

July 21, 2014

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CHARTERED ACCOUNTANTS**

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**TDS Update - Budget 2014**

**1. Rates of TDS**

No change is proposed in the rates of TDS. The rates of TDS applicable for the financial year 2014-15 are as per the TDS rate chart separately attached.

**2. Disallowance of expenses for non deduction /non payment of TDS – Section 40 (a) (ia)**

1. Disallowance of expenditure u/s 40(a)(ia) for non deduction/payment of TDS restricted to 30% of the expenditure as against 100% at present.
2. Disallowance u/s 40(a)(ia) will now cover any sum payable to a resident on which tax is deductible at source under Chapter XVII-B
3. At present S.40a(ia) covers only the following payments
  1. Interest – S.194A
  2. payments to a contractor or sub-contractor – S.194C
  3. commission or brokerage – S.194H
  4. rent – S.194I
  5. royalty, fees for professional or technical services – S.194Jfor disallowance on account of non deduction / non payment of TDS.

**3. Section 40(a) (i)- Disallowance of expenses for non deduction / non payment of TDS for payments to non-resident or to foreign companies or outside India**

Disallowance under this section will not be attracted if TDS is paid before the due date of filing the Return of Income u/s 139(1).

**4. TDS from non-exempt payments made under a life insurance policy– new section 194DA**

- Amount received under a life insurance policy including bonus which does not fulfill the conditions specified u/s 10 (10D) are taxable.

- To provide for a mechanism for reporting these transactions section 194DA has been inserted w.e.f. 1<sup>st</sup> October, 2014 to provide for TDS @ 2% on such sums paid.
- Threshold limit for No TDS – less than Rs.100,000 per financial year.

**5. TDS on interest payable by a business trust to its unitholders – new section 194LBA**

Interest payable by a business trust (Real Estate Investment Trust - REIT and Infrastructure Investment Trust – InvIT ) to

- (i) its resident unitholders will be liable to TDS @ 010%
- (ii) its non-resident unilholders will be liable to TDS @ 5%.

**6. TDS on interest payable by an Indian company on long-term infrastructure bonds (borrowed in foreign currency from a source outside India) – section 194LC**

- At present TDS @ 5% is deductible on interest payable by an Indian company to a non-resident or a foreign company on monies borrowed ( in foreign currency from a source outside India) by way of issue of long-term infrastructure bonds
- The same rate of TDS @ 5% will now be applicable in respect of monies borrowed ( in foreign currency from a source outside India).by way of issue of **any long-term bond including infrastructure bonds** at any time on or after 1<sup>st</sup> October 2014 but before 1<sup>st</sup> July,2017.
- The above provisions will also be applicable in respect of monies borrowed by business trusts (Real Estate Investment Trust - REIT and Infrastructure Investment Trust– InvIT )