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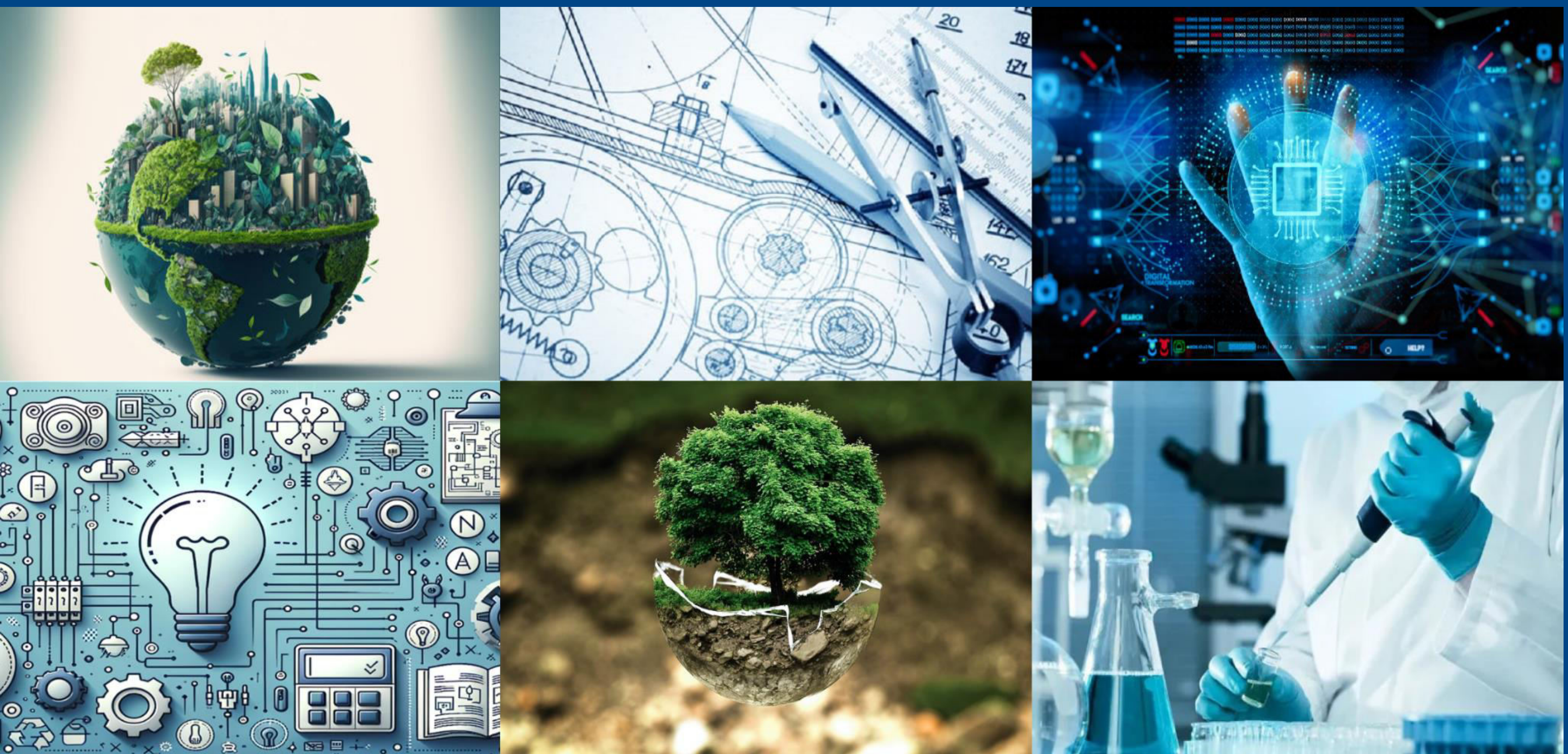

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Rationalization of TDS/TCS Provisions: Simplification or Added Complexity

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ABSTRACT: India's tax system has undergone important changes in recent years, especially in the areas of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS). These updates aim to boost compliance, raise government income, and reduce tax cheating by making sure taxes are taken out or collected at the time of the transaction. Important changes like Section 194Q, which requires TDS on purchases over a certain limit, and Section 206C(1H), which applies TCS on sales of goods that go beyond a set amount, have broadened the tax collection process. Also, Sections 206AB and 206CCA set higher rates for people who do not file their income tax returns regularly, encouraging timely compliance.

