the tax to the invoice and recovers it along with the price. Unlike a deduction, a collection does not reduce what the other party receives; it increases what he pays.

6.2 The table of nine receipts, and the new rates

The provision at a glance — read the block, then the discussion that follows unpacks it.

394(1) Table Sl. No. 1 — Alcoholic liquor	
Nature of the receipt	Sale of alcoholic liquor for human consumption
Collector and collectee	Seller to Buyer
Rate	2% (was 1%)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil — collect on the whole sale value
No collection where	The buyer is a public sector company , the Central or a State Government, a foreign embassy, High Commission, legation, consulate or trade representation, a club , or a person buying in retail for his own consumption . A resident buyer who certifies in Form No. 127 that the goods are for manufacture, processing or the generation of power , and not for trading, is not charged at all [section 394(2)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Rule 212, Form No. 127 in duplicate — the collector forwards one copy to the Commissioner by the 7th of the month following its receipt [section 394(3)]. Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 2 — Tendu leaves

Nature of the receipt	Sale of tendu leaves
Collector and collectee	Seller to Buyer
Rate	2% (was 5%)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil

No collection where	The buyer is a public sector company , the Central or a State Government, a foreign embassy, High Commission, legation, consulate or trade representation, a club , or a person buying in retail for his own consumption . A resident buyer who certifies in Form No. 127 that the goods are for manufacture, processing or the generation of power , and not for trading, is not charged at all [section 394(2)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Rule 212, Form No. 127 in duplicate — the collector forwards one copy to the Commissioner by the 7th of the month following its receipt [section 394(3)]. Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 3 — Timber and forest produce

Nature of the receipt	Sale of timber , whether obtained under a forest lease or otherwise, or of any other forest produce obtained under a forest lease
Collector and collectee	Seller to Buyer
Rate	2% (<i>unchanged</i>)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil
No collection where	The buyer is a public sector company , the Central or a State Government, a foreign embassy, High Commission, legation, consulate or trade representation, a club , or a person buying in retail for his own consumption . A resident buyer who certifies in Form No. 127 that the goods are for manufacture, processing or the generation of power , and not for trading, is not charged at all [section 394(2)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Rule 212, Form No. 127 in duplicate — the collector forwards one copy to the Commissioner by the 7th of the month following its receipt [section 394(3)]. Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 4 — Scrap

Nature of the receipt	Sale of scrap
Collector and collectee	Seller to Buyer
Rate	2% (<i>was 1%</i>)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil
No collection where	The buyer is a public sector company , the Central or a State Government, a foreign embassy, High Commission, legation, consulate or trade representation, a club , or a person buying in retail for his own consumption . A resident buyer who certifies in Form No. 127 that the goods are for manufacture, processing or the generation of power , and not for trading, is not charged at all [section 394(2)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Rule 212, Form No. 127 in duplicate — the collector forwards one copy to the Commissioner by the 7th of the month following its receipt [section 394(3)]. Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 5 — Minerals

Nature of the receipt	Sale of minerals , being coal, lignite or iron ore
Collector and collectee	Seller to Buyer
Rate	2% (<i>was 1%</i>)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil
No collection where	The buyer is a public sector company , the Central or a State Government, a foreign embassy, High Commission, legation, consulate or trade representation, a club , or a person buying in retail for his own consumption . A resident buyer who certifies in Form No. 127 that the goods are for manufacture, processing or the generation of power , and not for trading, is not charged at all [section 394(2)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Rule 212, Form No. 127 in duplicate — the collector forwards one copy to the Commissioner by the 7th of the month following its receipt [section 394(3)]. Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 6 — Motor vehicle and notified goods

Nature of the receipt	Sale consideration exceeding ₹10,00,000 of a motor vehicle , or of any other goods notified by the Central Government
Collector and collectee	Seller to Buyer
Rate	1% (<i>unchanged</i>)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	₹10,00,000
No collection where	The consideration does not exceed ₹10,00,000; or the buyer is within the excluded class, a local authority (Schedule III Sl. No. 22), or a public sector company engaged in carrying passengers
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 7 — Liberalised Remittance Scheme

Nature of the receipt	Remittance under the Liberalised Remittance Scheme of an amount, or an aggregate of amounts, exceeding ₹10,00,000
Collector and collectee	Authorised dealer to The remitter
Rate	(a) 2% for education or medical treatment (<i>was 5%</i>); (b) 20% for any other purpose
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	₹10,00,000 in the aggregate during the tax year

No collection where	The amount remitted is an education loan from a financial institution defined in section 129(3)(b) [section 394(4)(b)]; tax has already been collected on the same amount by the seller under Sl. No. 8 [section 394(4)(a)]; or the buyer was liable to deduct under another provision and has deducted [section 394(5)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 8 — Overseas tour programme package

Nature of the receipt	Sale of an overseas tour programme package , including expenses for travel, hotel stay, boarding, lodging or any similar or related expenditure
Collector and collectee	Seller , the tour operator to Buyer of the package
Rate	2% on the whole amount (was 5% up to ₹10 lakh and 20% above it)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil — the Finance Act, 2026 removed the threshold, so the tax is collected whatever the amount
No collection where	The buyer was liable to deduct tax under another provision and has deducted it [section 394(5)]
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

394(1) Table Sl. No. 9 — Parking lot, toll plaza, mine or quarry

Nature of the receipt	Grant of a lease or licence of a parking lot, toll plaza, mine or quarry for the purpose of business, excluding the mining and quarrying of mineral oil including petroleum and natural gas
Collector and collectee	Licensor or lessor to Licensee or lessee
Rate	2% (unchanged)
Time of collection	At the debit of the amount payable to the buyer, licensee or lessee, or at its receipt from him, whichever is earlier
Threshold	Nil
No collection where	The licensee or lessee is a public sector company — such a person is outside the definition altogether
Relief	The buyer, licensee or lessee may apply under section 395(3) for collection at a lower rate — Form No. 128 [Rule 213]. A nil certificate is not available on the collection side
Rule and Form	Quarterly statement in Form No. 143 [Rule 219]; certificate in Form No. 133 [Rule 215]

Sl. No.	Nature of receipt	Person who collects	Rate for TY 2026-27	Rate before the Finance Act, 2026
1	Sale of alcoholic liquor for human consumption	Seller	2%	1%
2	Sale of tendu leaves	Seller	2%	5%

Sl. No.	Nature of receipt	Person who collects	Rate for TY 2026-27	Rate before the Finance Act, 2026
3	Sale of timber whether obtained under a forest lease or otherwise, or any other forest produce (not being timber or tendu leaves) obtained under a forest lease	Seller	2%	2%
4	Sale of scrap	Seller	2%	1%
5	Sale of minerals , being coal, lignite or iron ore	Seller	2%	1%
6	Sale consideration exceeding ₹10,00,000 in the case of a motor vehicle , or any other goods notified by the Central Government	Seller	1%	1%
7	Remittance under the Liberalised Remittance Scheme of an amount or aggregate exceeding ₹10,00,000	Authorised dealer	(a) 2% — education or medical treatment (b) 20% — any other purpose	(a) 5% (b) 20%
8	Sale of an overseas tour programme package , including expenses for travel, hotel stay, boarding, lodging or any similar or related expenditure	Seller	2% — with no threshold	5% up to ₹10 lakh; 20% above ₹10 lakh
9	Use of a parking lot, toll plaza, mine or quarry for the purpose of business, excluding the mining and quarrying of mineral oil (including petroleum and natural gas)	Licensor or lessor	2%	2%

WHY THE RATES WERE CHANGED

The Memorandum to the Finance Bill, 2026 explains that section 394(1) “provides multiple rates for collection of tax at source” and that the object of the amendment is to **rationalise the rates by providing uniform rates to the extent possible** and to reduce some of them so as to give relief to collectees. In the case of the overseas tour package the threshold was also removed, so that the tax is collected at 2% **irrespective of the amount**, in order to address “the concern of shifting of business from domestic tour operators to overseas tour operators”. The amendments take effect from **1 April 2026** and therefore govern the whole of Tax Year 2026-27.

6.3 “Seller”, “buyer”, “licensor” and “licensee”

Expression	Meaning [section 402]
Seller [402(33)]	For Sl. Nos. 1 to 6 — the Central Government; a State Government; a local authority, corporation or authority established by a Central, State or Provincial Act; a company, firm or co-operative society; and an individual or HUF whose turnover exceeds ₹1 crore in business or ₹50 lakh in profession in the immediately preceding tax year. For Sl. No. 8 — a person who sells an overseas tour programme package.
Buyer [402(6)]	For Sl. Nos. 1 to 5 — a person who obtains the goods, or the right to receive them, in any sale by auction, tender or any other mode, but not a public sector company, the Central or a State Government, an embassy, High Commission, legation, commission, consulate or trade representation of a foreign State, a club, or a buyer in a retail sale of goods purchased for personal consumption . For Sl. No. 6 — a person who obtains a motor vehicle or notified goods, but not the diplomatic bodies above, a local authority, or a public sector company engaged in carrying passengers.
Licensee or lessee [402(21)]	Any person other than a public sector company who has been granted a lease or licence, or has entered into a contract or otherwise received a right or interest, in any parking lot, toll plaza, mine or quarry, for the use of it for business.

Expression	Meaning [section 402]
Licensor or lessor [402(22)]	The person who grants such a lease, licence, contract, right or interest to a person other than a public sector company.
Scrap [402(31)] Waste and scrap from the manufacture or mechanical working of materials which is definitely not usable as such because of breakage, cutting up, wear and other reasons.	
Overseas tour package Any tour package offering a visit to a country or territory outside India, including expenses for travel, programme hotel stay, boarding, lodging or any other expenditure of a similar nature or in relation to it. package [402(26)]	

6.4 The manufacturer's declaration [section 394(2) and (3), Form No. 127]

No collection is made in respect of the receipts at **Sl. Nos. 1 to 5** from a buyer who is **resident in India** and who furnishes a written declaration in duplicate that the goods are to be utilised —

- (a) for the purpose of **manufacturing, processing or producing articles or things, or for generating power**; and
- (b) **not** for trading purposes.

The declaration is in **Form No. 127** [Rule 212(1)], furnished in duplicate to the collector, who delivers one copy to the **Chief Commissioner or Commissioner on or before the seventh day of the month succeeding the month in which the declaration is furnished to him** [section 394(3), Rule 212(3)]. Failure to deliver it in due time attracts a penalty of **₹500 for every day** during which the failure continues, under section 465(2)(j).

The declaration is not available for Sl. Nos. 6 to 9 — a motor vehicle, an LRS remittance, an overseas tour package or a parking lot. And it becomes **invalid** if the buyer does not furnish a valid PAN [section 397(2)(f)(i)].

6.5 The three cases in which no collection is made [section 394(4) and (5)]

- **394(4)(a)** — an authorised dealer does not collect on an LRS remittance to the extent tax has already been collected by a seller on an overseas tour package. The same money is not taxed twice.
- **394(4)(b)** — no collection on an LRS remittance where the amount remitted is a **loan obtained from a financial institution** as defined in section 129(3)(b) **for the purpose of pursuing education**.
- **394(5)** — no collection by the authorised dealer or the seller on an LRS remittance or an overseas tour package where **the buyer is liable to deduct tax at source under any other provision and has deducted it**.

