

Salaried employee? TDS to be deducted at New Tax Regime rates if you don't opt out, says CBDT

CBDT clarification on TDS deduction for salaried employees: If an employee doesn't intimate his/her choice of tax regime then employer can deduct TDS as per the rates prescribed for the New Tax Regime.

CBDT clarification on TDS deduction for salaried employees: As New Tax Regime has become the default tax regime from FY 2023-24, it has become important for employees to intimate their choice of the tax regime to employers. In case an employee fails to intimate his/her choice, the employer may deduct TDS on salary under Section 192 as per New Tax Regime rates, according to the Central Board of Direct Taxes (CBDT)

In a circular dated April 5, the CBDT said that if an employee doesn't intimate about his/her choice of tax regime then the employer can deduct TDS from salary as per the rates prescribed for the default regime, i.e. New Tax Regime.

“If intimation is not made by the employee, it shall be presumed that the employee continues to be in the default tax regime and has not exercised the option to opt out of the new tax regime. Accordingly, in such a case, the employer shall deduct tax at source, on income under section 192 of the Act, in accordance with the rates provided under sub-section (1A) of section 115BAC of the Act,” CBDT said in the circular.

The CBDT has asked employers to seek information regarding the choice of tax regime from employees. In case the employee fails to intimate his/her choice, then it will be assumed that the employee is in the default regime (New Tax Regime) and TDS under Section 192 will be deducted according to the new regime rates.

“In order to avoid the genuine hardship in such cases, the Board, in exercise of powers conferred under section 119 of the Act, hereby directs that a deductor, being an employer, shall seek information from each of its employees having income under section 192 of the Act regarding their intended tax regime and each such employee shall intimate the same to the deductor, being his employer, regarding his intended tax regime for each year and upon intimation, the deductor shall compute his total income, and deduct tax at source thereon according to the option exercised,” CBDT said.

The CBDT has issued the clarification after it received representations expressing concerns regarding tax to be deducted at source (TDS) on the salary income of a person under section 192 of the Act as the deductor, being an employer, would not know if the person, being an employee, would opt out from taxation under sub-section (1 A) of section 115BAC of the Act or not.

Opt out of New Tax Regime every year

Salaried employees can opt out of the New Tax Regime every year to enjoy the benefit of various deductions available under the Old Tax Regime. “...new tax regime is the default tax regime applicable to all persons mentioned above. However, under sub-section (6) of section 115BAC of the Act, a person may exercise an option to opt out of this tax regime. A person not having income from business or profession can exercise this option every year,” CBDT said.

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