

Not sharing PAN, Aadhaar? Employer may deduct 20% tax from your salary

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In an 86-page circular on the matter, CBDT directed mandatory quoting of PAN or Aadhaar number by employees under Section 206 AA of the Income Tax Act.

Employers might soon start deducting 20 per cent from the salaries of their staff if they fail to provide their Permanent Account Number (PAN) or Aadhaar number to them.

This is a new rule brought in by the Central Board of Direct Taxes (CBDT), which will be applicable to employees whose salary is above the threshold of Rs 2.5 lakh a year.

This norm, which has come to effect on January 16, aims to monitor tax deduction at source (TDS) payments and keep a strict vigil on revenue earned from this segment, which constitutes 37 per cent of the total direct tax collection of the country during financial year 2018-19 (FY19).

In an 86-page circular on the matter, CBDT directed mandatory quoting of PAN or Aadhaar number by employees under Section 206 AA of the Income Tax Act.

“Section 206AA in the Act makes furnishing of PAN or Aadhaar number, as the case may be, by the employee compulsory in case of receipt of any sum or income or amount, on which tax is deductible,” said the circular.

If an employee fails to furnish the details, the employer has been made responsible to make deduction either at the tax rate attracted by the employee’s salary or 20 per cent or more, the circular noted. If the income of the employee is below the taxable limit, no tax will be deducted.

If after various deductions the salary attracts up to 20 per cent tax, TDS at the rate of 20 per cent will apply. If it attracts 30 per cent tax rate, the employer will calculate the average tax rate, which is the employee’s total tax liability divided by total annual income. In case average tax rate comes up to 20 per cent, the TDS will be 20 per cent. In other cases, higher TDS at the average tax rate will apply.

However, an employee will be exempted from paying health and education cess at the rate of 4 per cent if the deduction is made at a higher rate.

The CBDT said that as the requirement of filing TDS certificates along with the tax return has been done away with, the lack of PAN or Aadhaar number is creating difficulties in giving credit for the tax deducted. Therefore, tax deductors are advised to procure and quote correct PAN or Aadhaar number, details of all deductees in the TDS statements for salaries in Form 24Q (for tax deducted from salaries).

Making Corporate India Comply

During the current financial year, the I-T department has been constantly taking up cases related to TDS default, delay in payments, non-compliance by private and government sector firms and has set a target of 30 surveys for assessing officers to crack down on evaders.

“Efficient TDS administration is required considering certain critical cases the department has witnessed in the recent past, where various unorganised sectors are not fulfilling the compliance criteria. Shortfall in TDS payment has come from the cases where frequent corrections have taken place and also where the name of deductors is changed on regular basis, cases of sick units or units with negative operating margins,” said an I-T official privy to the development.

However, the existing rule obliged a person to pay a sum of Rs 10,000 if they failed to obtain and quote the tax deduction and collection amount numbers in challans, TDS-certificate statements and other documents.