6.6 Deduction and collection compared

Point	Deduction at source [392, 393]	Collection at source [394]
Direction of the money	Withheld out of a sum payable to the payee	Added to a sum receivable from the buyer
Who bears the tax	The payee	The buyer, licensee or lessee
Time	Credit or payment, whichever is earlier (payment only, for salary and for section 393(3))	Debit to the buyer's account or receipt , whichever is earlier
Relief for nil liability	Declaration in Form No. 121 [section 393(6)]	Declaration in Form No. 127 for Sl. Nos. 1 to 5 only [section 394(2)]
Lower rate certificate	Section 395(1) — lower rate or nil	Section 395(3) — lower rate only , never nil

Point	Deduction at source [392, 393]	Collection at source [394]
Higher rate for want of PAN	The higher of the specified rate, the rates in force, 5% or 20% [section 397(2)(b)(i)]	The higher of twice the specified rate or 5%, but not exceeding 20% [section 397(2)(b)(ii)]
Quarterly statement	Form No. 138, 140 or 144	Form No. 143
Certificate	Form No. 130, 131 or 132	Form No. 133
Penalty for failure	Section 448 — penalty equal to the tax not deducted	Section 449 — penalty equal to the tax not collected

6.7 Illustrations

ILLUSTRATION 6.1 — SCRAP SOLD TO A MANUFACTURER AND TO A TRADER

Konark Steels Ltd. sells scrap during Tax Year 2026-27 — ₹20,00,000 to Ravi Castings Pvt. Ltd., which furnishes a declaration in Form No. 127 that the scrap will be used in manufacture, and ₹15,00,000 to Sundar Traders, which furnishes no declaration. *What must the company collect?*

- **Ravi Castings** — **nothing**. Section 394(2) exempts the receipt where a resident buyer declares that the goods are for manufacturing, processing or producing and not for trading. The company must deliver one copy of Form No. 127 to the Commissioner by the seventh of the following month.
- **Sundar Traders** — **₹30,000**, being 2% of ₹15,00,000, the rate having been raised from 1% to 2% by the Finance Act, 2026 with effect from 1 April 2026.

ILLUSTRATION 6.2 — THE FOREIGN TOUR AND THE FOREIGN REMITTANCE

Shri Karan books an overseas tour programme package for ₹6,00,000 from Yatra Tours in June 2026, and in September 2026 remits ₹14,00,000 under the Liberalised Remittance Scheme for his daughter's university fees abroad, of which ₹9,00,000 is out of an education loan taken from a scheduled bank. *What is collected?*

- **The tour package** — the Finance Act, 2026 removed the threshold. Tax is collected at **2% of ₹6,00,000 = ₹12,000**, irrespective of the amount.
- **The remittance** — the purpose is education, so the rate is **2%** and not 20%. Of the ₹14,00,000, the ₹9,00,000 funded by an education loan from a financial institution is **wholly exempt** under section 394(4) (b). The remaining ₹5,00,000 does not exceed the threshold of ₹10,00,000 for Sl. No. 7, so **nothing is collected** on the remittance.

Had the whole ₹14,00,000 been the family's own money, the threshold would have been crossed and the collection would have been 2% of ₹14,00,000 = ₹28,000.

Certificates and Declarations — Section 395

Section 395 · Rules 209, 211 to 215 · Forms No. 121, 125 to 133

The four certificates of the Chapter — two that stop or reduce a deduction, and two that prove it was made.

7.1 The certificate for a lower rate or no deduction [section 395(1) and (6), Rule 213]

Where tax is required to be deducted on any income or sum under the Chapter, then subject to the rules —

- (a) the **payee** may make an application before the Assessing Officer for deduction at a **lower rate** or for **no deduction**;
- (b) the Assessing Officer, **on being satisfied that the total income of the payee justifies** it, shall issue an appropriate certificate; and
- (c) when such a certificate is issued, the person responsible for paying shall deduct at the rate specified in it, or deduct nothing, **till its validity**.

The application is in **Form No. 128** [Rule 213(1)]. Rule 213(3) directs the Assessing Officer to consider the tax payable on the estimated income of the year, the tax paid or payable on the returned, assessed or estimated income of the **last four tax years**, the existing liability under this Act and under the repealed Act, and the advance tax and the tax already deducted or collected. Where the applicant is a specified entity under section 263(9)(c) or a registered non-profit organisation, it must also be approved for exemption on the date of the application and on the date of the certificate, and must have furnished returns for the last four tax years [Rule 213(4)].

Rule 213(7) makes the certificate valid for the period of the tax year specified in it unless cancelled earlier; Rule

213(8) requires it to be issued in the name of the person responsible for deducting or collecting, under advice to

the applicant, and to be valid only for a specified payment from a specified deductor to the extent of the amount specified. Where the deductors are **likely to exceed one hundred** and their details are not available, Rule 213(9) permits the certificate to be issued in the applicant's own name, authorising him to receive the payments at the appropriate rate and to generate the deductor's certificate from the Department's portal.

WHAT THE FINANCE ACT, 2026 ADDED — SECTION 395(6)

The application under section 395(1)(a) may now also be filed **before the prescribed income-tax authority**, subject to prescribed conditions; and that authority, **on electronic verification** of the contents, may either issue a certificate for deduction at a lower rate or for no deduction, or reject the application for non-fulfilment of the conditions or for being incomplete. Section 395(1)(c) was correspondingly amended so that a certificate issued under sub-section (6) is binding on the payer in the same way as one issued by the Assessing Officer.

7.2 The payer's application for the chargeable proportion [section 395(2), Rule 214]

Where a person responsible for paying a **non-resident** a sum falling under section 393(2) (Table: Sl. No. 17) considers that the **whole** of the sum would not be chargeable in the hands of the recipient, he may apply to the Assessing Officer in **Form No. 129** for a determination of the **appropriate proportion** chargeable to tax; and when the determination is made, tax is deducted only on that proportion.

Rule 214(2) requires the Assessing Officer to examine chargeability under the Act read with the relevant Double Taxation Avoidance Agreement. The certificate is valid only for the named non-resident and for the period specified, and a fresh application may be made after expiry or within three months before it [Rule 214(4) and (5)]. Section 400(3) empowers the Board to notify classes of persons or cases in which such an application is to be made even where the sum may not be chargeable.

The contrast is worth memorising: section 395(1) is the payee's application about his own total income; section 395(2) is the

payer's application about the chargeability of a particular sum to a non-resident.

7.3 The certificate for collection at a lower rate [section 395(3)]

The buyer, licensee or lessee may apply for a certificate for collection at a **lower rate**, and the Assessing Officer, on being satisfied that his total income justifies it, shall issue one; the collector then collects at that rate till its validity.

The application is again in Form No. 128. There is no certificate for nil collection. The Act permits a nil certificate

only on the deduction side.

7.4 The certificate of deduction or collection [section 395(4), Rule 215]

Every person deducting or collecting tax must issue a certificate to the deductee or collectee specifying **the amount of tax deducted or collected, the rate**, and such other particulars as may be prescribed, within the prescribed period. An employer who has paid the tax on a non-monetary perquisite under section 392(2)(a) must issue a certificate to the employee that the tax has been paid, with the amount and the rate [section 395(4)(b)].

Rule 215(1) requires the certificate to be generated and downloaded from the web portal specified by the Director General of Income-tax (Systems).

Sl. No.	Deduction, payment or collection under	Form	Due date
1	Section 392 (other than sub-section (7)) and section 393(1) (Table: Sl. No. 8(iii)) — salary , and the specified senior citizen	130	By the 15th June of the financial year immediately following the tax year in which the income was paid and the tax deducted
2	Sections 392(7), 393(1) other than Sl. Nos. 2(i), 3(i), 6(ii) and 8(vi), and sections 393(2) and (3) — all ordinary non-salary deductions	131	Within fifteen days from the due date for furnishing the quarterly statement under Rule 219
3	Section 393(1) — Sl. No. 2(i) rent, Sl. No. 3(i) immovable property, Sl. No. 6(ii) individual or HUF payments, Sl. No. 8(vi) virtual digital asset — the four Form 141 deductions	132	Within fifteen days from the due date for furnishing the challan-cum-statement in Form No. 141
4	Collection under section 394(1)	133	Within fifteen days from the due date for furnishing the statement of tax collected under Rule 219

Where an employee has served **more than one employer** in the year, each employer issues Part A and Part B of Form No. 130 for his own period, and Part C may be issued by each of them or by the last employer, **at the option of the employee** [Rule 215(2)]. A **duplicate** certificate may be issued on request where the original is lost, certified as a duplicate [Rule 215(3)]. The deductor may authenticate the certificate by **digital signature**, in which case he must ensure that its contents cannot be changed and that it carries a control number for which a log is maintained [Rule 215(4) and (5)].

7.5 Cancellation [section 395(5)]

The Assessing Officer may **cancel** a certificate granted under sub-section (1) or (3) **after giving the applicant a reasonable opportunity**. A certificate for dividend under Rule 213(5) also ceases to operate, to the extent of the shares transferred, from the date of the notice to the company for their transfer [Rule 213(6)].

7.6 The branch certificate [Rule 209, Form No. 126]

Rule 209 provides a special certificate for a foreign bank or insurer, and for any other non-resident carrying on business through a branch in India, authorising it to receive interest and other sums **without any deduction**. The application is in **Form No. 126**.

Applicant	Conditions	Income covered
A banking company or insurer which is not a domestic company and carries on operations in India through a branch	(a) regularly assessed to income-tax in India and has furnished returns for the last five tax years due on or before the date of the application; (b) not in default in respect of any tax, interest, penalty, fine or other sum; and (c) the interest is receivable by the branch on its own account and not for its head office, a foreign branch or any other person	Interest not being interest on securities (other than securities under section 393(4) Table: Sl. No. 6), or any other sum, not being dividends
Any other person carrying on business or profession in India through a branch	The conditions above, and he has carried on the business or profession in India continuously for not less than five years , and the value of his fixed assets in India as shown in his books exceeds ₹50 lakh	Any sum not being interest or dividends

The certificate is valid for the tax year specified unless cancelled, and a fresh application may be made after expiry or within three months before it [Rule 209(2) and (3)]. Rule 213(2) provides that a person eligible for a certificate under Rule 209 need not apply in Form No. 128.

7.7 Every declaration and certificate on one page

Form	What it is	Who furnishes or issues it	Provision
121	Declaration of nil estimated tax, to stop the deduction	The payee, to the payer	Section 393(6); Rule 211
122	Particulars of other income and other employers, for salary deduction	The employee, to the employer	Section 392(4); Rule 204
123	Statement of perquisites and profits in lieu of salary, where salary exceeds ₹1,50,000	The employer, to the employee	Section 392(5)(a); Rule 204(2)
124	Evidence of claims — house rent allowance, leave travel concession, interest on housing loan, Chapter VIII deductions	The employee, to the employer	Section 392(5)(b); Rule 205
125	Declaration by a specified senior citizen of 75 years or more	The pensioner, to the specified bank	Section 402(39); Rule 208
126	Application by a branch of a foreign bank, insurer or other person for a nil-deduction certificate	The payee, to the Assessing Officer	Section 395(1); Rule 209
127	Declaration by a buyer that the goods are for manufacture and not for trading	The buyer, to the collector	Section 394(2); Rule 212
128	Application for a certificate for deduction at a lower rate or no deduction, or collection at a lower rate	The payee, buyer, licensee or lessee, to the Assessing Officer	Section 395(1) and (3); Rule 213
129	Application by the payer for determination of the proportion of a payment to a non-resident that is chargeable	The payer, to the Assessing Officer	Section 395(2), 400(3); Rule 214
130	Certificate of tax deducted from salary , and for a specified senior citizen	The employer or bank, to the employee or pensioner	Section 395(4); Rule 215
131	Certificate of tax deducted other than from salary	The deductor, to the deductee	Section 395(4); Rule 215
132	Certificate for the four Form 141 deductions — rent, immovable property, individual and HUF payments, virtual digital assets	The deductor, to the deductee	Section 395(4); Rule 215
133	Certificate of tax collected at source	The collector, to the collectee	Section 395(4); Rule 215

Documentation, Deposit and Returns — Sections 397 and 399

Sections 397 and 399 · Rules 216 to 220 · Forms No. 134 to 145

Everything the syllabus means by “documentation, returns and Certificates”, in the order in which a deductor meets it.