Although these reforms support the government's goal of a digital and data-focused tax system, they have also caused practical issues. Regular updates to the rules, increased compliance demands, and the need for strong reporting systems have created heavy loads, especially for small and medium businesses (SMEs) that might not have the resources to adapt quickly. The greater need for technical knowledge, real-time data checks, and correct procedures adds to the challenge of compliance.This paper carefully looks at the recent changes in the TDS and TCS system, examining their real effects on taxpayers. It analyses whether these actions actually make the tax collection process easier or if they have unintentionally raised the workload and compliance costs for both businesses and individuals.

KEYWORDS: TDS, TCS, Income Tax, Financial Reforms, Tax Simplification, Business Taxation, Digital Taxation, Tax Amendments

I. INTRODUCTION

Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) are significant techniques in India's tax collection system. These provisions, requiring withholding or collection of taxes at the source of income, ensure the timely collection of taxes and prevent tax evasion. The government has recently recommended various amendments to the TDS and TCS regime to facilitate easier tax compliance and reduce the economic burden on taxpayers. Such amendments involve alterations to tax rates, threshold levels, exemptions, and procedural necessities, all of which have important consequences for business enterprises and personal taxpayers. Economic conditions, technical innovation, and requirements for better revenue administration all contribute to how the tax legislation is altered. The aim of the revised TDS/TCS provisions is to reduce tax evasion as well as to enhance the transparency and efficiency of tax collection. While such changes may streamline some procedures, they also create inconvenience for individuals and businesses alike in terms of paperwork, compliance, and administrative responsibilities. Because of limitations in resources and the complexity of tax reporting, small and medium-sized enterprises (SMEs) in general will find it hard to adapt to the new rules. The increasing number of transactions under the ambit of TDS and TCS necessitates the evaluation of how efficient these legislations are in keeping taxation easy.

Although the rationalization of collections and tax deductions is intended to simplify compliance, repeated changes in tax regulations have the potential to confuse taxpayers. Furthermore, the use of digital technology and computerized tax filing systems is responsible for deciding whether these reforms actually simplify compliance burdens or, on the contrary, add new complexity. This research analyses the TDS/TCS framework modifications, their rationale, and the impact they produce for various stakeholders. It offers a balanced determination of whether or not these changes lead to greater regulatory burdens or to simplification.

It also analyses how these changes will impact the overall ease of doing business in India, taxpayer conduct, and the efficiency of tax collection. In making a more effective and taxpayer-friendly system, the research concludes by presenting potential areas for further reform.

II. REVIEW OF LITERATURE

1. **India Filings (2025). "Focuses attention on the Union Budget 2025's plan to streamline TDS and TCS compliance by eliminating redundant sections and updating thresholds."**
   The aim of these changes is to make it easier for businesses to comply with tax laws and also simplify tax collection and deduction for taxpayers. The aim of the government is to ease tax administration for the advantage of individual and business taxpayers. Administrative burdens and compliance costs are expected to be reduced due to the simplification of provisions.

2. **Shree (2025). "How the Income Tax Bill aims to simplify and improve efficiency for taxpayers by combining the TDS and TCS sections?"**
   Companies and individuals will be able to follow more streamlined tax rules more easily, and governments will be able to more easily track tax collections with fewer redundant components. In limiting confusion and filing errors, the streamlined approach supports an open and efficient tax system. Organized provisions simplify tax compliance to manage more easily and with less time.

3. **Sameer Gupta (2025). "Examines the Income Tax Bill 2025's attempts to make tax rules simpler by eliminating obsolete provisions and providing better definitions."**
   The aim is to make taxpayers benefit from fewer ambiguities in tax legislation by making them simpler and more helpful. Improved compliance will follow from authorities' greater capacity to enforce tax legislation. These changes enable the ease of doing business in India and create a more stable tax environment by eliminating unnecessary complexities.

4. **Parizad Sirwalla (2024). "Examines the rationalization of TDS and TCS rates to reduce financial and administrative burdens."**
   Individual taxpayers benefit from having a regular tax deduction process because it makes it easy and minimizes the hassles of compliance. Simplification also facilitates the administration of collections, allowing tax authorities to manage collections better, thus fostering system transparency. Tax collection and deduction become more predictable and easier as a consequence, and confidence among taxpayers is enhanced.

5. **Outlook Money (2025). "Examines how the Income Tax Bill affects TDS and TCS, emphasizing how fewer parts will make tax compliance easier."**
   Transparency is enhanced and tax processes are simplified to understand through a systemized structure. Through minimizing filing errors and ambiguity, the simplification benefits authorities as well as taxpayers. Simplified regulations assist in building a better and more certain tax system, and firms can manage their tax obligations with greater ease. This also leads to enhanced trust among taxpayers with the administration and promotes voluntary compliance. In the long run, a less complex tax system can help achieve a wider tax base and enhanced economic efficiency.

