**Taxation- Direct and Indirect**

**Jun 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. (10 Marks)**

**Ans 1.**

**Introduction**

Tax Deducted at Source (TDS) is an essential compliance mechanism under the Indian Income Tax Act, ensuring that tax liabilities are settled at the point of income generation. Businesses are legally required to deduct TDS on specified payments like salaries, professional fees, and royalties, and deposit the same within stipulated deadlines. Mr. Gajendra, a business owner, failed to comply with TDS provisions—specifically, by not deducting TDS on salaries and not depositing TDS on royalty payments on time. This lapse resulted in the disallowance of 30% of these expenses under Section 40(a)(ia), increasing the company’s tax liability for Assessment Year (AY) 2023–2024. This case highlights the financial and reputational risks of

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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? (10 Marks)**

**Ans 2.**

**Introduction**

XYZ Pvt. Ltd., operating across multiple Indian states, is subject to a range of tax obligations that fall under both direct and indirect tax categories. While direct taxes such as income tax and TDS (Tax Deducted at Source) affect the company's payroll and employee net earnings, indirect taxes like GST (Goods and Services Tax) influence the final price of goods and services offered to consumers. Understanding the fundamental distinctions between direct and indirect taxes is vital for both tax planning and operational efficiency. Moreover, the role of TDS in the overall tax framework, particularly its implications on employee cash flows and

**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. (5 Marks)**

**Ans 3a.**

**Introduction**

Tax Deducted at Source (TDS) is an effective tool under the Indian Income Tax Act that ensures tax is collected at the point of income generation. XYZ Ltd.’s failure to deduct TDS on a payment of ₹50,000 to a consultant led to partial disallowance of the expense during assessment, resulting in a higher tax liability. TDS not only streamlines government revenue collection but also curbs the possibility of tax evasion by creating a financial audit trail for

**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. (5 Marks)**

**Ans 3b.**

**Introduction**

Tax Deduction and Collection Account Number (TAN) is a 10-digit alphanumeric code mandatory for any entity deducting or collecting tax at source. ABC Pvt. Ltd., which has started paying monthly rent of ₹50,000, is required under Section 194-I to deduct TDS on rent. Obtaining a TAN is essential for fulfilling this obligation and for depositing TDS, filing returns, and issuing certificates. Without TAN, the company cannot lawfully operate TDS transactions,