8.1 Tax deduction and collection account number [section 397(1), Rule 216]

Every person deducting or collecting tax must apply for allotment of a tax deduction and collection account

number — the TAN — to the Assessing Officer within the prescribed time, if one has not already been allotted; and once allotted, must **quote it in all challans, statements and certificates** referred to in the Chapter and in all prescribed documents pertaining to such transactions [section 397(1)(a) and (b)].

Question	Answer
In what form?	Form No. 134 for a Government entity; Form No. 135 for any other person [Rule 216(1)]. It may also be made through the common application form notified by the Central Government [Rule 216(2)].
To whom?	The officer to whom the function of allotment has been assigned by the Director General of Income- tax (Systems) [Rule 216(3)].
By when?	Before the deduction or collection; and where it has not been so made, within thirty days from the end of the month in which the tax was deducted or collected [Rule 216(4)].
What is a Government entity?	An entity of the Central or a State Government, or a local authority of either — but not a company or a statutory or autonomous body constituted by an Act [Rule 216(6)].

WHO NEED NOT OBTAIN A TAN [SECTION 397(1)(C)]

The requirement does not apply to —

- a person required to deduct under section 393(1) (Table: Sl. Nos. **2(i) rent, 3(i) immovable property and 6(ii)** payments by an individual or HUF);
- a person referred to in section 393(4) (Table: Sl. No. 12.C(a)) — the small individual or HUF paying for a **virtual digital asset; and**
- a person notified by the Central Government.

With effect from 1 October 2026 the Finance Act, 2026 substitutes clause (c) to add a fourth case — **a resident individual or Hindu undivided family** required to deduct tax on consideration for the transfer of **immovable property under section 393(2) (Table: Sl. No. 17), that is, where he buys immovable property from a non-resident**. Until 30 September 2026 such a buyer still needs a TAN.

These persons use their **PAN** in place of a TAN, deposit the tax with a challan-cum-statement in Form No. 141 within thirty days, and issue the certificate in Form No. 132.

8.2 Permanent Account Number, and the price of not quoting it [section 397(2)]

Irrespective of anything in any other provision, every person entitled to receive any amount on which tax is deductible, or paying any amount on which tax is collectible, shall furnish his valid Permanent Account Number to the person responsible for deducting or collecting it [section 397(2)(a)].

Clause	Consequence of not furnishing a valid PAN
397(2)(b) (i)	Deduction at the higher of — (a) the rate specified in the relevant provision; or (b) the rates in force; or (c) 5% where the deduction is under section 393(1) (Table: Sl. No. 8(ii) purchase of goods or 8(v) e-commerce), or 20% in any other case.

Clause

Consequence of not furnishing a valid PAN

397(2)(b)(ii)	Collection at the higher of — (a) twice the rate specified in the relevant provision; or (b) 5% — the whole not exceeding 20% .
397(2)(c)	Clause (b)(i) does not apply to a non-resident (not being a company) or a foreign company in respect of interest on long-term bonds under section 393(2) (Table: Sl. Nos. 2, 3 and 4), and any other payment subject to prescribed conditions — those conditions being in Rule 217 .
397(2)(d)	Clause (b)(ii) does not apply to a non-resident who has no permanent establishment in India.
397(2)(e)	For rent under section 393(1) (Table: Sl. No. 2(i)), the deduction at the higher rate shall not exceed the rent payable for the last month of the tax year or of the tenancy.
397(2)(f) and (g)	A declaration under section 393(6) or 394(2) becomes invalid , and no certificate under section 395(1) or (3) shall be granted, where a valid PAN is not furnished. On such invalidity the deductor or collector must apply the higher rate.
397(2)(h)	The deductee or collectee must furnish his valid PAN, and it must be indicated in all bills, vouchers, correspondence and other documents exchanged between them. A failure attracts a penalty of ₹10,000 under section 467(1).

8.3 Payment to the credit of the Central Government [section 397(3)(a), Rule 218]

Who deducts or collects	Case	Time for payment
An office of the Government [Rule 218(1)]	Tax paid without production of an income-tax challan	The same day
	Tax paid accompanied by an income-tax challan	On or before seven days from the end of the month of deduction or collection
Any other deductor or collector [Rule 218(2)]	Income credited or paid, or amount debited or received, in the month of March	On or before 30 April
	Any other case	On or before seven days from the end of the month in which the deduction or collection is made
The four Form 141 deductions — rent [2(i)], immovable property [3(i)], individual and HUF payments [6(ii)], virtual digital asset [8(vi)] [Rule 218(3)]	Every case	Within thirty days from the end of the month of deduction, accompanied by a challan-cum-statement in Form No. 141
Quarterly payment by special permission [Rule 218(4)]	Salary under section 392(1), and insurance commission and interest under section 393(1) (Table: Sl. Nos. 1(i), 1(ii), 5(ii) and 5(iii)), where the Assessing Officer, with the prior approval of the Joint Commissioner, so permits	7 July, 7 October, 7 January and 30 April for the four quarters

Where the tax is deposited with a challan it is remitted to a branch of the Reserve Bank of India, the State Bank of India or any authorised bank; and where the deductor falls within Rule 333, or where the challan-cum-statement in Form No. 141 is used, the remittance must be made **electronically** [Rule 218(9) and (10)].

8.4 The quarterly statements [section 397(3)(b), Rule 219]

Every person deducting or collecting tax must, after paying it to the credit of the Central Government, **deliver a statement** to the prescribed income-tax authority for the prescribed period, in the prescribed form, verified in the prescribed manner, giving the prescribed particulars, and within the prescribed time.

Sl. No.	Deduction, payment or collection under	Form No.
1	Section 392 (other than sub-section (7)) and section 393(1) (Table: Sl. No. 8(iii)) — salary , and the specified senior citizen	138
2	Sections 392(7), 393(2) and 393(3), where the deductee is a non-resident , not being a company or a foreign company, or a resident but not ordinarily resident	144
3	Sections 392(7), 393(1) (other than Table: Sl. No. 8(iii)) and 393(3), where the deductee is any other person	140
4	Collection under section 394(1)	143

Quarter ended	Due date [Rule 219(4)]
30 June	31 July of the financial year
30 September	31 October of the financial year
31 December	31 January of the financial year
31 March	31 May of the financial year immediately following the tax year in which the deduction or collection was required to be made

A **correction statement** may be delivered to correct a discrepancy or update information, **within two years from the end of the tax year** in which the original statement was required to be delivered [section 397(3)(f)]. A claim for refund of a sum paid to the credit of the Central Government is made by the deductor in **Form No. 139** [Rule 219(6)]. Where an exchange has agreed under the guidelines issued under section 400(2) to pay the tax on a transfer of a virtual digital asset owned by it, it delivers a quarterly statement in **Form No. 142** [Rule 219(2)].

8.5 The challan-cum-statement in Form No. 141

For the four deductions in which no TAN is required — rent under Sl. No. 2(i), immovable property under Sl. No. 3(i), payments by an individual or HUF under Sl. No. 6(ii), and virtual digital assets under Sl. No. 8(vi) — the Act dispenses with the quarterly statement altogether. Instead a single document, the **challan-cum-statement in Form No. 141**, serves as challan, statement and return; it is furnished **within thirty days from the end of the month in which the deduction is made** [Rules 218(3) and 219(5)], and the certificate in Form No. 132 follows within fifteen days of that date.

8.6 Government offices — Forms No. 136 and 137

Where an office of the Government has paid the tax to the credit of the Central Government **without the production of a challan**, the Pay and Accounts Officer, District Treasury Officer or Cheque Drawing and Disbursing Officer responsible for crediting the sum must submit a statement in **Form No. 137** to the Director General of Income-tax (Systems) [section 397(3)(e), Rule 218(5)] — **on or before 30 April** where it relates to March, and within **fifteen days** from the end of the month in any other case [Rule 218(6)]. He generates a **Book Identification Number** and intimates it to each deductor [Rule 218(7)], and he must first obtain an **Account Office Identification Number** by filing **Form No. 136** [Rule 218(8)].

8.7 Information on a payment to a non-resident [Rule 220, Form No. 145]

Section 397(3)(d) requires every person paying a non-resident, not being a company, or a foreign company, any sum **whether or not chargeable** under the Act, to furnish information in the prescribed form. Rule 220 prescribes —

- **Part A of Form No. 145** where the payment, or the aggregate of payments in the tax year, does **not exceed ₹5,00,000; and**
- **Part B of Form No. 145** where it exceeds ₹5,00,000, or where a certificate or order has been obtained from the Assessing Officer.

Failure to furnish the information, or furnishing inaccurate information, is a penalty of ₹1,00,000 under section 462.

8.8 Processing of the statement [section 399]

Every statement of deduction or collection, including a correction statement, is processed as follows —

1. the amounts deductible or collectible are computed after adjusting **any arithmetical error** in the statement and **any incorrect claim apparent from the information** in it;
2. the **interest** is computed on the amounts so reflected; 3. the **fee** is computed under section 427(1) and (2); 4. the amount payable by, or the refund due to, the deductor or collector is determined after adjusting what has been paid under section 397(3), 398 or 427; 5. an **intimation** is prepared or generated and sent; and 6. any refund is granted.

The intimation must be sent within one year from the end of the tax year in which the statement is filed [section 399(2)]. The Board may make a scheme for the centralised processing of statements [section 399(3)].

“An incorrect claim apparent from any information in the statement” is defined in section 402(3) to mean a claim, on the basis of an entry, of an item inconsistent with another entry in the statement, or in respect of a rate of deduction or collection which is not in accordance with the Act.

8.9 The compliance calendar for Tax Year 2026-27

Date	What falls due
7th of every month	Deposit of the tax deducted or collected in the preceding month; and delivery of a copy of the declaration in Form No. 127 received in the preceding month
7 July, 7 October, 7 January 2027	Delivery of the declarations in Form No. 121 received during the quarter ended 30 June, 30 September and 31 December [section 393(7) as amended]; and quarterly deposit where permitted under Rule 218(4)
30 days from the end of each month	Deposit and challan-cum-statement in Form No. 141 for the four Form 141 deductions
31 July 2026	Quarterly statements in Forms No. 138, 140, 143 and 144 for the quarter ended 30 June 2026
15 August 2026	Certificates in Forms No. 131 and 133 for the quarter ended 30 June 2026
31 October 2026	Quarterly statements for the quarter ended 30 September 2026
15 November 2026	Certificates for the quarter ended 30 September 2026
31 January 2027	Quarterly statements for the quarter ended 31 December 2026
15 February 2027	Certificates for the quarter ended 31 December 2026
30 April 2027	Deposit of the tax deducted or collected in March 2027; and the quarterly deposit for the quarter ended 31 March 2027 where permitted
7 April 2027	Delivery of the declarations in Form No. 121 received during the quarter ended 31 March 2027
31 May 2027	Quarterly statements for the quarter ended 31 March 2027
15 June 2027	Certificates in Forms No. 131 and 133 for the quarter ended 31 March 2027; and the salary certificate in Form No. 130 for Tax Year 2026-27

Consequences of Default — Sections 398 and 427

Sections 398 and 427 · section 35(b) · sections 412, 448, 449, 461, 462, 465, 467 and 468 · sections 476, 477 and 486 · Rule 221

Seven separate consequences follow one default, and they are cumulative, not alternative.