6. **EY (2025). "Explores how the rise of digital payments and e-commerce has influenced the evolution of TDS and TCS regulations."**
   The report stresses that as more transactions move online, tax administrations are increasingly using technology to monitor income streams and automate compliance procedures. EY points out how digital technologies, including integrated reporting systems and real-time validation of data, are becoming crucial in ensuring efficient tax deduction and collection. The report also implies that technological integration can minimize human errors, enhance transparency, and simplify the overall tax environment.

7. **Deloitte (2024). "Highlights the role of TDS/TCS provisions in curbing tax evasion and ensuring timely tax collection."**
The report further identifies the regulatory overload such provisions impose on business, especially with the high frequency of changes. Such complexity not only heightens compliance activity but also affects cash flow and financial planning. Deloitte suggests a more stable and less cumbersome structure to achieve balance between enforcement and business efficiency.

8. **The Institute of Chartered Accountants of India (ICAI) (2023). "Emphasizes that the frequent amendments and procedural changes in TDS/TCS regulations often lead to confusion among taxpayers, particularly individual assess and small businesses."**
Consequently, most are pushed to acquire professional tax services at a higher cost of compliance. The research posits that the intricateness of the existing framework serves as a deterrent to voluntary compliance. Harmonization and simplification of these provisions, the report submits, would not only lower the burden on taxpayers but also enhance the filing of tax returns in a timely and accurate manner, thereby enhancing the overall compliance system.

9. **Industry surveys conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) (2024). "Suggest that businesses favour lower TDS rates and exemptions for small enterprises to reduce cash flow constraints."**
While big companies tend to cope better with intricate compliance rules, SMEs are badly affected by fewer resources and slower refunding. The results suggest a more equilibrious TDS system in line with diverse business capacities, suggesting streamlined processes and rationalized rates to help smaller businesses and promote wider compliance

10. **KPMG (2023). "Discusses the global best practices in TDS/TCS frameworks and compares India's tax deduction system with other economies."**
The report observes that India's system, while being complete, is still complicated and compliance-oriented. Compared to nations such as the UK and Australia, which provide streamlined processes through easy rates and effective digital platforms, India can make its compliance easier, minimize errors, and develop a more taxpayer-friendly environment by adopting similar measures—such as centralized reporting and pre-filled tax returns.

11. **PwC (2023). "Explores how recent TDS/TCS changes affect multinational corporations in India, particularly in handling cross-border transactions."**
The research identifies difficulties in imposing suitable withholding rates under Double Taxation Avoidance Agreements (DTAAs), which most often result in compliance problems and possible disputes. It stresses the importance of providing more explicit guidelines to facilitate the ease of tax administration for multinational businesses.

III. OBJECTIVES OF THE STUDY

1. To analyse the key changes in TDS/TCS provisions introduced in the Union Budget 2025-26, including rate and threshold adjustments.
2. To evaluate the impact of these changes on tax compliance and the ease of doing business for taxpayers and businesses.
3. To assess the financial implications of the amendments, including potential benefits or burdens for taxpayers.
4. To identify challenges in implementing the new provisions and suggest areas for further reform.

IV.RESEARCH METHODOLOGY

1. **Secondary Data Collection:** The study relies on reports from government sources, tax consultancy firms, industry bodies, and academic research on TDS and TCS provisions. Data from publications by the Income Tax Department, ICAI, Deloitte, KPMG, and other financial institutions provide insights into policy changes and their implications.

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2. **Comparative Analysis:** A comparison of past and present TDS/TCS regulations is conducted to understand the extent of simplification or added complexity in compliance requirements.
3. **Case Studies:** Select case studies from businesses and individual taxpayers to provide real-world insights into the challenges and benefits associated with the revised tax provisions.
4. **Statistical Interpretation:** Data on tax collection trends, compliance rates, and revenue impacts are analysed to evaluate the effectiveness of policy changes.
5. **Expert Opinions:** Interviews and statements from tax professionals, chartered accountants, and industry experts help assess the practical implications of the new TDS/TCS framework.

