

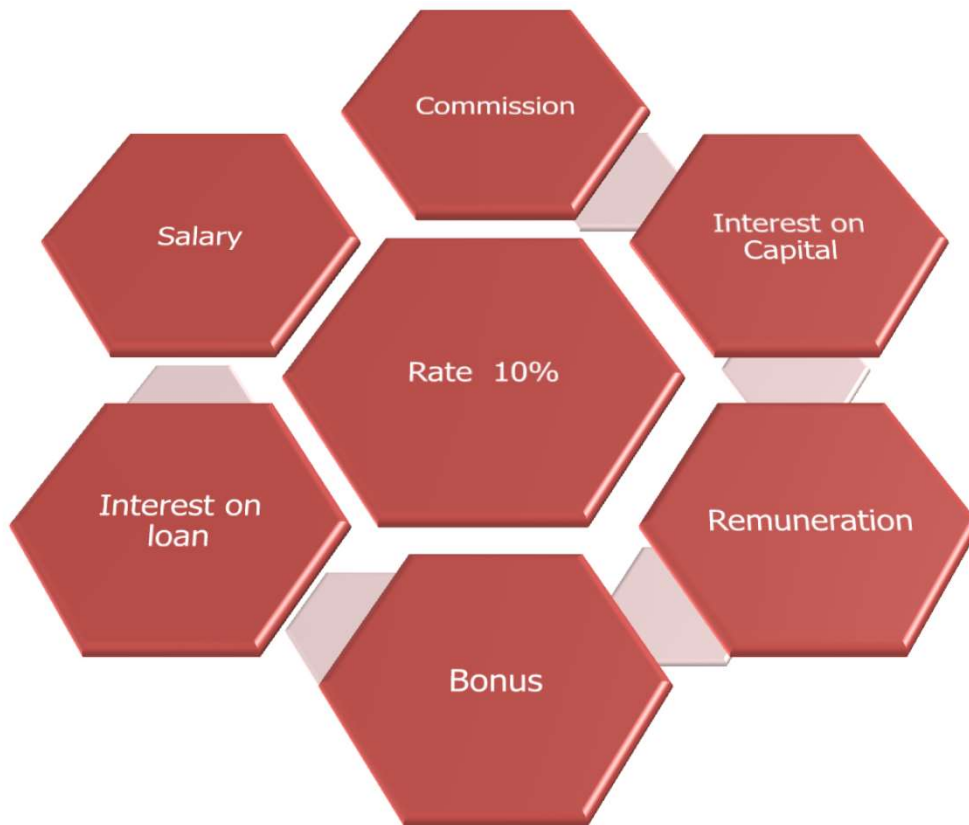
TDS on Partners Remuneration.



Introduction

The Finance Act, 2024, introduced a new provision Section 194T into the Income Tax Act, 1961, which comes into effect from **April 1, 2025**. This section mandates the deduction of Tax Deducted at Source (TDS) at the **rate of 10%** on certain payments made by partnership firms, including Limited Liability Partnerships (LLPs), to their partners. The primary objective of this provision is to improve tax compliance and curb potential tax avoidance arising from partner withdrawals.

Nature of payments



Section 194T mandates the deduction of TDS on certain payments made by partnership firms or LLPs to their partners. These payments include salary, remuneration, commission, bonus, and interest on any account. Firms are required to deduct TDS at the rate of 10% if the aggregate amount paid to a partner **exceeds ₹20,000** in a financial year.

TDS under Section 194T must be deducted at the earlier of the following events:

- ❖ The date of credit of the amount (including credit to the partner's capital account) in the books of the firm, or
- ❖ The date of actual payment to the partner, by any mode.

Illustration

Month	Remuneration paid	Cumulative Remuneration	TDS Applicable ?	Remarks
May	15,000	15,000	No	Below Rs. 20,000 threshold individually
November	25,000	40,000	Yes	Exceed Rs. 20,000 – TDS @ 10% amounts to Rs. 4,000
January	10,000	50,000	Yes	Aggregate exceeds the threshold limit TDS applicable

Total TDS to be deducted Rs. 50,000 * 10% = Rs. 5,000/-

Points to be noted

- ❖ Under Section 194T, partnership firms and LLPs must obtain a TAN (if not already held), deduct TDS at 10% on applicable payments exceeding ₹20,000 in a financial year, deposit the TDS by the 7th of the following month, file quarterly TDS returns, and issue Form 16A certificates to partners. These steps are essential to ensure timely and accurate tax compliance.
- ❖ TDS is not applicable on the drawings or capital repayment to partners.
- ❖ The profit share received by partners is tax-free under Section 10(2A) of the Income Tax Act, so TDS under Section 194T does not apply to these payments
- ❖ TDS under section 194T is applicable if the aggregate amount of specified payments to a partner exceeds Rs. 20,000 in a financial year, even if the individual nature of payments, such as salary (Rs. 15,000), interest (Rs. 10,000), and bonus (Rs. 7,500), do not independently exceed the threshold. In such a case, since the total is Rs. 32,500, TDS will be applicable.
- ❖ If a partner refunds the withdrawn amount to the firm, the TDS already deducted is not automatically reversed. However, the partner can claim credit while filing their return, and if the refund occurs within the same financial year, the firm may explore possible adjustments, subject to CBDT guidelines.

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