



Section 194T: Unraveling the TDS Implications for Partnership Firms and Their Partners

The Finance (No. 2) Act 2024 has brought forth Section 194T, a new provision mandating a 10% TDS on payments exceeding ₹20,000 during the financial year made by firms to their partners as salary, remuneration, bonus, commission, or interest. This introduction raises several critical questions, particularly concerning its impact on small and professional firms and the resulting cash flow implications for individual partners, especially in light of the revised new tax rates for Individuals under the Finance Act 2025.

A key concern arises from the fact that many partners in smaller firms might not have a taxable income under the new tax regime. Consequently, the mandatory TDS under Section 194T could lead to unnecessary upfront tax deductions and subsequent delays in refunds.

Further the provisions of Section 197, which typically allows taxpayers to apply for a lower or nil TDS certificate is also not amended to include Section 194T. This absence of a direct relief mechanism leaves partners with limited options to mitigate the impact of the new TDS.

The implementation of Section 194T also necessitates a careful consideration of its interplay with existing provisions like Section 40(b)(v), which governs the deductibility of partner remuneration for the firm, and Section 40(a)(ia), which addresses the non-deductibility of certain expenses if TDS is not deducted. The question

remains whether the 30% disallowance under Section 40(a)(ia) would apply to the entire payment made to the partner or only to the portion exceeding the permissible limit under Section 40(b). This distinction has significant implications for the firm's tax liability.

However, those not adhered to the provisions of Section 194T, may plead under section 201 to escape from the penalty consequences. If a partner meets the conditions outlined in the first proviso to Section 201(1) – filing their return, including the firm's income, and paying their due tax – the firm may not be deemed an 'assessee in default' for not deducting TDS and avoid potential penalties proceedings etc.,

To avail this relief under Section 201, the partner is required to furnish a certificate from an accountant confirming their compliance with the conditions in prescribed form No.26A

However, the proviso to section 201(1A) regarding interest on tax will be applicable on the tax amount not deducted from the partners payment till the date of filing of his return of income. There are various contrary views regarding charging of interest is not applicable if the payee did not have any taxable income.

In conclusion, while the introduction of Section 194T presents a potential cash flow challenge for partners in small businesses and professional firms. The CBDT should consider the inclusion of section 194T also for the purpose of claiming lower deduction certificate to mitigate the challenges faced by the small firms.

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