

## TDS on Interest, Commission & Brokerage

M. George Korah FCA, DISA

In this paper, we will discuss the Tax deduction provisions on interest payments as well payments which are in the nature of commission or brokerage.

First let us look at interest payments. When you deposit money with a bank, then the bank pays you interest. This interest could be paid out monthly, quarterly, half-yearly or annually. In the case of cumulative deposits, the interest as you know, will be paid on the date of maturity of the deposit, along with the money that you had deposited.

Whatever be the method or period of payment of interest, the Bank will calculate the total interest due (or paid) to you in one financial year (1<sup>st</sup> April to 31<sup>st</sup> March). If the amount exceeds Rs. 5,000 then the Bank will deduct tax at source from your interest payment as per the provisions of section 194 A of the Income Tax Act. For payments made to Resident individuals the rate at which they would deduct tax is 10.3 %.

You may have received an intimation from the Bank, before the financial year end, enquiring whether you plan to submit Form 15 H or in the case of a Senior citizen, Form 15 G, to avoid TDS on your interest. Please note that these Forms are like affidavits, wherein you are declaring that you do not have taxable income and hence any wrong statement could get you in trouble. You should be aware that, one copy of this Form will be sent to the Income Tax Office, so sign this Form, only after making sure that you have complied with all the requirements of these Forms.

If the Bank receives this Form from you, then it will not deduct any tax at source from your interest.

The limit of Rs. 5000, beyond which the Bank will deduct TDS, has now been revised to Rs. 10,000 from financial year 2007-08 .This has been one of the welcome changes of Budget 2007. Hence if your term deposit fetches you 10 %, then you can safely put Rs. 90,000 in a Branch of a Bank, without facing the TDS cut.

Please note that this limit is for every branch & not for all branches of a bank put together. Therefore if you want to deposit Rs. 5 lakhs in the same Bank, without facing the TDS problem, you will have to deposit this money in more than 6 branches, making sure that any single deposit does not give you an annual interest of Rs. 10,000 or more.

Also keep in mind that interests on Recurring Deposits & Savings Bank accounts do not attract TDS.

Besides Banks, companies & partnership firms are also required to deduct tax at source from interest payments made by them. Normally individuals & Hindu Undivided Families (HUF) are not required to deduct TDS from interest payments made by them. If, however, they have crossed the turnover limits, stipulated under section 44AB, then they are also required to deduct tax at source from interest payments made by them.

The limit, like in the case of Banks is Rs. 5000, below which no TDS is required. However the increase in this limit to Rs. 10,000, brought about by the recent Union Budget, is not applicable to payments made by non-banking entities.

Partnership firms, who pay interest to their partners, need not deduct tax at source.

We shall now examine the tax provisions relating to TDS from Commission or Brokerage.

ABC Pvt Ltd has recently bought some land to construct its office. In connection with this purchase it has to pay Rs. 1.50 lakhs as commission to the broker Mr. Iqbal. Does the company have to deduct any TDS on such brokerage payment? The answer is an emphatic 'Yes'.

**Commission or Brokerage has been defined as below -**

Commission or Brokerage includes any payment (not being insurance commission) received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

**Who is responsible for tax deduction -**

Any person (other than an individual or HUFs) who is responsible for paying commission or brokerage to a resident shall deduct tax at source.

Individuals & HUFs who are hit by the provisions of section 44AB in the preceding financial year are to deduct TDS from Commission/Brokerage.

**When tax has to be deducted -**

Tax shall be deducted at the time of credit of such income to the account of the payee or at the time of payment of such income in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier. Where any income is credited to any account, whether called "Suspense account" or by any other

name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee.

### **Basic exemption**

Payment in excess of Rs. 2500 is subject to tax deduction - No tax is deductible if the amount of commission or brokerage paid/credited during the financial year does not exceed Rs. 2500.

### **Rate of TDS**

The rate of TDS including educational cess will be 5.15%

Hence from the commission due to Mr. Iqbal, the company ABC Pvt Ltd will have to deduct an amount of Rs. 7725 ( 5.15% of Rs. 1.5 lakhs) & pay him only the balance.

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Korah and Korah CAS