9.1 Assessee in default [section 398(1)]

If a person, including the principal officer of a company, who is required to deduct or collect any amount under the Act, or who is the employer referred to in section 392(2)(a), **does not deduct or pay, or does not collect or pay, or after so deducting or collecting fails to pay**, the whole or any part of the tax, that person **shall be deemed to be an assessee in default** in respect of such tax, **in addition to any other consequence** which he may incur.

Four defaults are therefore covered — failure to deduct; failure to pay after deducting; failure to collect; and failure to pay after collecting. Each of them makes the payer liable to the tax itself, as though it were his own.

9.2 The escape route [section 398(2), Rule 221]

A person who **fails to deduct**, or who **fails to collect** under section 394(1) (Table: Sl. Nos. 1 to 5 and 9), **shall not be deemed to be an assessee in default** in respect of that tax if the payee, buyer, licensee or lessee has —

- (i) furnished his **return of income under section 263**;
- (ii) **taken the amount into account** in computing the income in that return; and
- (iii) **paid the tax** due on the income declared in it,

and the person furnishes a **certificate from an accountant** to that effect in the prescribed form. Under Rule 221 the certificate is in **Form No. 149** for non-deduction or short deduction and in **Form No. 150** for non-collection or short collection, and it is furnished to the Director General of Income-tax (Systems).

WHAT THE ESCAPE ROUTE DOES NOT SAVE

It saves the payer from the **tax**. It does not save him from **interest**: section 398(3)(c) provides that interest at 1% is payable from the date on which the tax was deductible or collectible **to the date of furnishing of the return of income by the payee**. Nor does it save him from the **disallowance** — although section 35(b)(i)(B) then deems him to have deducted and paid on the date on which the payee filed his return, which restores the deduction of the expenditure. The escape route is available only for a **failure to deduct or collect**, never for a failure to **pay** what has already been deducted or collected.

9.3 Interest [section 398(3)]

Rate	When it runs	Period
1% per month or part of a month	Where the tax was not deducted or collected	From the date on which the tax was deductible or collectible to the date on which it is deducted or collected
1.5% per month or part of a month	Where the tax was deducted or collected but not paid	From the date on which the tax was deducted or collected to the date on which it is actually paid

The interest must be **paid before furnishing the statement** under section 397(3)(b) [section 398(3)(b)]. Where the payer is saved by section 398(2), the interest at 1% runs to the date on which the payee filed his return [section 398(3)(c)]. Where the Assessing Officer makes an order for the default, the interest is paid in accordance with that order [section 398(3)(d)].

“Month or part of a month” means that a delay of a single day into a new month costs a full month's interest. The rate of 1.5% is deliberately higher than the rate of 1% — the second default is the graver, because the money deducted was never the payer's to keep.

9.4 Charge on assets and the time limit [section 398(4) to (6)]

- **398(4)** — where the tax has not been paid after it was deducted or collected, the amount of the tax **together with the interest** shall be a **charge upon all the assets** of the person in default.
- **398(5)** — no order deeming a person to be an assessee in default for a **failure to deduct or collect** shall be made after (a) **six years** from the end of the tax year in which the tax was deductible or collectible, or (b) **two years** from the end of the tax year in which the correction statement was delivered under section 397(3)(f), **whichever is later**. There is no time limit at all where the tax was deducted but not paid.
- **398(6)** — the exclusions of time in sections 286(1) and 286(3) apply to that limit.
- **398(7)** — no penalty shall be levied under **section 412** unless the Assessing Officer is satisfied that the person, **without good and sufficient reasons**, failed to deduct or collect and pay the tax.

9.5 Fee for late filing of the statement [section 427]

Where a person fails to deliver a statement within the time prescribed in section 397(3)(b), he is liable to pay, **by way of fee**, a sum of **₹200 for every day** during which the failure continues. The fee —

- **shall not exceed the amount of tax deductible or collectible** [section 427(2)(a)]; and
- **shall be paid before delivering the statement** [section 427(2)(b)].

The fee is computed by the Department when the statement is processed [section 399(1)(c)]. It is a **fee and not a penalty**: it is automatic, it requires no satisfaction of the Assessing Officer, no opportunity of hearing, and no reasonable cause can excuse it. It is in addition to the penalty under section 461.

9.6 Penalties

Section	Default	Penalty
412	An assessee in default in making a payment of tax — including a payer in default under section 398(1)	Such amount as the Assessing Officer may direct, not exceeding the tax in arrears ; no penalty without a reasonable opportunity of being heard, or where the default was for good and sufficient reasons
448	Failure to deduct the whole or any part of the tax under Chapter XIX-B; or failure to pay or ensure payment of the tax under Note 2 below the Table in section 393(3) or Note 6 to section 393(1) (Table: Sl. No. 8)	A sum equal to the tax not deducted, or not paid
449	Failure to collect the whole or any part of the tax under Chapter XIX-B	A sum equal to the tax not collected
461	Failure to deliver the statement under section 397(3) (b) within time, or furnishing incorrect information in it	Not less than ₹10,000 and up to ₹1,00,000 . No penalty for delay or non-filing if the tax with the fee and interest was paid and the statement was delivered within one month of the prescribed time [section 461(2)]
462	Failure to furnish, or furnishing inaccurate, information on a payment to a non-resident under section 397(3)(d)	₹1,00,000
465(2)	Failure to deliver in due time the declaration under section 393(7) or 394(3); to furnish a certificate under section 395(4); to furnish the statement under section 392(5)(a); or to deliver the statement under section 397(3)(b), (e) or (g)(i)	₹500 for every day during which the failure continues; for the declaration under section 393(7), the certificate under section 395(4) and the statements under section 397(3)(b) and (e), the penalty shall not exceed the tax deductible or collectible [section 465(3)]
467(1)	Failure of the deductee or collectee to furnish his PAN and to have it indicated in bills, vouchers and correspondence [section 397(2)(h)]	₹10,000

Section	Default	Penalty
468	Failure to comply with section 397 — chiefly a failure to apply for or to quote the TAN ; and quoting a TAN known or believed to be false	₹10,000 for each

A FAILURE TO DEDUCT — THE PENALTY UNDER SECTION 448

Section 448 provides that if any person fails to — (a) **deduct** the whole or any part of the tax as required under Chapter XIX-B; or (b) **pay or ensure the payment** of the whole or any part of the tax as required by Note 2 below the Table in section 393(3) (winnings wholly or partly in kind) or Note 6 to section 393(1) (Table: Sl. No. 8) (a benefit or a virtual digital asset in kind), the Assessing Officer may impose on him a penalty **equal to the tax** which he failed to deduct or pay or ensure payment of.

The penalty stands alongside the other consequences: the payer is an assessee in default under section 398(1), pays interest under section 398(3), and suffers the disallowance under section 35(b). He escapes the penalty if he proves **reasonable cause** for the failure — section 448 is listed in section 470 — and no order may be made without giving him an opportunity of being heard [section 471(1)].

9.7 Prosecution [sections 476 and 477]

Section	Offence	Punishment and defence
476	Failure to pay the tax deducted to the credit of the Central Government; or failure to pay or ensure payment of the tax on winnings from an online game [section 393(3), Sl. No. 2] or on the consideration for the transfer of a virtual digital asset [section 393(1), Sl. No. 8(vi)], other than winnings or consideration wholly in kind	Simple imprisonment up to two years, or fine, or both , where the tax exceeds ₹50 lakh ; simple imprisonment up to six months , or fine, or both, where it exceeds ₹10 lakh but not ₹50 lakh; fine only in any other case. No offence where the payment was made on or before the time prescribed for filing the statement under section 397(3)(b) [section 476(2)]
477	Failure to pay the tax collected to the credit of the Central Government as required by section 397(3)(a)	Simple imprisonment up to two years, or fine, or both , where the tax exceeds ₹50 lakh ; simple imprisonment up to six months , or fine, or both, where it exceeds ₹10 lakh but not ₹50 lakh; fine only in any other case. No offence where the payment was made on or before the time prescribed for filing the statement [section 477(2)]

Note that prosecution attaches only to a failure to **pay over** what has been deducted or collected. A mere failure to deduct is not an offence under these sections — it is met by the penalty under section 448. No person is punishable under section 476 or 477 if he proves that there was **reasonable cause** for the failure [section 486].

9.8 Disallowance of the expenditure [section 35(b)]

Section 35 lists the amounts that shall not be allowed as a deduction in computing income under the head “Profits and gains of business or profession”. Clause (b) is the deductor’s clause.

Provision	Payment	Disallowance and its reversal
35(b)(i)	Any sum payable to a resident on which tax is deductible	30% of the sum, where the tax has not been deducted, or having been deducted has not been paid up to the due date under section 263(1) . Allowed as a deduction in the tax year in which the tax is paid
35(b)(ii)	Interest, royalty, fees for technical services or other sum chargeable under the Act payable outside India , or in India to a non- resident or a foreign company	100% of the sum, on the same conditions. Allowed in the tax year in which the tax is paid

Provision	Payment	Disallowance and its reversal
35(b)(i)(B) and (ii)(II)	Where the payer fails to deduct but is not deemed to be an assessee in default under section 398(2)	He is deemed to have deducted and paid the tax on the date on which the payee filed his return — so the disallowance falls away
35(b)(iii)	Payment to a provident or other fund for employees	Disallowed unless effective arrangements exist to deduct tax on payments from the fund chargeable as salary
35(c)	Any payment chargeable under the head “Salaries” payable outside India or to a non-resident	100% disallowed where the tax has not been deducted or, after deduction, has not been paid

9.9 Every consequence on one page

Default	What follows
Fails to deduct	Assessee in default for the tax [398(1)], unless saved by section 398(2) with Form No. 149 · interest at 1% a month from the date the tax was deductible [398(3)(a)(i)] · penalty equal to the tax under section 448 · penalty under section 412 up to the tax in arrears, if there was no good and sufficient reason [398(7)] · 30% of the expenditure disallowed for a resident payee and 100% for a non-resident [35(b)] · no prosecution
Deducts but fails to pay	Assessee in default for the tax [398(1)], with no escape under section 398(2) · interest at 1.5% a month from the date of deduction [398(3)(a)(ii)] · charge on all his assets [398(4)] · penalty under section 412 · disallowance under section 35(b) unless paid by the due date under section 263(1) · prosecution under section 476 — the three-tier punishment
Fails to collect	Assessee in default [398(1)], unless saved by section 398(2) with Form No. 150 · interest at 1% a month · penalty equal to the tax under section 449 · no prosecution
Collects but fails to pay	Assessee in default · interest at 1.5% a month · charge on assets · prosecution under section 477
Fails to apply for or quote a TAN	Penalty of ₹10,000 under section 468
Files the statement late	Fee of ₹200 a day under section 427, capped at the tax deductible or collectible, payable before the statement is filed · penalty of ₹10,000 to ₹1,00,000 under section 461, unless the tax, fee and interest were paid and the statement filed within one month · penalty of ₹500 a day under section 465(2)(k), capped at the tax
Fails to issue the certificate	Penalty of ₹500 a day under section 465(2)(g), capped at the tax deductible or collectible [465(3) (b)]
Payee does not furnish his PAN	Deduction at the higher rate under section 397(2)(b)(i) — generally 20% · declaration and certificate become invalid · penalty of ₹10,000 on the payee under section 467(1)

9.10 Illustrations

ILLUSTRATION 9.1 — COMPUTING THE INTEREST UNDER SECTION 398(3)

Shivalik Ltd. credited professional fees of ₹6,00,000 to a resident consultant on **10 August 2026** and was required to deduct ₹60,000. It deducted nothing. On **25 January 2027** it realised the error, deducted ₹60,000 and paid it to the Government on **3 February 2027**. *Compute the interest.*

Interest at 1% under section 398(3)(a)(i) — from 10 August 2026 (the date the tax was deductible) to 25 January 2027 (the date it was deducted) = 6 months or parts of months	₹60,000 × 1% × 6 = ₹3,600
Interest at 1.5% under section 398(3)(a)(ii) — from 25 January 2027 (the date of deduction) to 3 February 2027 (the date of payment) = 2 months or parts of months	₹60,000 × 1.5% × 2 = ₹1,800
Total interest payable before the statement is filed	₹5,400

Count months, not days. August, September, October, November, December and January are six; January and February are two, because a part of a month counts as a month at each end.

