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Section 194T: TDS on Payment by Partnership Firm to Partners

Applicability Date of Section 194T

Section 194T establishes a new framework for TDS on payments made by firms to their partners. The provisions of Section 194T are scheduled to take effect from April 1, 2025. Under this provision, any payment made to a partner—whether it is salary, bonus, commission, interest, or remuneration—will be subject to a TDS

Revised Limits for Partner Remuneration:

First ₹6,00,000 of Book Profit or Loss: The maximum deductible remuneration is ₹3,00,000 or 90% of the book profit, whichever is higher.

On Balance of Book Profit: Deduction is allowed at 60% of the book profit.

Key Provisions of Section 194T

Provisions	Details
Applicability	Applies to payments made to partners of a firm, including salary, bonus, commission, interest, and remuneration.
Threshold Limit	TDS is applicable only if the aggregate amount paid to a partner in a financial year exceeds ₹20,000.
Rate of TDS	The applicable TDS rate is 10%.

Timing of TDS Deduction

Section 194T specifies that TDS should be deducted at the earlier of the following two events:

- **At the Time of Credit**: When the sum is credited to the partner's account, including capital accounts.
- **At the Time of Payment**: When the payment is made to the partner, whether through cash, cheque, draft, or other modes.

This approach ensures timely TDS deductions, reducing the risk of tax evasion and delays in tax payments.

Impact on Firms

Increased Compliance Burden

The enactment of Section 194T introduces a substantial compliance burden for firms, particularly affecting smaller entities. This new regulation mandates that firms obtain a Tax Deduction and Collection Account Number (TAN) and adhere to precise requirements for deducting and depositing

TDS. The additional responsibilities necessitate rigorous record-keeping and strict adherence to compliance standards.

Capital Blocking

Section 194T's requirement to withhold TDS at a rate of 10% on payments exceeding ₹20,000 could result in temporary capital constraints for partners. This deduction might affect their liquidity, especially if there are delays in receiving refunds. Firms must strategically manage their cash flows to mitigate the potential financial impact on their operations.

Compliance and Record-Keeping: Recommendations

To comply with Section 194T, firms should:

- **Obtain TAN**: Secure a Tax Deduction and Collection Account Number (TAN) if not already possessed.
- **Deduct TDS**: Implement TDS deductions at a 10% rate on payments surpassing ₹20,000 from April 2025.
- **Deposit TDS**: Ensure timely deposit of the deducted TDS with the government to avoid penalties.
- **File TDS Returns**: Submit quarterly TDS returns that detail deductions and payments.
- **Issue TDS Certificates**: Provide partners with TDS certificates (Form 16A) as evidence of tax deduction.

Conclusion

Section 194T represents a significant amendment to the Income Tax Act, designed to enhance tax compliance and expand the tax base. While it introduces new compliance challenges and potential liquidity issues for firms and their partners, it also ensures that income is taxed at source. Firms should prepare by establishing robust systems, obtaining TAN, and ensuring timely TDS deductions and deposits. With proper implementation and awareness, Section 194T can contribute to a more transparent and efficient tax system in India.