

SECTION 194T



Alert for partnership firms : Effective from 01.04.2025!

Are you a partner in a partnership firm?

If yes, then this article is for you! In the Union Budget 2024, Finance Minister Ms. Nirmala Sitharaman has introduced TDS on all payments made to partners, other than payments for distribution of share of profits.

Payments that are covered under this section,

The following payments made to partners of a partnership firm are subject to Tax Deduction at Source (TDS) under Section 194T:

- Remuneration
- Commission
- Salary
- Bonus
- Interest on loan account or capital account

Note that these payments will attract 10% TDS if the total payment exceeds ₹20,000 in a financial year."

● **What is Section 194T?**

Section 194T: Mandatory 10% TDS on Payments to Partners

"Any person, being a firm, responsible for paying any sum in the nature of salary, remuneration, commission, bonus or interest to a partner of the firm, shall, at the time of credit of such sum to the account of the partner(including the capital account) or at the time of payment thereof, whichever is earlier shall, deduct income-tax thereon at the rate of ten per cent".

This section applies uniformly to all businesses, irrespective of their size or nature.



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Things to be done,

- a. Obtain Tax deduction and collection number (TAN), in case if you're are not having it already.
- b. Deduct TDS at 10% on payments made to partner in excess of Rs 20,000/- in a financial year.
- c. Remit the TDS deducted on a monthly basis within a respective due dates.
- d. File the TDS return on a quarterly basis.
- e. Issue a TDS Certificate to the partners.



Why Section 194T?

To broaden the tax base, increase transparency, and reduce tax evasion by mandating TDS on payments to partners of partnership firms.



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● Challenges of Section 194T Compliance

The introduction of Section 194T imposes significant compliance burdens on firms, particularly small entities. Key implications include:

- Mandatory Tax Deduction and Collection Account Number (TAN) registration
- Stringent deposit and deduction requirements for TDS
- Rigorous record-keeping and adherence to compliance standards

Additionally, the 10% TDS on payments above ₹20,000 may cause temporary capital constraints, affecting liquidity due to delayed fund receipts. To mitigate this risk, firms must strategically manage cash flows and proactively address potential financial risks."