ILLUSTRATION 9.2 — THE FEE, AND ITS CEILING

Yamuna Traders was required to file its statement in Form No. 140 for the quarter ended 30 September 2026 by **31 October 2026**. It filed on **28 February 2027**. The tax deducted for the quarter was ₹18,000. *What is the fee?*

The delay is from 1 November 2026 to 28 February 2027, that is **120 days**. The fee under section 427(1) is $₹200 \times 120 = ₹24,000$. But section 427(2)(a) caps the fee at the **amount of tax deductible**, which is ₹18,000. The fee is therefore **₹18,000**, and it must be paid **before** the statement is filed.

The firm is also exposed to a penalty of ₹10,000 to ₹1,00,000 under section 461, and it cannot claim the protection of section 461(2) because the statement was not filed within one month of 31 October 2026.

ILLUSTRATION 9.3 — THE ACCOUNTANT'S CERTIFICATE SAVES THE TAX BUT NOT THE INTEREST

Ashoka Enterprises paid ₹8,00,000 as contract charges to Bharat Constructions, a firm, on 15 May 2026 without deducting the ₹16,000 that was due. Bharat Constructions included the receipt in its return of income for Tax Year 2026-27, filed on **31 October 2027**, and paid the tax on the income declared. *What are the consequences for Ashoka Enterprises?*

- **The tax** — not recoverable. Section 398(2) applies, the three conditions being satisfied, and Ashoka Enterprises furnishes the accountant's certificate in **Form No. 149** to the Director General of Income-tax (Systems).
- **The interest** — payable. Section 398(3)(c) runs the interest at 1% from 15 May 2026 (when the tax was deductible) to 31 October 2027 (when the payee filed his return) — 18 months. Interest = $₹16,000 \times 1\% \times 18$
= **₹2,880**.
- **The disallowance** — none. Section 35(b)(i)(B) deems the firm to have deducted and paid on 31 October 2027, so the 30% disallowance falls away.
- **The penalty** — exposed. The failure to deduct attracts a penalty equal to the tax not deducted, ₹16,000, under section 448(a), unless Ashoka Enterprises proves reasonable cause for the failure [section 470].
- **Prosecution** — none. Sections 476 and 477 punish only a failure to pay over what was deducted or collected.

Interest on Advance Tax

	Section 423	Section 424	Section 425
Marginal note	Interest for defaults in furnishing return of income	Interest for defaults in payment of advance tax	Interest for deferment of advance tax
Old section	234A	234B	234C
What triggers it	The return is furnished late, or not at all	Advance tax paid is less than 90% of the assessed tax	Any instalment falls short of the prescribed percentage
Rate	1% per month or part	1% per month or part	3% for the first three instalments; 1% for the fourth
Period	From the due date of the return to the date it is furnished or the assessment is completed	From 1 April following the tax year to the determination under section 270(1) or the regular assessment	No period. A flat rate on each shortfall, the three months being already built into the 3%
Yardstick	Tax on total income, less tax paid	Assessed tax	Tax due on returned income
Can it apply with the others?	Yes	Yes	Yes — all three can run together on one assessee

Sections 424 and 425, with section 423 for contrast. Interest is compensatory and automatic: it is charged by arithmetic, not by discretion, and no notice or hearing precedes it.

10.1 The three interests, and how they differ

THE CHANGE OF DRAFTING IN SECTION 425 THAT EVERY STUDENT MUST NOTICE

Under the repealed section 234C the interest was expressed as **1% per month for three months** on each of the first three instalments, and 1% for one month on the fourth. Section 425 of the Act of 2025 states the same burden as a **flat 3% (1% per month for a block period of 3 months)** on each of the first three shortfalls and 1% on the fourth.

The money is identical. What has changed is that there is now **nothing to multiply by a number of months** — the calculation is one multiplication. “1% × 3 months” describes a repealed provision. The figure is **3% (1% per month for a block period of 3 months) of the shortfall**, under section 425(1) (Table: column E).

10.2 Section 424 — default in payment of advance tax

Section 424(1) applies where, in any tax year, an assessee **who is liable to pay advance tax under section 404** — (a) has **failed to pay** such tax; or (b) the advance tax paid under section 406 or 407 is **less than 90% of the assessed tax**. In either case he is liable to **simple interest at 1% for every month or part of a month** beginning from the **1st April following the tax year** and running —

- up to the date of **determination of total income under section 270(1)** — that is, the processing of the return and the intimation that follows; and
- up to the date of **completion of the regular assessment**, where a regular assessment is made, on an amount equal to the **assessed tax** where clause (a) applies, or on the **shortfall** between the advance tax paid and the assessed tax where clause (b) applies.

“ASSESSED TAX” — SECTION 424(2)

The tax on the total income determined under section 270(1), and where a regular assessment is made the tax on the total income determined under that assessment, **as reduced by** —

- any tax **deducted or collected at source** under Chapter XIX-B on income taken into account in computing that total income;
- relief under section 157 (salary in arrears), section 159(1) and 159(2) (double taxation relief) and the deduction under section 160;
- any **tax credit** allowed to be set off under sections 206(1)(m) to (p) and 206(2)(e) to (h). *Notice what is not deducted: self-assessment tax under section 266. That is why interest under section 424 begins on 1*

April and is not extinguished by paying the balance in July — it is only stopped, from the date of payment, by sub-section (4).

Section 424(4) — payment before the determination. Where, before the date of determination under section 270(1) or the completion of the regular assessment, tax is paid by the assessee **under section 266 or otherwise**, interest is calculated up to the date on which that tax is paid, and thereafter on the amount by which the tax so paid together with the advance tax still falls short of the assessed tax. This is the provision that rewards an assessee for paying his self-assessment tax early rather than sitting on it until the return is due.

Sub-sections (5) and (6) deal with the consequences of a later reassessment or appellate order: where the amount on which interest was payable is increased, further interest runs to the date of the reassessment; where an appellate or revisional order increases or reduces it, the interest is increased or reduced accordingly, and any excess interest paid is refunded.

10.3 Section 425 — deferment of advance tax

Section 425 charges interest **instalment by instalment**. Where an assessee liable to pay advance tax under section 404 has failed to pay it, or the advance tax paid on his current income on or before a due date is less than the advance tax due on his **returned income** for that date, he is liable to interest on the shortfall at the rate in column E of the Table.

Sl. No.	Due date of instalment	Advance tax due on returned income	Shortfall on which interest is charged	Rate
1	15th day of June	15% of the tax due on returned income	Shortfall till 15th day of June	3% (1% per month for a block period of 3 months)
2	15th day of September	45% of the tax due on returned income	Shortfall till 15th day of September	3% (1% per month for a block period of 3 months)
3	15th day of December	75% of the tax due on returned income	Shortfall till 15th day of December	3% (1% per month for a block period of 3 months)
4	15th day of March	100% of the tax due on returned income	Shortfall till 15th day of March	1%

“TAX DUE ON THE RETURNED INCOME” — SECTION 425(5)

The tax chargeable on the total income **declared in the return** furnished by the assessee for the tax year, as reduced by tax deducted or collected at source, the reliefs under sections 157, 159(1), 159(2) and 160, and the tax credits under sections 206(1)(m) to (p) and 206(2)(e) to (h).

It is the returned income, not the assessed income. If the Assessing Officer later adds to the income, section 425 is not recomputed on the higher figure — only section 424 is. This single difference between the two yardsticks is the most frequently examined point in this Part.

10.4 The two safe harbours [section 425(2)]

The assessee shall **not** be liable to interest under section 425(1) if the advance tax paid by him on his current income —

- on or before the **15th day of June** is **12% or more** of the tax due on the returned income; or
- on or before the **15th day of September** is **36% or more** of the tax due on the returned income.

The concession recognises that an estimate made in the first ten weeks of the year is bound to be rough. It applies only to the **first two** instalments; there is no safe harbour for December or March. Note that if the safe harbour is met, **no** interest is payable for that instalment — not merely interest on a reduced shortfall.

10.5 The four exceptions [section 425(4)]

No interest is payable under section 425(1) or (3) in respect of a shortfall which is on account of under- estimation of, or failure to estimate —

Item		Why the exception exists
(i)	Capital gains	The date of a transfer is not within the assessee's foresight in June
(ii)	Income as per section 2(49)(n) — winnings from lotteries, crossword puzzles, races, card games, gambling or betting of any form	Casual income by definition cannot be estimated
(iii)	Income under the head “Profits and gains of business or profession” accruing or arising for the first time	A business begun in November could not have been estimated in June
(iv)	Dividend income — but <i>not</i> deemed dividend under section 2(40)(e)	The declaration of a dividend is the company's act, not the shareholder's

THE EXCEPTION IS CONDITIONAL — AND THE CONDITION IS WHERE THE MARKS ARE

Section 425(4)(b) makes the relief depend on the assessee having **paid in full the tax on that income** — computed as if it were part of total income — in **any of the remaining instalments of advance tax, if any, or by the 31st day of March** of the tax year.

So the exception does not excuse the tax; it excuses only the **timing**. An assessee who sells a capital asset on 20 December 2026 must pay the whole tax on that gain by 15 March 2027 (or at the latest by 31 March 2027) to keep the benefit. If he waits until July 2027 and pays it as self-assessment tax, **the exception is lost and interest runs on every instalment from June onwards**.

10.6 The presumptive assessee [section 425(3)]

An assessee who declares profits and gains under section 58(2) (Table: Sl. No. 1 or 3), and who has failed to pay the advance tax or has paid on or before **15 March** less than the tax due on the returned income, is liable to **simple interest at 1%** on the amount of the shortfall. There is one date, one test and one rate. The four- instalment Table has no application to him.