1. RECENT AMENDMENTS TO TDS/TCS PROVISIONS

1. Reduction in TDS Rates
• Insurance Commission and Life Insurance Policy Payments: The TDS rate is being lowered from 5% to 2% from the 1st October 2024, to favour policyholders and insurance agents.
• Rent Payments by Individuals or Hindu Undivided Families (HUFs): TDS rate on rent payments is being lowered from 5% to 2%, making compliance easier.
• Commission and Brokerage Payments: The rate has been lowered from 5% to 2%, making it easier for businesses to comply with intermediaries.
2. Clarification on TDS for Immovable Property Transactions: The ₹50 lakh limit is on the aggregate value of property, making it more transparent and limiting tax evasion techniques.
3. Exemption for Senior Citizens: The TDS exemption limit on interest income has been
4. Removal of TCS on Sale of Goods: The discontinuation of this requirement from April 1, 2025, lowers small and medium-scale enterprises' compliance costs.
5. TDS on Rental Income: The ₹2.4 lakh threshold on TDS every year on rent payments has been raised to ₹6 lakh.
6. Introduction of TDS on Partnerships: 10% TDS withholding is now applicable on payment in excess of ₹20,000 to partners so as to achieve tax equality among business forms.

2. INTERPRETATION AND ANALYSIS

DATA ANALYSIS
TDS Collected and Total Direct Tax
Table-1

Financial Year	TDS Collected	Total Direct Tax
2000-01	28,213	68,305
2001-02	32,672	69,198
2002-03	36,568	83,088
2003-04	42,955	1,05,088
2004-05	43,972	1,32,771
2005-06	58,606	1,65,216
2006-07	70,689	2,30,181
2007-08	1,05,047	3,14,330
2008-09	1,28,230	3,33,818

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2009-10	1,45,736	3,78,063
2010-11	1,68,669	4,45,995
2011-12	1,98,679	4,93,987
2012-13	2,10,654	5,58,989
2013-14	2,48,547	6,38,596
2014-15	2,59,106	6,95,792
2015-16	2,87,412	7,41,945
2016-17	2,87,412	8,49,713
2017-18	4,12,768	10,02,738
2018-19	4,87,667	11,37,718
2019-20	4,80,383	10,50,681
2020-21	4,70,276	9,47,176
2021-22	6,34,243	14,12,422
2022-23	8,17,970	16,63,686
2023-24	6,51,922	19,60,166

Source: *(i) Reports of C&AG upto FY 2016-17*
(ii)2017-18 onwards: OLTAS & Pr. CCA, CBDT (figures rounded off)

Summary Statistics:
Table-2

	TDS Collected	***Total Direct Tax***
Mean	262849.8333	644985.9167
Median	204666.5	526488
Standard Deviation	225432.2094	524202.9152
Minimum	28213	68305
Maximum	817970	1960166

Regression Analysis:

Regression Statistics	
Multiple R	0.9737619
R Square	0.9482122
Adjusted R Square	0.9458582
Standard Error	52454.447
Observations	24

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1.11E+12	1.11E+12	402.8104	1.24E-15
Residual	22	6.05E+10	2.75E+09		
Total	23	1.17E+12			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-7247.0265	17197.466	-0.421401	0.677551	-42912.39	28418.34	-42912.39	28418.34
Total Direct Tax	0.418764	0.020865	20.070137	1.24E-15	0.375493	0.462035	0.375493	0.462035

Interpretation:

From table 1, it is seen that the trend of the past two decades from the year 2000-01 to 2023-24 indicates a consistent and significant rise in both the collection of TDS and total direct tax collections in India. Collections of TDS have risen from ₹28,213 crore in 2000-01 to ₹8,17,970 crore in 2022-23 before falling slightly to ₹6,51,922 crore in 2023-24. In addition to that, direct tax collections also rose to a record ₹19,60,166 crore in 2023-24 from ₹68,305 crore in the year 2000-01. This reflects improvement in enhancing the tax administration system, compliance getting stronger, and the economy growing. A few years like 2007-08, 2011-12, and 2021-22 depict phases of colossal growth jumps, capturing policy changes, broadening of tax base, or administration improvements like augmented digital reporting and automated compliance. The increase in TDS is evidence of the success of withholding measures in earning income at source, especially with more economic transactions becoming formalized.

Based on table 2, the average collection of TDS during this time is ₹2,62,850 crore and the average direct tax collection is ₹6,44,986 crore. The medians are ₹2,04,666.5 crore for TDS and ₹5,26,488 crore for direct tax, both lower than their averages, an indication of positive skew in the data whereby a few high-value years pull the average upwards. The peak values contrast sharply with the early years, indicating manifold mobilization of revenue. The high standard deviations of ₹2,25,432 crore for TDS and ₹5,24,203 crore for total tax indicate high volatility from year to year, influenced by macroeconomic factors, policy shifts, and structural changes in taxation over the years. The upward trend in both the numbers demonstrates long-term tax buoyancy and a rising tax-to-GDP ratio over the decades.

