



SECTION 194T – TDS ON PAYMENTS MADE TO PARTNERS BY A FIRM

- 1.1. The Finance (No. 2) Act, 2024 inserted a new section, Section 194T, to the Income-tax Act, 1961 (“the Act”) which requires tax to be deducted at source (“TDS”) by the partnership firms (“firm”) on payments to their partners, with effect from 01st April, 2025.
- 1.2. Section 194T is reproduced below for reference:
194T. Payments to partners of firms.
(1) Any person, being a firm, responsible for paying any sum in the nature of salary, remuneration, commission, bonus or interest to a partner of the firm, shall, at the time of credit of such sum to the account of the partner (including the capital account) or at the time of payment thereof, whichever is earlier shall, deduct income-tax thereon at the rate of ten per cent.
(2) No deduction shall be made under sub-section (1) where such sum or the aggregate of such sums credited or paid or likely to be credited or paid to the partner of the firm does not exceed twenty thousand rupees during the financial year.
- 1.3. The insertion of Section 194T addresses a gap in the existing TDS framework. While salaries paid to employees were already subject to TDS under Section 192, similar payments to partners were not explicitly covered. This distinction might have led to inconsistencies in tax compliance and potential underreporting of income by partners. By bringing partner payments within the TDS net, the government intends to ensure a more uniform and timely collection of tax revenue from this income stream. This proactive measure reflects the tax authorities’ aim to enhance transparency and accountability in financial transactions between firms and their partners.
- 1.4. In view of the above provision of the Act, TDS will be required to be deducted on the following payments made by a “Firm” to its Partners:
 - Salary
 - Remuneration
 - Commission
 - Bonus or
 - Interest on any account.

- 1.5. The rate of deduction shall be 10% on the above payments made to the partners of the firm provided such sum credited or paid or likely to be credited or paid to the partner exceeds the threshold of Rs 20,000 during the financial year.
- 1.6. The liability to deduct tax would arise at the time of credit of such sum to the account of the partner (including the capital account) or at the time of payment thereof, whichever is earlier.
- 1.7. What do the terms “partnership”, “partner”, and “firm” mean?
- 1.7.1. As per section 2(23)(i) of the Act, the “firm” shall have the meaning assigned to it in the Indian Partnership Act, 1932 and shall include a liability partnership as defined in the Limited Liability Partnership Act, 2008 (LLP).
- 1.7.2. Further, as per section 2(23)(ii), “partner” shall have the meaning assigned to it in the Indian Partnership Act, 1932 and as defined in the LLP Act, 2008 and shall include the any person who, being a minor, has been admitted to the benefits of partnership.
- 1.7.3. Definitions from the Partnership Act and LLP Act are reproduced below:
Partnership Act: *“Partnership” is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Persons who have entered into partnership with one another are called individually “partners” and collectively “a firm”.*
LLP Act: *“partner”, in relation to a limited liability partnership, means any person who becomes a partner in the limited liability partnership in accordance with the limited liability partnership agreement;*
- 1.8. Does the definition of partner include a “Foreign Partner” or a “Non-Resident Partner”?
- 1.8.1. As per the plain language of section 194T, it applies to all Partners, irrespective of their residential status (i.e. resident or non-resident). Further Notification No. 22/2025/F.No. 370142/08/2025-TPL issued by the CBDT amended Form 27Q by inserting reference to section 194T in the Form indicates that this section shall apply to the Non-resident partner or foreign partner also.

- 1.8.2. One may argue that section 195 is more specific and covers payments to non-residents and the amendment in Form 27Q is as per Income-tax Rules, 1962 (“Rules”) which cannot per se override the Act. However, since section 194T specifically deals with payments to partners by a firm, like section 192 dealing with salaries, a view can be taken that the same ought to apply in place of section 195. This issue would need clarification from the CBDT.
- 1.9. What do the terms “Salary”, “Remuneration”, “Commission”, “Bonus” and “Interest” mean?
- 1.9.1. The terms ‘Salary’ and ‘Remuneration’ are not specifically defined in the Act. However, remuneration broadly includes salary, commission, and other payments for services rendered.
- 1.9.2. Salary refers to agreed periodic compensation for work done. In a partnership firm, it is the compensation given to working partners for managing the business.
- 1.9.3. ‘Commission’ is payment for acting on behalf of another, often in buying or selling transactions. In a firm, it is given to partners for specific activities like purchases or sales.
- 1.9.4. ‘Bonus’ is an extra payment beyond the agreed amount, given as a reward to working partners.
- 1.9.5. ‘Interest’ refers to charges on borrowed money or debts. In a firm, it is paid to partners on their capital or loans provided to the business.
- 1.10. Practical issues to consider
- 1.10.1. If any payment to the partners of the firm has been disallowed under section 40(b) in the income computation of the firm, the same is then exempt in the hands of the partner as per proviso to section 28(v) (to avoid double taxation). Therefore, where a sum is exempt from tax, the same may ideally not warrant TDS as TDS is merely a tax collection mechanism. However, no such exclusion has been provided under section 194T, which may lead to unnecessary cash flow issues to the firm and the partners.
- 1.10.2. For Partners whose effective tax rate may be low (or no tax liability), 10% TDS rate may be high. Such Partners may therefore have to seek of refund of the TDS by filing their

ITRs after the end of the year. This impacts their cash flows. Section 197, allows an assessee to seek a lower TDS rate from the tax office, unfortunately does not include TDS u/s 194T. However, the good news here is that section 395 of the proposed Income-tax Bill, 2025 (proposed applicability from FY 2026-27) has removed the reference to specific sections that are eligible for lower TDS and all TDS sections seem to be eligible for lower TDS. Hence, the absence of a mechanism for seeking lower TDS could be an issue only for one year, viz, FY 2025-26.

1.10.3. Another issue to consider is that in several instances for firms, the amount of a partner's remuneration is not known beforehand, and only once the books of account are finalized after the conclusion of the financial year, the remuneration payable is computed. However, although this remuneration is paid in the subsequent financial year, it is credited to the partner's capital account balance or current account balance with effect from 31st March of the concluded year. This would trigger the liability u/s 194T, and if the remuneration amount is determined after the due date for payment of TDS for the month of March, there would be a delay in payment of such TDS, and the TDS returns would also have to be revised accordingly. This would result in interest and late fees on the delayed payment of TDS and on the late/revised TDS Returns filed. As such, firms will have to endeavour to close their books of account in a timely manner and determine the remuneration for the year so as to avoid any adverse implications due to TDS non-compliances.

1.11. Despite the issues in section 194T highlighted above, the said section is now part of the Income-tax Act and applicable w.e.f. 01st April, 2025.

The remaining compliance provisions, viz., depositing TDS to the Government Account as per Rule 30 of the Rules, furnishing the Certificate of TDS as per Rule 31 of the Rules, and filing a Statement of TDS in Form No. 26Q (for resident partners) or Form No. 27Q (for non-resident partners) as per Rule 31A of the Rules, will remain applicable even for TDS made under section 194T of the Act.

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