10.7 Sections 424 and 425 compared

	Section 424 — default	Section 425 — deferment
What is being punished	Paying too little in the year as a whole	Paying too late within the year
Test	Advance tax paid is less than 90% of the assessed tax	Each instalment is less than 15% / 45% / 75% / 100% of the tax due on returned income
Yardstick	Assessed tax — it moves if the assessment moves	Tax due on returned income — it does not move
Rate and period	1% per month or part, from 1 April following the tax year	3% (1% per month for a block period of 3 months) on each of the first three shortfalls, 1% on the fourth; no period
Safe harbour	The 90% threshold itself	12% by 15 June and 36% by 15 September
Exceptions	None	Capital gains, casual income, first-time business income and dividend, on the condition in section 425(4)(b)

	Section 424 — default	Section 425 — deferment
Effect of paying by 31 March	Stops it altogether if 90% is reached — section 408(3) makes such payment advance tax	Does not help for instalments already missed
Can both apply?	Yes. They are computed independently , and an assessee may pay both on the same facts	

10.8 Illustrations

ILLUSTRATION 10.1 — SECTION 425 WORKED THROUGH, WITH A SAFE HARBOUR

Shri Kailash's tax due on his returned income for Tax Year 2026-27 is ₹1,00,000. He paid advance tax of ₹10,000 on 14 June 2026, ₹30,000 on 12 September 2026, ₹30,000 on 13 December 2026 and ₹25,000 on 15 March 2027 — cumulative payments of ₹10,000, ₹40,000, ₹70,000 and ₹95,000. *Compute the interest under section 425.*

Due date	Required	Paid by that date	Safe harbour	Shortfall	Rate	Interest
15 June 2026	₹15,000	₹10,000	—	₹5,000	3%	₹150
15 September 2026	₹45,000	₹40,000	Met	—	3%	Nil
15 December 2026	₹75,000	₹70,000	—	₹5,000	3%	₹150
15 March 2027	₹1,00,000	₹95,000	—	₹5,000	1%	₹50
Total interest under section 425						₹350

Why September escapes. The safe harbour in section 425(2)(b) is 36% of ₹1,00,000 = ₹36,000. He had paid ₹40,000 by 15 September, which is more. **No interest at all** is charged for that instalment, even though the Table required ₹45,000.

Why June does not escape. The safe harbour in section 425(2)(a) is 12% = ₹12,000. He had paid only ₹10,000. The harbour fails, and interest runs on the **full** shortfall of ₹5,000 — the difference between the 15% required and the ₹10,000 paid, not the difference between 12% and ₹10,000.

And section 424? He has paid ₹95,000 of an assessed tax of ₹1,00,000 — that is 95%, which is not less than 90%. **No interest under section 424.** He pays the balance of ₹5,000 as self-assessment tax under section 266 before furnishing his return.

ILLUSTRATION 10.2 — SECTION 424, AND THE RELIEF IN SUB-SECTION (4)

Shri Lalit's assessed tax for Tax Year 2026-27 is ₹2,00,000. He paid advance tax of ₹1,50,000 during the year. He furnished his return on 31 July 2027, paying the balance of ₹50,000 as self-assessment tax under section 266 on that day. The return was processed under section 270(1) on 20 October 2027. *Compute the interest under section 424.*

Is section 424 attracted? ₹1,50,000 is 75% of ₹2,00,000. That is **less than 90%**, so section 424(1)(b) applies. The shortfall is ₹2,00,000 – ₹1,50,000 = **₹50,000**.

The period. Interest runs at 1% per month or part from **1 April 2027**. But section 424(4)(a) directs that where tax is paid under section 266 before the determination, interest is calculated only **up to the date of that payment** — 31 July 2027. That is April, May, June and July: **four months**.

Interest = 1% × 4 × ₹50,000 = ₹2,000.

And after 31 July? Section 424(4)(b) requires interest thereafter on the amount by which the tax paid together with the advance tax still falls short of the assessed tax. ₹1,50,000 + ₹50,000 = ₹2,00,000, so there is no shortfall and **nothing further runs**, even though the intimation did not issue until 20 October 2027.

Had he waited until 20 October 2027 to pay, the interest would have run for seven months — ₹3,500 instead of ₹2,000. The extra ₹1,500 is the price of three months' delay, and it is the clearest illustration in the Act of why self-assessment tax should be paid the day the accounts are closed.

Practical Problems with Solutions

Ten problems in the form in which the University of Delhi has set them, worked at the rates in force for Tax Year 2026-27.

PROBLEM 1 — A COMPANY'S DEDUCTIONS FOR ONE QUARTER

Ganpati Industries Ltd. made the following payments during the quarter ended 30 September 2026, all to residents who furnished their Permanent Account Numbers. State the amount of tax to be deducted in each case and the section under which it falls.

Sl.	Payment	Amount (₹)	Answer
(a)	Rent of the factory building to Shri Verma, ₹80,000 a month for three months	2,40,000	₹24,000 — section 393(1) Sl. No. 2(ii)(b) at 10%; the company is a specified person and a factory building is a building
(b)	Hire of a generator set from Power Rentals Pvt. Ltd.	1,50,000	₹3,000 — Sl. No. 2(ii)(a) at 2%, a generator being plant
(c)	Audit fees to a firm of chartered accountants	2,00,000	₹20,000 — Sl. No. 6(iii)(b) at 10%; accountancy is a professional service
(d)	Fees for technical services (not professional) to Ram Engineering	3,00,000	₹6,000 — Sl. No. 6(iii)(a) at 2%
(e)	Sitting fees to a non-executive director	40,000	₹4,000 — Sl. No. 6(iii)(c) at 10%; the threshold for a director's fee is nil
(f)	Payment to a civil contractor, a sole proprietor, in one bill	28,000	Nil — Sl. No. 6(i); below ₹30,000 for a single sum and the aggregate has not reached ₹1,00,000
(g)	Brokerage to Shri Khanna on the sale of a plant	75,000	₹1,500 — Sl. No. 1(ii) at 2%
(h)	Interest on a loan taken from Shri Bansal, an individual	90,000	₹9,000 — Sl. No. 5(iii) at 10%; the company is a specified person and is not a bank
(i)	Purchase of raw material from Ashirwad Mills; turnover of the company in Tax Year 2025-26 was ₹95 crore; purchases from this supplier during the year are ₹78,00,000	78,00,000	₹2,800 — Sl. No. 8(ii) at 0.1% on ₹28,00,000, the sum exceeding ₹50,00,000
(j)	Dividend paid by cheque to Shri Roy, an individual shareholder, for the year	9,500	Nil — section 393(4) Table Sl. No. 10(f); paid otherwise than in cash and not exceeding ₹10,000

PROBLEM 2 — THE SAME PAYMENTS, NO PAN

Take items (c), (g) and (i) of Problem 1 and assume that none of the payees furnished a Permanent Account Number. What is the deduction?

(c) Audit fees ₹2,00,000 — section 397(2)(b)(i) requires the higher of the specified rate (10%), the rates in force (10%) and 20%. Deduction at **20% = ₹40,000**.

(g) Brokerage ₹75,000 — the higher of 2%, the rates in force and 20%. Deduction at **20% = ₹15,000**.

(i) Purchase of goods — this is one of the two entries for which clause (c) of section 397(2)(b)(i) prescribes 5%. The higher of 0.1%, the rates in force and 5% is 5%. Deduction = 5% of ₹28,00,000 = **₹1,40,000**.

PROBLEM 3 — AN INDIVIDUAL'S OBLIGATIONS

Shri Deepak Malhotra is a proprietor whose business turnover in Tax Year 2025-26 was ₹85,00,000. During Tax Year 2026-27 he pays — (a) shop rent of ₹70,000 a month for the whole year; (b) ₹1,20,000 to an interior decorator for his residence; (c) ₹62,00,000 to a building contractor for constructing a warehouse for his business; and (d) ₹4,00,000 as commission to a selling agent. What must he deduct?

Item	Answer
(a)	His turnover does not exceed ₹1 crore, so he is not a specified person . Sl. No. 2(i) applies, the rent exceeding ₹50,000 a month. Deduction at 2% of ₹8,40,000 = ₹16,800 , made once, at credit or payment of the rent for March 2027 . No TAN; Form No. 141 within thirty days; certificate in Form No. 132.
(b)	Nil . Interior decoration is a professional service, but Sl. No. 6(iii) applies only to a specified person, and Sl. No. 6(ii) applies only above ₹50,00,000. In any event section 393(4) (Table: Sl. No. 9) exempts a payment made by an individual exclusively for personal purposes .
(c)	Sl. No. 6(i) does not apply — he is not a designated person, his turnover being below ₹1 crore. Sl. No. 6(ii) applies: an individual paying for a works contract, above ₹50,00,000. Deduction at 2% of ₹62,00,000 = ₹1,24,000 . No TAN; Form No. 141; certificate in Form No. 132.
(d)	Nil . Sl. No. 1(ii) applies only to a specified person, and Sl. No. 6(ii) requires the payment to exceed ₹50,00,000.

PROBLEM 4 — DEDUCTION FROM SALARY WITH AN OPTIONAL REGIME

Smt. Kavita Nair, aged 47 and resident, draws a salary of ₹95,000 a month from Konkan Ltd. for the whole of Tax Year 2026-27. She furnishes Form No. 122 reporting rent received from a let-out house of ₹3,60,000 with municipal taxes of ₹20,000 and interest on a housing loan of ₹4,50,000, so that the head yields a **loss**. She furnishes evidence of ₹1,50,000 paid to the public provident fund. She informs the employer that she opts out of the default regime under section 202(4). *Compute the monthly deduction.*

Salary — ₹95,000 × 12	11,40,000
Less: standard deduction — ₹50,000, the optional regime applying [section 19(1) Table Sl. No. 2(b)]	(50,000)
Income under the head “Salaries”	10,90,000
Income from house property — ₹3,60,000 – ₹20,000 = ₹3,40,000; less 30% = ₹1,02,000; less interest ₹4,50,000 = a loss of ₹2,12,000, of which the set-off is restricted to ₹2,00,000 by section 109(1)(b); the balance of ₹12,000 is carried forward	(2,00,000)
Gross total income	8,90,000
Less: deduction under Chapter VIII for the provident fund contribution	(1,50,000)
Total income	7,40,000
Tax under Paragraph A(I) of Part I-B of the First Schedule — ₹12,500 + 20% of ₹2,40,000	60,500
Add: health and education cess at 4%	2,420
Tax deductible for the year	62,920
Monthly deduction — ₹62,920 ÷ 12	₹5,245

Two points of law carry the marks. First, only a **house property loss** may be reported to the employer [section 392(4)(b) (i)]; had the loss been a business loss the employer could not have taken it into account. Second, the set-off of the house property loss against salary is capped at **₹2,00,000 by section 109(1)(b)**, and the employer must apply that cap.

PROBLEM 5 — COLLECTION AT SOURCE

Aravalli Minerals Ltd., whose turnover exceeds ₹1 crore, effects the following transactions during Tax Year 2026-27. State the tax to be collected in each case.

Transaction	Amount (₹)	Answer
Sale of iron ore to a trader who furnishes no declaration	40,00,000	₹80,000 at 2% — Sl. No. 5, the rate raised from 1% by the Finance Act, 2026
Sale of iron ore to a steel plant that furnishes Form No. 127	90,00,000	Nil — section 394(2)

Transaction	Amount (₹)	Answer
Sale of scrap to a resident dealer	12,00,000	₹24,000 at 2% — Sl. No. 4
Grant of a licence to operate the company's quarry	25,00,000	₹50,000 at 2% — Sl. No. 9
Sale of one of the company's cars to a director	14,00,000	₹14,000 at 1% — Sl. No. 6; the consideration exceeds ₹10,00,000
Sale of a car to a public sector transport corporation carrying passengers	18,00,000	Nil — such a corporation is excluded from “buyer” for Sl. No. 6 [section 402(6), Table: Sl. No. 3.D(c)]

PROBLEM 6 — PAYMENT TO A NON-RESIDENT

Meghdoot Ltd. pays during Tax Year 2026-27 — (a) ₹40,00,000 as fees for technical services to a foreign company under a Government-approved agreement; (b) ₹12,00,000 to a non-resident cricketer, not a citizen of India, for playing an exhibition match in Mumbai; and (c) USD equivalent ₹25,00,000 for machinery bought outright from a German manufacturer with no presence in India. All parties have furnished their tax residency certificates and Permanent Account Numbers. *Compute the deduction.*

Item	Working	Deduction
(a)	Section 393(2), Sl. No. 17 read with Part II of the First Schedule — fees for technical services to a foreign company at 20% = ₹8,00,000; no surcharge, the payment not exceeding ₹1 crore; add cess at 4% = ₹32,000	₹8,32,000
(b)	Section 393(2), Sl. No. 1 — income referred to in section 211 at 20% = ₹2,40,000; add cess at 4% = ₹9,600	₹2,49,600
(c)	Nothing is chargeable under the Act — the profit accrues outside India and there is no business connection. Sl. No. 17 does not bite. Information must nevertheless be furnished in Part B of Form No. 145 under Rule 220, the payment exceeding ₹5,00,000	Nil

PROBLEM 7 — THE THRESHOLD TRAPS

State, with reasons, whether tax is deductible in each of the following cases during Tax Year 2026-27.

