

# Singh Computer Center

## Meaning of TDS

(Tax Deducted at Source) TDS is one of the most common entries to be passed while receiving and making payment. It involves proper calculation, posting it in the right ledger, and reconciliation.

## What is TDS (Tax Deducted at Source)?

Tax Deducted at Source (TDS) is a pre-tax deduction made at source (before payment) by the payer from the payment made to the payee. It is a mechanism of collecting tax by using a deduction mechanism rather than through payments made by the taxpayer. It is deducted at the time of payment, and directly deposited into the government (Income Tax Department's) account.

There are generally two types of TDS in Books of Accounts: TDS Payable and TDS Receivable.

## TDS Payable

It's the amount which you are required to deduct from the total payable amount to the service provider, contractor, professional, and then deposit to Income Tax department as tax on behalf of the payee.

It's held on behalf of the Payee therefore it appears on the liability side of the balance sheet.

This must be confusing, let's try to understand through a practical TDS example

Consider yourself as a hospital entity. Suppose you need to pay a sum of ₹1,00,000 to a doctor who provides professional medical services at your hospital.

Now as per the Finance Act, you should pay only ₹90,000 to the doctor after deducting ₹10,000 (at the rate of 10% on the total amount payable.) You need to deposit this 10,000 directly to the Income Tax department's bank account on behalf of the doctor.

## Note:

The rate of 10% is for Professional services like medical and legal services under section 194J of the Income-tax Act. TDS deduction could be anywhere between 1% to 30% depending on the nature and number of payments to be made.

₹10,000 that is deducted would be considered as the amount paid by the doctor to the IT department. So, TDS is not your additional expense, but just a part of the payment that is diverted directly to the government, instead of the payee.

## TDS Receivable

TDS receivable is the amount deducted by your customer, client, tenant, etc. from the total payable amount and is deposited to the IT department on your behalf.

### TDS Receivable Example:

If you have rented out an office in your building to a bank at a rent of ₹80,000 monthly, you will only receive ₹72,000 in your bank account. ₹8000 will be deducted by the bank and will be deposited as tax paid to the IT department on your behalf.

### Note:

Rent payable on land and building attracts 10% flat TDS rate.

The deducted amount is deposited to the Income Tax department on your behalf by the bank. It could be considered as the advanced tax paid by you.

## Calculation of TDS

Although it's quite simple, there might be confusion related to TDS calculation. TDS deductible amount should be accurately calculated while making payments. Here are the major things that you need to consider while calculating TDS.

TDS deductible should be calculated on the total amount payable to the deductee.

TDS Deductible is calculated as per the rates prescribed by Income Tax.

### For Assessment Year 2023-24, here are the TDS Rates:

**Salary- As per Tax Slab**

**Rent on Land and Buildings: 10%**

**Professional Fees: 10%**

**Individual Contractor: 1%**

In case, the TDS needs to be deducted for services where GST is applicable, TDS is calculated on the taxable value of supply and not on the total payable amount. (Discussed this part in the later entry with example.)

If part payment is to be made, then TDS will be calculated only on the partly payable amount but not on the entire amount.

## Steps for TDS Entry in Tally ERP 9

There are two types of TDS entries that you need to make: TDS Payable and TDS Receivable.

## TDS Payable Entry in Tally with Example

According to standard Accounting Practice, TDS Payable is passed by three different entries.

The first entry is passed while booking TDS payable and the total amount payable to the deductee.

The second entry will mention the exact amount through bank/ cash to the deductee.

The third TDS entry is passed when TDS payable is deposited in the account of the Income Tax Department.

## Practical TDS Payable Entry Example

If ₹50,000 for as contract is payable to Mr. X after deducting TDS at 10%.

The first entry is when the TDS is booked along with amount payable to the Payee

Contract Expenses A/c Dr	50,000/-
To Mr. X A/c	45,000/-
To TDS Payable A/c	5,000/-

## The second Entry would be made while paying the amount to the Payee

Mr. X A/c Dr	45,000/-
To Bank A/c	45,000/-

### Third Entry when TDS Deducted is paid/deposited to the IT department's Bank Account

TDS Payable A/c Dr	5,000/-
To Bank A/c	5,000/-

### Steps For TDS Payable Entry in Tally ERP 9 (Same for Tally Prime)

Create TDS Payable Ledger First (Skip if already created)

The screenshot shows the 'Accounting Voucher Creation' window in Tally ERP 9. The journal entry is as follows:

Particulars	Debit	Credit
By Contract Expenses Cur Bal: 50,000.00 Dr	50,000.00	
To Mr A Cur Bal: 45,000.00 Cr On Account		45,000.00
To TDS Payable Cur Bal: 5,000.00 Cr		5,000.00

### TDS Receivable Entry in Tally with Example

TDS receivable entry is generally booked in two parts.

First one when the bill is issued to the party.

The second one is when the net payment after TDS deduction is received from the party.

### Practical TDS Receivable Example

Your company sent out the bill of ₹35,000 for contract to XYZ private limited. The payment was received after the deduction of TDS at 10%.