As seen from table 3, regression analysis shows strong positive linear association between total direct tax collected and TDS collections. With an R^2 of 94.82%, the model accounts for almost all variation in TDS over total direct tax collected, indicating that with increasing total tax revenue, TDS collections also increase proportionally. The

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coefficient of nearly 0.419 means that for each added ₹1 crore of aggregate direct tax, collection of TDS increases by ₹0.419 crore, statistically significant result with p-value 1.24E-15. Intercept not significant indicates it could be of little practical utility on its own. The implications are that TDS has now proved to be a reliable and visionary determinant of direct tax realization. Strong explanatory power of the model testifies to the efficacy of TDS as a collection mechanism and its requirement for the tax administration in India.

V.FINDINGS

1. **Reduced TDS Rates Improve Compliance:** Lowering the Tax Deducted at Source (TDS) rates decreases the immediate tax outgo for businesses and individuals, enhancing liquidity. This enhances timely payment of taxes and overall compliance since taxpayers have fewer cash flow restrictions. It also decreases the demand for refunds, making tax administration easier.
2. **Clarification in Property Transactions Increases Transparency:** The imposition of a clear ₹50 lakh threshold for property transactions makes tax compliance consistent across transactions. This avoids confusion and minimizes disputes regarding TDS applicability, leading to a more transparent and efficient real estate sector. Buyers and sellers can now more clearly understand their tax liability, making transactions smoother.
3. **Senior Citizens Benefit from Exemptions:** Higher income tax exemptions and less stringent compliance procedures give major relief to aged tax payers. This reform recognizes the limited earning potential of senior citizens and seeks to boost their financial security. It also lessens bureaucratic woes, enabling them to access their retirement savings more easily.
4. **Abolishing TCS Simplifies Business Operations:** Eliminating the requirements for Tax Collected at Source (TCS) on some transactions relieves the burden of compliance, especially on small and medium enterprises (SMEs). Companies are no longer required to handle extra tax collections, lowering paperwork and administrative expenses. The move is anticipated to enhance business cash flow and simplify their financial operations.
5. **New TDS on Partners May Increase Compliance Costs:** Addition of TDS on income distributed by partners raises tax transparency but imposes additional reporting and documentation burden. This is likely to add compliance costs to partnerships and companies as they would have to keep elaborate records and ensure timely deduction. Although it adds strength to the tax regime, it will be an administrative burden for smaller companies.
6. **Benefit for small property owners:** Raising the TDS limit for rent received from ₹2.4 lakh to ₹6 lakh substantially brings down the count of rental payments that are under the TDS. This especially benefits small-time landlords and private property owners receiving moderate rental earnings, as they no longer have to deal with the hassles of TDS compliance. Not only does this reduce financial strain but also minimizes tax requirements for middle-class landlords.

3.RECOMMENDATIONS

1. **Enhancing Clarity in TDS/TCS Regulations:** Frequent amendments should be accompanied by comprehensive guidelines and educational initiatives for taxpayers to improve understanding and compliance.
2. **Leveraging Digital Platforms:** Implementation of automated tax deduction and collection systems can minimize compliance burdens and reduce human errors.
3. **Threshold Revisions for Small Businesses:** The government should consider increasing exemption limits to protect small and medium enterprises from excessive compliance costs.
4. **Simplification of Documentation Processes:** Streamlining documentation requirements for businesses can facilitate better compliance without adding administrative strain.
5. **Periodic Stakeholder Consultations:** Engaging businesses, tax professionals, and industry associations in policy decisions can ensure practical and business-friendly tax reforms.

VI. CONCLUSION

The justification of TDS/TCS provisions is a step taken by the government towards improving tax compliance and tax collection while trying to lighten the burden of taxes. While some amendments like lowered TDS rates and exemption to senior citizens bring relief, some provisions add new complications which have to be met by business entities and individuals.

The research discovers that although recent reforms deliver a step closer towards a better-organized taxation system, frequent changes make taxpayers uncertain. It is still essential to balance compliance simplification and the

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enforcement of taxes. If policymakers use a consultative approach, incorporate technological development, and give clearer guidance on tax provision, the taxation system can be streamlined further, lowering compliance burden without sacrificing tax collection efficiency.

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