- 1. A company pays a resident ₹19,000 as insurance commission in June and ₹4,000 in December. — Yes,** in December. The aggregate of ₹23,000 crosses ₹20,000 and tax at 2% is deducted on the **whole ₹23,000** = ₹460.
- 2. A bank credits interest of ₹72,000 on a fixed deposit of a resident aged 63. — No.** The threshold for a senior citizen under Sl. No. 5(ii) is ₹1,00,000.
- 3. The same bank credits ₹72,000 to a depositor aged 40. — Yes.** The threshold is ₹50,000 and it is crossed; tax at 10% on ₹72,000 = ₹7,200.
- 4. A firm credits ₹18,000 as interest on capital to a partner and ₹15,000 as remuneration. — Yes.** Section 393(3) Sl. No. 7 aggregates all such sums; ₹33,000 crosses ₹20,000 and tax at 10% on ₹33,000 = ₹3,300.
- 5. A person wins ₹9,000 in a single lottery draw and ₹9,500 in another. — No.** The threshold of ₹10,000 is tested for a **single transaction**, and neither win reaches it.
- 6. A resident wins ₹6,000 net from an online game during the year. — Yes.** Sl. No. 2 of section 393(3) has **no monetary threshold**; tax at 30% is deducted on the net winnings at the end of the tax year.

PROBLEM 8 — THE BUYER OF A FLAT FROM A NON-RESIDENT

Shri Rakesh, a resident individual, buys a flat in Pune on **20 August 2026** for ₹90,00,000 from Shri Nandan, a non-resident. The long-term capital gain of Shri Nandan is ₹30,00,000. *Under which provision must tax be deducted, and does Shri Rakesh need a TAN?*

Section 393(1) (Table: Sl. No. 3(i)) applies only where the payment is **to a resident**. The seller is a non-resident, so the deduction falls under **section 393(2) (Table: Sl. No. 17)** as “any other sum chargeable under the provisions of this Act”. The rate is the rate in force for a long-term capital gain of a non-resident — **12.5%**, increased by cess.

Shri Rakesh should not deduct on his own estimate of the gain. His course is an application in **Form No. 129** under section 395(2) for a determination of the proportion of ₹90,00,000 chargeable to tax; alternatively Shri Nandan may apply in Form No. 128 for a certificate under section 395(1).

As to the TAN — the transaction falls on 20 August 2026. The exemption in section 397(1)(c) for a resident individual buying immovable property from a non-resident was inserted by the Finance Act, 2026 **with effect from 1 October 2026**. On 20 August 2026 it is not yet in force, so **Shri Rakesh must obtain a TAN**, deposit the tax by 7 September 2026, file Form No. 144 for the quarter ended 30 September 2026 by 31 October 2026 and issue Form No. 131.

PROBLEM 9 — A DEFAULT WORKED OUT IN FULL

Chetak Ltd. credited ₹10,00,000 to a contractor, a company, on **28 February 2027**, deducted ₹20,000 on that date, and paid it to the Government on **18 June 2027**. It filed its statement in Form No. 140 for the quarter ended 31 March 2027 on **18 June 2027**. The tax deducted for the quarter was ₹20,000. Its return of income for Tax Year 2026-27 was due on 31 October 2027 and was filed on that date. *State every consequence.*

1. **Assessee in default** — yes, under section 398(1), until the tax was paid on 18 June 2027.
2. **Interest** — at 1.5% a month from 28 February 2027 to 18 June 2027, that is **five** months or parts of months (February, March, April, May, June). $₹20,000 \times 1.5\% \times 5 = \text{₹1,500}$, payable before the statement was filed [section 398(3)(b)].
3. **Fee** — the statement was due on **31 May 2027** and was filed on 18 June 2027, a delay of **18 days**. $₹200 \times 18 = ₹3,600$, which is below the ceiling of ₹20,000. Fee = **₹3,600**, payable before filing.
4. **Penalty under section 461** — none. The tax, fee and interest were paid and the statement was delivered **within one month** of 31 May 2027, so section 461(2) protects the company.
5. **Prosecution under section 476** — none. Section 476(2) excludes the offence where the payment was made on or before the time prescribed for filing the statement. The tax was paid on 18 June 2027, after 31 May 2027, so the protection of section 476(2) is **not** available and the company remains exposed; but in practice a prosecution is not launched where the delay is short and the tax with interest has been paid.
6. **Disallowance under section 35(b)** — none. The tax was paid on 18 June 2027, well before the due date under section 263(1) for furnishing the return, so the whole ₹10,00,000 is allowed.

PROBLEM 10 — DECLARATION, CERTIFICATE OR NOTHING?

Advise each of the following on the correct course for Tax Year 2026-27.

1. **Shri Prem, aged 71, resident, expecting interest of ₹6,20,000 from a bank and a nil tax liability.** — File **Form No. 121** with the bank under section 393(6). Being a resident individual of sixty or more, he is not caught by the ceiling of ₹4,00,000 in the Note.
2. **Smt. Sudha, aged 48, resident, expecting interest of ₹6,20,000 and a nil tax liability after Chapter VIII deductions.** — Form No. 121 is **not available** to her. She must apply in **Form No. 128** under section 395(1) for a certificate of no deduction.
3. **Anand Charitable Trust, whose income is exempt, receiving rent of ₹9,00,000 from a company.** — Apply in **Form No. 128**. Section 393(6) is available to “any person not being a company or a firm”, so a trust may in principle use Form No. 121, but only within the ceiling of ₹4,00,000 — which the rent exceeds. Rule 213(4) requires it to be approved for exemption and to have filed returns for the last four tax years.
4. **Modern Alloys Pvt. Ltd., buying coal for its furnace from a mining company.** — **Furnish Form No. 127** to the seller under section 394(2), declaring that the coal is for manufacture and not for trading. No collection then follows.
5. **Shri Rehman, aged 78, resident, with a pension of ₹5,40,000 and interest of ₹2,10,000, both from the same specified bank.** — File **Form No. 125** under Rule 208. The bank will compute his total income after Chapter VIII and the section 156 rebate and deduct under section 393(1) (Table: Sl. No. 8(iii)); he is then relieved of filing a return.

Revision, Ready Reckoner and Question Bank

Everything in this Part reduced to tables that can be revised in an hour, followed by the questions the topic attracts.

12.1 Old section to new section

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Deduction or collection at source and advance payment	190	390
Direct payment	191	391
Deduction from salary	192	392(1) to (5)
Accumulated balance of a provident fund	192A	392(7)
Interest on securities	193	393(1) Sl. No. 5(i)
Dividend	194	393(1) Sl. No. 7
Interest other than interest on securities	194A	393(1) Sl. Nos. 5(ii) and 5(iii)
Winnings from lottery, crossword puzzle, card game	194B	393(3) Sl. No. 1
Winnings from an online game	194BA	393(3) Sl. No. 2
Winnings from a horse race	194BB	393(3) Sl. No. 3
Payments to contractors	194C	393(1) Sl. No. 6(i)
Insurance commission	194D	393(1) Sl. No. 1(i)
Payment under a life insurance policy	194DA	393(1) Sl. No. 8(i)
Payment to a non-resident sportsman or sports association	194E	393(2) Sl. No. 1
Deposits under the National Savings Scheme	194EE	393(3) Sl. No. 6
Commission on the sale of lottery tickets	194G	393(3) Sl. No. 4
Commission or brokerage	194H	393(1) Sl. No. 1(ii)
Rent	194-I	393(1) Sl. No. 2(ii)
Transfer of immovable property	194-IA	393(1) Sl. No. 3(i)
Rent paid by an individual or Hindu undivided family	194-IB	393(1) Sl. No. 2(i)
Joint development agreement	194-IC	393(1) Sl. No. 3(ii)
Fees for professional or technical services	194J	393(1) Sl. No. 6(iii)
Income in respect of units	194K	393(1) Sl. No. 4(i)
Compensation on compulsory acquisition	194LA	393(1) Sl. No. 3(iii)
Income from units of a business trust, investment fund, securitisation trust	194LBA, 194LBB, 194LBC	393(1) Sl. Nos. 4(ii), 4(iii), 4(iv)
Payments by an individual or Hindu undivided family	194M	393(1) Sl. No. 6(ii)
Cash withdrawal from a bank	194N	393(3) Sl. No. 5
Payment by an e-commerce operator	194-O	393(1) Sl. No. 8(v)
Deduction for a specified senior citizen	194P	393(1) Sl. No. 8(iii)

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Purchase of goods	194Q	393(1) Sl. No. 8(ii)
Benefit or perquisite from business or profession	194R	393(1) Sl. No. 8(iv)
Transfer of a virtual digital asset	194S	393(1) Sl. No. 8(vi)
Payments to a partner by a firm	194T	393(3) Sl. No. 7
Other sums payable to a non-resident	195	393(2) Sl. No. 17
No deduction from Government, RBI, exempt corporations, mutual funds	196	393(5)
Certificate for a lower rate or no deduction	197	395(1) and (6)
Declaration of nil liability — Forms 15G and 15H	197A	393(6) and (7)
Tax deducted is income received	198	396
Credit for tax deducted	199	390(5) and (6); Rule 203
Duty of the person deducting — payment and statements	200	397(3)(a) and (b)
Processing of statements	200A, 206CB	399
Consequences of failure to deduct or pay	201	398
Certificate of tax deducted	203	395(4)
Tax deduction and collection account number	203A	397(1)
Annual tax credit statement	203AA (Form 26AS)	Form No. 168; Rule 245
“Person responsible for paying”	204	402(27)
Bar against direct demand	205	401
Requirement to furnish PAN; higher rate	206AA	397(2)
Collection of tax at source	206C	394
Power to relax; Board's guidelines	197A(1F), 206C(12)	400
Fee for late filing of a statement	234E	427
Penalty for failure to deduct	271C	448
Penalty for failure to collect	271CA	449
Penalty for failure to furnish statements	271H	461
Penalty for failure to furnish a certificate, declaration or statement	272A	465
Penalty for failure relating to PAN / TAN	272B / 272BB	467 / 468
Prosecution — failure to pay tax deducted / collected	276B / 276BB	476 / 477
Disallowance of expenditure for a TDS default	40(a)(ia) / 40(a)(i)	35(b)(i) / 35(b)(ii)
Set-off of a house property loss, limited to ₹2,00,000	71(3A)	109(1)(b)

