

Taking the Tedium out of TDS

At this time of the year, the quarterly withholding tax returns (e-TDS returns) is filed electronically by employers. After this exercise, the employers issue Form No. 16 (salary withholding certificate) to employees, for which the due date under the Income-tax law is May 31.

Earlier, in February 2013, the Central Board of Direct Taxes (CBDT) had issued a circular with a new format of the Form No. 16. The CBDT has now issued another circular, which outlines new procedures for issue of Form No. 16, which has to be followed by employers in relation to taxes withheld from salary income on or after April 1, 2012. This means that Form 16 for the Indian financial year 2012-13 will have to be issued using the new methodology by the above-mentioned due date.

The Income-tax department has recently started using a web-based application called the TDS Reconciliation Analysis and Correction Enabling System Portal (TRACES portal) as a technology platform for the administration of withholding tax. The TRACES portal is maintained by the Income-tax department, and contains information on the amount of tax withheld and paid. The information on tax withholding is furnished to the Income-tax department through the e-TDS returns filed by employers and others.

The TRACES portal is currently used to produce Form No.16A in relation to withholding tax on payments other than salaries paid to employees. The CBDT had mandated use of the TRACES portal primarily in order to eliminate inconsistencies between the withholding tax certificates issued to taxpayers and the withholding tax amounts reflected in the Income-tax department's system. The new circular requires that the TRACES portal be used by employers in relation to salary payments as well.

As per the new format, Form No.16 will now have two parts — Part A and Part B (Annexure). Part A contains details of the withholding tax deduction, and must be downloaded from the TRACES portal. Only forms issued in accordance with the circular, and which contain a Unique Identification Number, will be treated as compliant under the Income-tax law. The Unique Identification Number will be generated online while downloading Form No.16 from the TRACES portal. After authenticating and verifying Part A, the employers have to issue this to their employees.

Part B contains details of the income from which the withholding tax is deducted. Part B is required to be prepared, as well as authenticated and verified, by the employer before it is issued to the employee.

An important point to note is that, these days, the Income-tax return is generally filed electronically (for all tax returns above an income threshold) without any

annexures — hence, Form No. 16 is not required to be attached with the Income-tax return.

When a taxpayer registers online to file his/ her return, he/ she can download a statement of taxes withheld and deposited on his behalf — called Form No. 26AS. This form reflects the withholding tax from various payments to the taxpayer (including salary paid by the employer).

To further automate and simplify the process, the Income-tax department should explore the possibility of getting the TDS amounts reported by the employers (that currently appear on Form 26AS) to be directly populated into the online Income-tax returns of employees.

The Hindu