

**H.M.KATARIA & ASSOCIATES
CHARTERED ACCOUNTANTS**

TDS and Budget 2007

1. Increase in the rate of TDS on professional fees or technical services u/s 194J

The rate of TDS u/s 194J on fees for professional or technical fees has been increased from **5% to 10% w.e.f. 1.6.2007**. TDS on professional fees or technical services in the months of April 2007 and May 2007 will continue to be deducted at the rate of 5%.

2. Increase in the rate of TDS on Commission or Brokerage u/s 194H

TDS rate on payment of commission or brokerage u/s 194H has been increased **from 5% to 10% w.e.f. 1.6.2007**. TDS on commission or brokerage in the month of April 2007 and May 2007 will continue to be deducted at the rate of 5%.

3. Reduction in the rate of TDS on rent paid for use of machinery or plant or equipment u/s 194I

TDS on rent paid for use of machinery or plant or equipment has been reduced from **15 or 20% to 10% w.e.f. 1.6.2007** irrespective of the status of the payee. TDS on rent paid in the months of April 2007 and May 2007 will continue to be deducted at the rate of 15% where the payee is an individual or a HUF and 20% where the payee is any other person other than an individual or a HUF.

4. Increase in the threshold limit for TDS on Interest on Bank FD and notified Post Office FD u/s 194A

The limit upto which interest is not liable for TDS (threshold limit) in respect of interest on Bank Fixed Deposits (including co-operative banks) and notified Post Offices Fixed Deposits has been increased **from Rs. 5,000/- to Rs.10,000/- w.e.f 1.6.2007**. TDS on interest on Bank and notified Post Office FDs in the month of April 2007 and May 2007 will continue to be deducted taking in account the old threshold rate of Rs. 5000/-.

5. Payment to Contractors by specified Individuals & HUF's to attract TDS u/s 194C

Presently specified individuals and HUF's (individuals of HUF's who are liable to get their accounts audited under section 44AB during the immediately preceding financial

year in which the sum is credited or paid) are not liable to deduct TDS on payments to contractors under section 194C (1). They are only liable to deduct tax on payments to sub-contractors u/s 194C (2). **With effect from 1.6.2007** such specified individuals and HUF's will be liable to deduct tax on payments made to contractors u/s 194C (1).

6. Changes in the levy of surcharge

The rate of TDS comprises of three components income tax rate, surcharge and education cess. With effect from 1.4.2007 the TDS rates in respect of payments to partnership firms and companies will be increased by surcharge where the payments in the financial year exceed Rs. 1 crore. In other words on payments to partnership firms and companies upto Rs. 1 crore the TDS rate will be not increased by surcharge.

7. Higher Education Cess

An additional cess of 1% in the form of Secondary and Higher Education Cess on Income Tax @ 1% of the amount of TDS (excluding education cess but after surcharge) has been imposed across the board. The existing education cess @ 2% continues. This in effect will result in all the TDS rates being increased by a total education cess of 3% instead of 2% . Though the higher education cess is leviable on enactment of the Finance Bill, 2007 it is conventionally levied w.e.f 1.4.2007.

8. Change in the method of calculation of interest on non deduction, non payment or late payment of TDS

8.1 A change in the method of calculation of interest **from the existing per annum basis to per month basis** has been proposed in respect of interest payable u/s 201(1A) for non deduction, non payment or late payment of TDS.

8.2 Presently simple interest @ 12% per annum is payable on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

8.3 The difference between the calculation of interest on per annum basis and per month basis lies in the method followed for calculation on interest under these two methods which is prescribed under rule 119A. Where interest is calculated on per annum basis, any fraction of a month is ignored and when interest is calculated on per month basis any part of the month is deemed to be a full month.

8.4 The change in the method of calculating interest to per month basis will be applicable in respect of **interest payable for the period commencing on or after 1st April, 2008**. For any period ending on or before 31st March, 2008, interest shall continue to be charged or paid on per annum basis.

9. TDS on Interest on 8% Savings (Taxable) Bonds, 2003

As 8% Savings (Taxable) Bonds 2003, are notified Central Government securities interest on these bonds are exempt from the requirement of deduction of tax at source. In the view of the Government this has resulted in evasion of taxes. Hence **w.e.f 1.6.2007** interest on these Bonds will be liable to TDS if the interest payable exceeds Rs.10,000/- during the financial year.

10. Return of interest paid to residents without TDS - Quarterly Return u/s 206A

Banking Companies, co-operative societies and public companies are required to furnish a quarterly return giving the particulars in respect of interest (other than interest on securities) paid to residents not exceeding Rs.5,000/-. Consequent to the increase in threshold limit u/s 194A from Rs.5,000/- to Rs.10,000/- w.e.f. 1.6.2007 in the case of banks (including co-operative banks) return under this section will now will have to be filed by banks giving particulars of interest paid not exceeding Rs. 10,000/- .

11. Commission paid u/s 194H to PCOs by BSNL & MTNL exempt from TDS

Commission paid by MTNL and BSNL to their PCO franchises have been exempted from the TDS provisions under section 194H w.e.f 1-6-2007.