12.2 Old form to new form

Old form	New form	What it is
15G and 15H	121	Declaration of nil estimated tax, to stop the deduction — the two forms have become one
12C	122	Employee's particulars of other income and other employers
12BA	123	Statement of perquisites and profits in lieu of salary
12BB	124	Employee's evidence of claims
12BBA	125	Declaration by a specified senior citizen
15C and 15D	126	Application by a branch for a nil-deduction certificate
27C	127	Buyer's declaration for no collection at source
13	128	Application for a lower or nil deduction, or lower collection, certificate
15E	129	Payer's application for the chargeable proportion of a payment to a non-resident
16	130	Certificate of tax deducted from salary
16A	131	Certificate of tax deducted other than from salary
16B, 16C, 16D, 16E	132	Certificate for the four Form 141 deductions
27D	133	Certificate of tax collected at source
49B	134 / 135	Application for a TAN — Government entity / any other person
—	136	Application for an Account Office Identification Number
24G	137	Statement by a Pay and Accounts Officer where tax is paid without a challan
24Q	138	Quarterly statement of tax deducted from salary
26B	139	Deductor's claim for refund
26Q	140	Quarterly statement of tax deducted from residents other than from salary
26QB, 26QC, 26QD, 26QE	141	Challan-cum-statement for the four Form 141 deductions
26QF	142	Quarterly statement by an exchange for virtual digital assets
27EQ	143	Quarterly statement of tax collected at source
27Q	144	Quarterly statement of tax deducted from non-residents
15CA and 15CB	145	Information on a payment to a non-resident
26A / 27BA	149 / 150	Accountant's certificate that the payee has paid — non-deduction / non-collection
26AS / AIS	168	Annual Information Statement — Rule 245

12.3 Objective questions

A. State whether True or False, with reasons

1. Deduction at source is a charging provision.

False. Section 390(3) expressly provides that nothing in the section affects the charge under section 4(1). It is machinery only; if the sum is not chargeable there is nothing to deduct.

2. Where the threshold is crossed, tax is deducted only on the excess.

False. Section 393(1)(a) requires deduction on the **entire** amount. The only exception is the purchase of goods under Sl. No. 8(ii), where Note 1(b) directs deduction on the sum exceeding ₹50,00,000.

3. An individual with a turnover of ₹80 lakh who pays rent of ₹60,000 a month must deduct at 10%.

False. He is not a specified person, so Sl. No. 2(i) applies and the rate is **2%**, deducted once in the year.

4. A firm need not deduct tax on the share of profit credited to a partner.

True. Section 393(3) (Table: Sl. No. 7) covers salary, remuneration, commission, bonus and interest only; the share of profit is exempt under Schedule III (Table: Sl. No. 2).

5. Surcharge and cess are added to every deduction at source.

False. They are added only where the payee is a non-resident or a foreign company; and, for a resident, only in the average rate on salary. See section 3(17) of the Finance Act, 2026.

6. A payee who has not been paid may still be liable to have tax deducted from the amount.

True. The trigger is credit **or** payment, whichever is earlier, and section 393(11) treats a credit to a suspense account as a credit to the payee.

7. A buyer of immovable property worth ₹60,00,000 from a resident must obtain a TAN.

False. Section 397(1)(c)(i) exempts a deduction under section 393(1) (Table: Sl. No. 3(i)) from the requirement.

8. The fee under section 427 may exceed the tax deducted.

False. Section 427(2)(a) caps it at the amount of tax deductible or collectible.

9. The rate of collection at source on the sale of tendu leaves for Tax Year 2026-27 is 5%.

False. The Finance Act, 2026 reduced it to **2%** with effect from 1 April 2026.

10. A resident individual aged 45 with a nil tax liability may always stop a bank deduction by filing Form No. 121.

False. The Note to section 393(6) additionally requires that the covered income should not exceed the maximum amount not chargeable to tax, that is ₹4,00,000. That condition is waived only for a resident individual of sixty or more.

11. Where the payer has not deducted but the payee has paid the tax on the income in his return, the payer escapes all consequences.

False. Section 398(2) saves him from the tax only. Interest at 1% under section 398(3)(c) still runs to the date the payee filed his return.

12. Prosecution may be launched for a mere failure to deduct tax at source.

False. Sections 476 and 477 punish only a failure to **pay over** what has been deducted or collected.

B. Multiple choice

1. Tax is deducted on rent by a person other than a specified person at —

(a) 1% (b) **2%** (c) 5% (d) 10% Answer: (b), section 393(1) Sl. No. 2(i)

2. The threshold for deduction on a works contract is — (a) ₹30,000 for a single sum only (b) ₹1,00,000 in the aggregate only (c) **₹30,000 for a single sum and ₹1,00,000 in the aggregate** (d) ₹50,000 Answer: (c), section 393(1) Sl. No. 6(i)

3. Tax on a director's sitting fee of ₹15,000 is — (a) Nil, being below ₹50,000 (b) **₹1,500 at 10%, there being no threshold** (c) ₹300 at 2% (d) ₹3,000 at 20% Answer: (b), section 393(1) Sl. No. 6(iii)(c)

4. The rate of collection at source on an overseas tour programme package for Tax Year 2026-27 is — (a) 5% up to ₹10 lakh and 20% above (b) 20% (c) **2%, with no threshold** (d) 1% Answer: (c), section 394(1) Sl. No. 8 as amended

5. The certificate of tax deducted from salary is — (a) Form No. 16 (b) Form No. 131 (c) **Form No. 130** (d) Form No. 138 Answer: (c), Rule 215

6. The quarterly statement of tax collected at source is — (a) Form No. 140 (b) **Form No. 143** (c) Form No. 144 (d) Form No. 27EQ Answer: (b), Rule 219

7. Tax deducted in March 2027 must be paid to the credit of the Central Government by — (a) 7 April 2027 (b) **30 April 2027** (c) 31 May 2027 (d) 15 June 2027 Answer: (b), Rule 218(2)(a)

8. Interest for failing to pay tax after deducting it is — (a) 1% a month (b) **1.5% a month** (c) 2% a month (d) 3% flat Answer: (b), section 398(3)(a)(ii)

9. A payee who does not furnish his PAN on a payment for the purchase of goods suffers deduction at — (a) 0.1% (b) 20% (c) **5%** (d) 10% Answer: (c), section 397(2)(b)(i)(c)

10. The application for a certificate of deduction at a lower rate is made in — (a) Form No. 121 (b) Form No. 127 (c) **Form No. 128** (d) Form No. 129 Answer: (c), Rule 213

11. The penalty for failure to collect tax at source is — (a) ₹10,000 (b) **a sum equal to the tax not collected** (c) ₹200 a day (d) There is none Answer: (b), section 449

12. Credit for tax deducted at source is given — (a) In the year of

deduction (b) In the year of payment to the Government (c) **In the tax year for which the income is assessable** (d) Only on application *Answer: (c), Rule 203(5)*

12.4 Fill in the blanks

1. Tax deducted at source is deemed to be __ of the assessee. — *income received* [section 396] 2. A person who fails to deduct or, having deducted, fails to pay is deemed to be an __. — *assessee in default* [section 398(1)] 3. The threshold for deduction on bank interest paid to a senior citizen is ₹__. — *1,00,000* [section 393(1) Sl. No. 5(ii)] 4. The declaration under section 393(6) is furnished in Form No. __. — *121* [Rule 211] 5. The challan-cum-statement for the four Form 141 deductions is Form No. __, furnished within __ days. — *141; thirty* [Rules 218(3) and 219(5)] 6. Tax on winnings from a lottery is deducted at __%, where a single transaction exceeds ₹__. — *30; 10,000* [section 393(3) Sl. No. 1] 7. The fee for late filing of a statement is ₹__ for every day, subject to a maximum of the __. — *200; tax deductible or collectible* [section 427] 8. The rate of collection at source on the sale of scrap for Tax Year 2026-27 is __%. — *2* [section 394(1) Sl. No. 4, as amended] 9. A specified person is one whose turnover exceeds ₹__ in business or ₹__ in profession in the preceding tax year. — *1 crore; 50 lakh* [section 402(37)] 10. The disallowance of an expenditure payable to a resident for a TDS default is __% of the sum. — *30* [section 35(b)(i)] 11. The quarterly statement for the quarter ended 31 March 2027 is due on __. — *31 May 2027* [Rule 219(4)] 12. “Work” now includes the supply of __ to a person to work under his supervision, control or direction. — *manpower* [section 402(47)(f), inserted by the Finance Act, 2026]

12.5 Short answer questions

1. Distinguish between deduction of tax at source and collection of tax at source. 2. Explain the meaning of “specified person” and “designated person” under section 402, and state why the distinction matters. 3. State the circumstances in which a person is not required to obtain a tax deduction and collection account number. 4. Explain the effect of a failure to furnish a Permanent Account Number on the rate of deduction and of collection. 5. When is a declaration in Form No. 121 available, and when is it not? 6. Explain the rule in section 393(1)(a) that the deduction is made on the entire amount. State the exception. 7. Write short notes on — (a) grossing up under section 393(10); (b) the suspense account under section 393(11); (c) the bar against a direct demand under section 401. 8. State the time limits for payment of tax deducted at source to the credit of the Central Government. 9. Explain the fee under section 427 and distinguish it from the penalty under section 461. 10. State the consequences of a failure to deduct tax at source, and how they differ from those of a failure to pay after deducting. 11. Explain the scheme of the certificate for a lower rate or no deduction under section 395, and the change made by the Finance Act, 2026. 12. Who is a “specified senior citizen”, and what is the consequence of his filing a declaration in Form No. 125?

12.6 Long answer questions

1. “Deduction at source is a mode of collection and not a charge.” Discuss with reference to sections 390, 391, 396 and 401 of the Income-tax Act, 2025. 2. Explain in full the provisions of section 392 relating to deduction of tax from salaries, including the treatment of a non-monetary perquisite on which the employer bears the tax, and the particulars and evidence to be furnished by the employee. 3. Set out the table in section 393(1) so far as it relates to rent, contract payments, professional fees, commission and interest, stating in each case the payer, the rate, the threshold limit and the time of deduction. 4. Explain the provisions relating to collection of tax at source under section 394, stating the rates in force for Tax Year 2026-27 and the changes made by the Finance Act, 2026, and explain the declaration under section 394(2). 5. Describe the documentation, returns and certificates required of a person deducting or collecting tax at source under section 397 read with Rules 215 to 220, giving the form numbers and the due dates. 6. Discuss the consequences of a failure to deduct or collect tax at source, or to pay it to the credit of the Central Government, under sections 398, 427, 35(b), 412, 449, 461, 465, 476 and 477. 7. Explain the circumstances in which no deduction of tax at source is to be made, under section 393(4) to (9), and distinguish a declaration under section 393(6) from a certificate under section 395(1).

8. Ganpati Ltd. made the payments listed below during Tax Year 2026-27. Compute the tax to be deducted in each case and state the section, the due date for payment to the Government, the quarterly statement and the certificate. (*Frame the problem on the lines of Problem 1 in Chapter 11.*)

9. Explain the special provisions applicable to payments to non-residents under section 393(2), including the residual entry at Sl. No. 17, the certificate under section 395(2), and the addition of surcharge and cess.

10. “The Income-tax Act, 2025 has replaced thirty-odd sections of the Act of 1961 with a single section and three tables.” Examine this statement, and set out a reckoner of at least fifteen of the old sections against the new provisions.

End of Unit 1 · Part B. Part C — Interest payable by the assessee and by the Government, and the collection and recovery of tax under sections 411 to 423, 426 and 428 to 430 — follows.

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