The first entry is when the total amount receivable from the party is booked

XYZ Pvt LTD A/c Dr	35,000/-
To Revenue A/c Cr	35,000/-

The second entry is passed to book TDS receivable when net amount is received in bank. This is done through Two different entry

Receipt Entry

Bank A/c Dr	31,500/-
To XYZ Pvt Ltd	31,500/-

Journal Entry

TDS Receivable A/c Dr	3,500/-
To XYZ Pvt Ltd A/c	3,500/-

Name		Total Op. Bal.
TDS Recieveable		
Under		
Current Assets		
Inventory values are affected		
Mailing Details		
Name		
Address		
State		
PIN Code		
Journal No: 2		
1 Apr 2022		
Friday		
Particulars	Debit	Credit
By TDS Recieveable	3,500.00	
Cr Bal 3,500.00 Dr		
To XYZ Pvt Ltd		3,500.00
Cr Bal 3,500.00 Cr		
Dr Asset	3,500.00	Cr

## TDS Entry in Tally with GST

Whenever you must make a Tally entry for TDS with GST, the entire process remains the same except the fact that TDS is only deducted on the taxable value component not on the GST component. Else, the entry will remain the same as above.

## Here is a TDS entry in Tally ERP 9 GST with an example

If your company avails ₹1,00,000 services from a website designing agency and the agency charges 18% GST on the total value of contract. The total value payable would be ₹1,18,000.

The TDS deductible would be ₹10,000 (10% of ₹1,00,000). TDS would not be deducted from GST component i.e., ₹18,000

The entry would be as follows:

Expense A/c Dr	1,00,000/-
CGST ITC A/c Dr	9,000/-
SGST ITC A/c Dr	9,000/-
To Agency A/c	1,08,000/-
To TDS Payable A/c	10,000/-

## Note: The entry should be passed as a journal voucher in Tally ERP 9 and Tally Prime.

Under which group is TDS ledger created in Tally?

TDS ledger should ideally be created under Duties and Taxes Group in Tally. However, it could be created under Current Asset and Current Liability for better representation on balance sheet. TDS receivable should be under Current Asset and TDS payable under Current Liability for better representation.

## Is TDS an asset or liability?

TDS receivable is considered as an asset while TDS payable is considered as liability.

## Is TDS calculated on GST component?

No, TDS is not calculated on GST component. TDS is only calculated on the taxable value of the service or charges but not on the GST component.

## Is TDS payable an expense?

TDS payable is the amount deducted from total payment to be made to the payee. Since it's a part of salary, contract or professional expense, it is deemed to be expense. However, TDS payable is not accounted separately as an expense, as it's already booked when the expense is due.

**# Other example ABC company used the service of MR. N person.  
Now, ABC company will pay the amount of MR. N person. If TDS will apply as per income**

tax law, ABC will deduct TDS and net amount will pay to Mr. N person. At that time following [journal entries](#) will be passed in books of ABC company and Mr. N Person.

## In the Books of ABC Company

### 1. When company pays the money and deduct the TDS.

**Indirect Expense Account Debit**

**Mr. N Person Account Credit**

**TDS of Mr. N Person Account Credit**

Explanation of Above Entry with Example : Suppose, ABC have to pay Rs. 1,00,000 pay rent to Mr. A person. Suppose, it TDS is Rs. 5000. Now, the net liability of Mr. N person will be of Rs. 95000. and TDS liability will be Rs. 5000 because both amount is payable to different persons. So, Mr. N person account will be credited with Rs. 95000 and TDS account will be credited with Rs. 5000. Because total Rent is the indirect expense, so Rs. 1,00,000 will be debited. Company will follow the law and total amount will be divided between assessee and govt.

Rent Account Debit 1,00,000

Mr. N Person Account Credit 95000

TDS Credit 5000

**Before Actual Payment to Creditor for expense and TDS, both will be shown in the liability side.**

Liability Side of Balance Sheet

Mr. N Person Account (Creditor for Rent ) = Rs. 95000

TDS = Rs. 5000

**2. When Payment is done to Creditor for our expense and TDS, then following entry will be passed.**

Mr. N Person Account Debit 95,000

TDS Account Debit 5000

Bank Account Credit 1,00,000



## In the Books of Mr. N Person (Assessee)

### 1. When his earning from Rent is due.

ABC Company Account Dr. 95000

TDS Dr. 5000

Rent Account Cr. 100000

### 2. When Assessee Gets net amount of his rent

Bank Account Dr. 950000

ABC Company Account Cr. 95000

### 3. When Govt. Refunds the TDS to Assessee

When Mr. N Person fills his regular income tax return and he refunds some of his TDS. Suppose, it is the Rs. 1500

Bank Account Dr. 1500

Refund of TDS Cr. 1500

**{ Important Note : Payment of income tax is the personal liability of any person.**

So, we do not record the income tax of an individual assessee. But when TDS is deducted it just like drawing of person. So, it will be debited. When we get the refund of TDS, it is just like increase of capital because rent was our earning. If we deduct TDS, it means, it is decrease of our earning and capital. Refund is just like increase of our earning and capital. }



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