**Taxation - Direct and Indirect**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for June 2025 Examination**

**Q1. Mr. Gajendra, a business owner, failed to comply with Tax Deducted at Source (TDS) provisions, leading to the disallowance of 30% of royalty payments to Mr. Bani and 30% of employee salaries during the computation of business income for AY 2023–2024. The royalty payment’s TDS was deducted but not deposited on time, while salaries were paid without deducting TDS as required under Section 192. Analyze the impact of this non-compliance on the firm’s tax liability and financial statements. How could better TDS management have prevented these disallowances? Propose strategies to strengthen TDS compliance and mitigate future risks.**

**Answer:**

**Introduction:**

Tax Deducted at Source (TDS) is a crucial part of India’s tax compliance framework. It ensures that tax is collected at the time of payment or credit of income, helping the government maintain a steady flow of revenue. For businesses like the one owned by Mr. Gajendra, complying with TDS provisions is not only a legal obligation but also essential to avoid financial penalties and income disallowances. In this scenario, Mr. Gajendra made two mistakes: he deducted TDS on royalty payments made to Mr. Bani but failed to deposit it within the stipulated time, and he paid salaries to employees without deducting TDS under Section 192 of the Income Tax Act. Due to these lapses, 30% of the royalty and salary expenses were disallowed during the computation of business income for Assessment Year (AY) 2023–2024. This disallowance led to a higher taxable income and ultimately increased the firm’s tax liability. Moreover, these errors could also affect the business’s financial reporting and cash flow. This case highlights the need for timely TDS compliance and strategic tax management to safeguard the business’s financial health.

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**Q2. XYZ Pvt. Ltd. operates across multiple states, dealing with both direct and indirect taxes. The company’s payroll involves TDS deductions, while its product pricing includes GST. The management is concerned about the impact of TDS on employee cash flows and how indirect taxes influence consumer behavior. As a consultant of XYZ Pvt. Ltd. analyze the differences between direct and indirect taxes, and explain how TDS fits into the taxation system?**

**Answer:**

**Introduction:**

Taxes are a major part of any business’s financial activities. They are the government's way of collecting money to fund public services and development programs. For a company like XYZ Pvt. Ltd., which operates in multiple states and deals with both direct and indirect taxes, it becomes very important to properly understand how these taxes work. Direct and indirect taxes impact different areas of the business. Direct taxes, like income tax, are charged directly on the income or profits of individuals or organizations. Indirect taxes, like GST (Goods and Services Tax), are charged on the sale of goods and services and are collected from consumers by businesses.

In XYZ Pvt. Ltd.’s case, TDS (Tax Deducted at Source) is a key part of direct taxation because it is deducted from employees’ salaries and impacts their monthly cash flow. On the other hand, indirect taxes like GST directly affect how customers view product prices and make buying decisions. As a consultant for XYZ Pvt. Ltd., it is important to carefully explain the differences between direct and indirect taxes, show how TDS fits into the taxation system, and highlight how both types of taxes influence the company's operations and customer behavior.

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**Q3 (A) XYZ Ltd. regularly pays consultants and vendors for professional services. In one instance, the company failed to deduct Tax Deducted at Source (TDS) on a Rs.50,000 payment. As a result, a portion of the expense was disallowed during tax assessment, increasing the company’s tax liability. Explain the role of TDS in ensuring compliance with tax laws and its effect on tax evasion.**

**Answer:**

**Introduction:**

Tax Deducted at Source (TDS) is a way by which the government collects tax at the time when income is generated rather than at a later date. It helps the government get a steady flow of revenue throughout the year and ensures that people do not avoid paying taxes. In India, companies like XYZ Ltd. are required to deduct TDS when making payments for professional services, salaries, rent, and other specified expenses. Failure to deduct TDS can lead to penalties and disallowance of expenses during tax assessment, ultimately increasing a company's tax liability, as seen in XYZ Ltd.'s case.

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**Q3B. ABC Pvt. Ltd. has recently started making monthly rent payments of Rs.50,000. To comply with tax regulations, the company must manage its TDS obligations accurately. After obtaining a TAN, the company deducts tax at the applicable rate and deposits it with the government. Analyze the importance of obtaining a TAN for ABC Pvt. Ltd. Explain the process of obtaining a TAN and its role in the TDS system.**

**Answer:**

**Introduction:**

Tax Deduction at Source (TDS) is an important compliance requirement for companies making certain payments like rent, salaries, and professional fees. ABC Pvt. Ltd., which has started paying a monthly rent of Rs. 50,000, needs to manage its TDS obligations properly to avoid penalties. For this, obtaining a Tax Deduction and Collection Account Number (TAN) is crucial. TAN is a unique number assigned by the Income Tax Department, and it allows companies to deduct tax from payments and deposit it with the government. Understanding the importance of TAN, the process to obtain it, and its role in TDS is essential for ABC Pvt. Ltd.

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