

White Paper



Best Practice

mbas – Tax Deducted at Source Process

White Paper		GC/T/0113 V 1.0
mbas-TDS Process		W. E. F. 01/01/2009

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1. Introduction

Tax deducted at source also known as withholding tax. This is statutory requirement in most of the countries. In some countries, statute requires, invoice recipient should deduct specified amount and submit to tax authorities on behalf of vendor. This procedure followed in United Kingdom, for example. In some countries, statute requires deduction only for specific vendors based on category, such as service providers. This procedure followed in India, for example. TDS is not applicable in some countries, for example, France. Deducted amount details are periodically reported to tax authorities and statement also sent to vendor. Procedures for reporting to tax authorities differ from country to country. Each country may have different calculation process and procedure for tax deduction.

2. Overview

In most of the countries, TDS is statutory requirement, India for example. The amount of TDS to be deducted depends on vendor business/service, residential status, and tax rates. Tax rates are declared by statute. A discrepancy in tax calculation can lead to legal consequences and statutory audit issue. This challenging calculation required at every stage of TDS postings.

Information on TDS deducted by customer is required, to know actual amount due from customers, TDS deducted for various activities and for calculation of cash flow information accurately.

Challenging scenarios for TDS:

- Tax rates are defined by statute
- Frequent changes in tax rates
- Period specific tax rates
- TDS calculation and posting for invoice / payment
- TDS calculation on (Advance or Invoice) priority basis
- Calculation on balance invoice incase of advance
- Statutory requirements – Status, rate, service etc.,

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- Complicated calculation at every transaction level.
- Compiling data as per statutory requirement and vendor requirement.

These challenging scenarios demands tax professionals for process and review.

Thus tax department needs a TDS process system capable of accurate TDS calculation, financial postings and compilation of TDS data as per statutory and vendor requirement.

mbas Features

In mbas product, TDS calculation is considered at purchase service invoice, advance payment, sales service invoice and party receipt. TDS calculation, financial postings, challan generation and statement to vendor are automatic.

In mbas, TDS process consists

- Masters
- Transactions
- Enquiry
- Reports

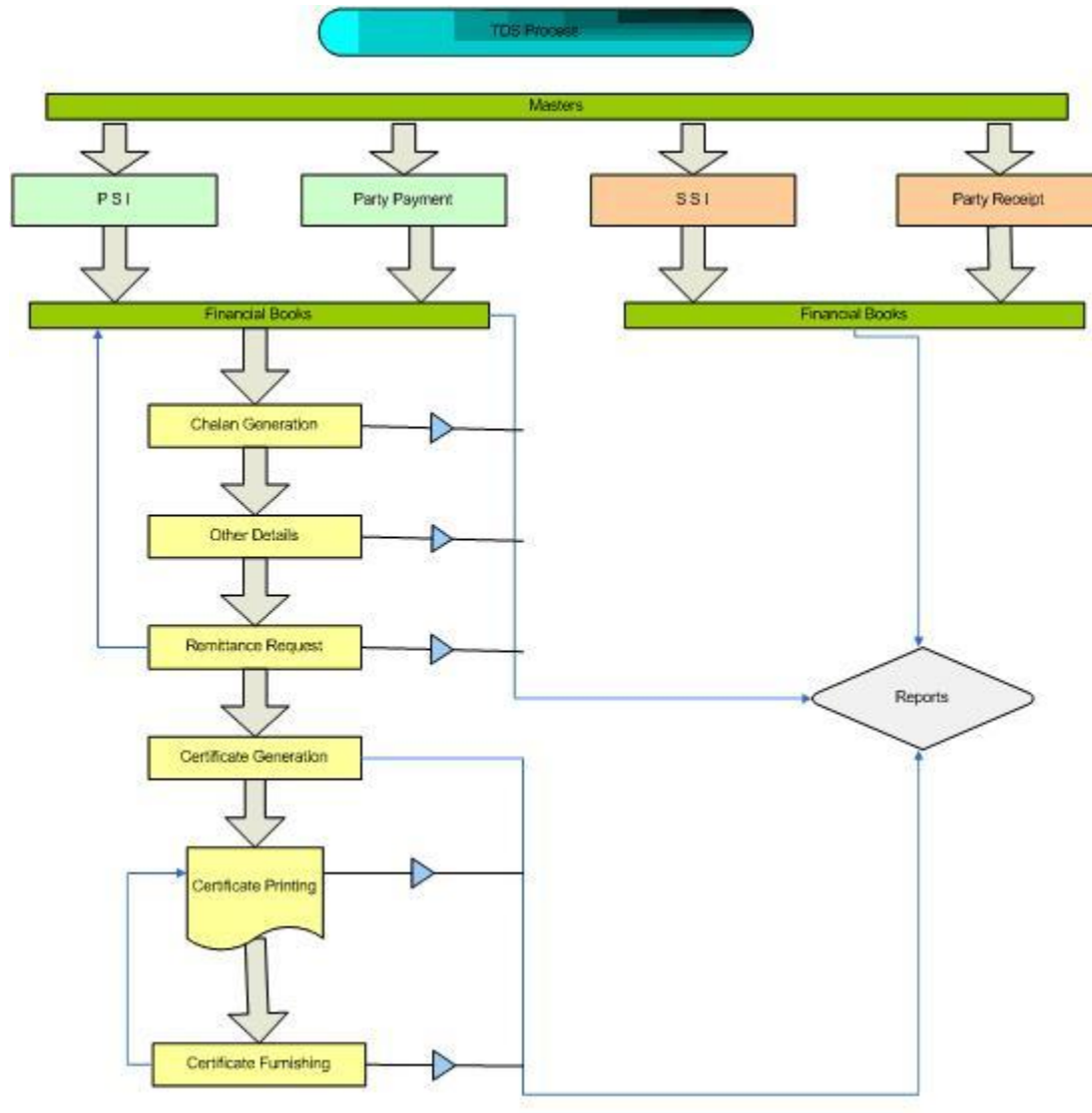
Example:

M/s. 'Y' firm has provided audit services to M/s. 'X' Company. X company has given Rs.1, 00, 000/- as advance to audit firm, remaining against invoice. Invoice for audit services is Rs.5,00,000/-. Tax rate applicable for professional services is 5%, Section 195J.

At master level, TDS rate – 5% created and assigned to M/s.'Y' Firm. At the time of advance payment of Rs.1, 00,000/- , TDS is calculated Rs.5,000/-(Doc.1). At the time of invoice, for balance amount of Rs.4,00,000/-,TDS is calculated Rs.20,000/-(Doc.2). TDS calculation and posting is automatic.

At transaction level, based on section and status, challan is be generated for Doc1 and Doc2. Vendor wise TDS deduction details are consolidated in a statement.

Process Flow



3. Benefits

- Rate creation and assignment is one time activity
- Calculation and TDS posting is automatic

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- Tax professionals dependency is reduced
- Audit issues can be resolved by far
- TDS calculation on (Advance or Invoice) priority basis
- Calculation on balance invoice, incase of advance
- Tax deducted by customers can be calculated
- Statutory requirements fulfilled
- In detail tax payable/receivable data reports
- Document level control.

4. Conclusion

In mbas product, TDS process is simplified. Calculation, audit and statutory requirements are managed in effect. Process is management and user friendly. Multi national process and procedures are supported.