

How to Calculate TDS on Salary: Formula, Calculation & Examples

6 MIN

Last edited by Pranav Karnad on October 27, 2023

Created on January 24, 2023

What's Inside

What is TDS on Salary?

What is The TDS Rate On Salary?

How to Calculate TDS on Salary?

Calculate TDS On Salary with an Example

Calculate TDS on Salary with a Calculator

Who Is Liable to Deduct TDS On Salary?

Is TDS Deducted from Your Salary Every Month?

How to Claim Revised TDS Return?

How to Check if You are Eligible for a TDS Refund?

What Happens If TDS Is Not Deposited?

How Can I Save TDS?

TDS Certificate Issuance

Conclusion

Get a Salary Account That Rewards You Every Month

Frequently Asked Questions

Knowing how to calculate TDS on your salary is a crucial aspect of managing your finances. Understanding the calculation process ensures you meet your tax obligations while optimizing your take-home pay. Whether you're an employee or an employer, comprehending how to calculate TDS on salary is essential.

In this blog, we'll delve into TDS calculation on salary and provide a practical example along with the TDS calculation formula.

What is TDS on Salary?

TDS stands for [Tax Deducted at Source](#), a provision under the Indian Income Tax Act where a percentage of your income (such as salary, consulting fees, or bank interest) is taken out before you receive it. The deducted amount is deposited with the Income Tax (IT) department.

TDS applies to individuals and businesses. It is important for employers to deduct tax when paying out salaries to their employees.

What is The TDS Rate On Salary?

The TDS rate for salary is determined by the income you receive from your employer, which corresponds to specific tax slab rates. Depending on your income bracket, the TDS deduction on your salary can vary, falling within the range of 10% to 30%.

How to Calculate TDS on Salary?

To understand the TDS calculation formula and how to calculate TDS on salary, knowing what makes up your salary is important. This includes:

- Basic
- House Rent Allowance (HRA)
- Medical Allowance
- Travel Allowance (TA) or Leave Travel Allowance (LTA)
- Dearness Allowance (DA)
- Special/Other Allowances

Calculate TDS on Salary with a Formula

$$\text{Rate of Average Income Tax} = \frac{\text{Income Tax Payable (computed with slab rates)}}{\text{Estimated income for the financial year.}}$$

Calculate TDS on Salary With These Steps

- Step 1:** Calculate Annual Gross Salary: Add all [monthly income components](#) and allowances to determine the annual gross salary.
- Step 2:** Determine Exemptions: Add exemptions like HRA, LTA, PPF, ELSS, and insurance. Multiply this total by 12 to get an annual exempt amount.
- Step 3:** Calculate Annual Taxable Income: Subtract the exempted amount from the annual gross salary to arrive at the annual taxable income.
- Step 4:** Deduct Standard Deduction: Subtract the standard deduction of ₹50,000 from the annual taxable income to calculate the net taxable income.
- Step 5:** Apply Tax Slabs: Calculate the tax on the net taxable income using the applicable tax slabs for individuals under the old tax regime.

Calculate TDS On Salary with an Example

Let's consider Manmeet's gross salary of ₹13 lakhs as an example:

Basic Salary	₹ 7,00,000
Dearness Allowance	₹ 2,00,000
House Rent Allowance	₹ 1,00,000
Leave Travel Allowance	₹ 1,00,000
Performance Incentive or Bonus	₹ 2,00,000

For TDS computation, the net salary would be determined as follows:

Gross salary	₹ 13 lakhs
Less: Tax-exempted HRA	₹ 1 lakh
Less: Tax-exempted LTA	₹ 1 lakhs
Less: Standard deduction	₹ 50,000
Net salary	₹ 10,50,000
Less: Section 80C deductions declared by the employee	₹ 1,50,000
Less: Section 80D deductions declared by the employee	₹ 50,000
Net taxable salary	₹ 8,50,000
Tax payable	Up to ₹ 5 lakhs: 5% of ₹2.5 lakhs = INR 12,500 ₹ 5 lakhs to INR 8.5 lakhs: 12,500 + 20% of 3.5 lakhs = INR 82,500
TDS deduction rate	Tax liability / gross total income x 100 = 82500 / 13 lakhs x 100 = 6.35%

So, every month, the employer would [deduct](#) tax at 6.35% on the salary income and then credit the salary to the employee.

Calculate TDS on Salary with a Calculator

To calculate your TDS, visit this TDS Calculator available on the Income Tax website: <https://incometaxindia.gov.in/pages/tools/tds-calculator.aspx>

Who Is Liable to Deduct TDS On Salary?

TDS deduction on salary can be done if the said employee's salaried income is taxable. If the pay is equal to or less than Rs.2,50,000, then TDS on salary will not be deducted.

Under Section 192, the TDS deduction on salary can be done by the following entities:

- Public and private companies
- Individual taxpayers
- Trusts
- Hindu Undivided Families
- Co-operative societies
- Partnership firms

Is TDS Deducted from Your Salary Every Month?

According to Section 192, the employer deducts TDS from the employee's salary when paying. Since employees receive their salaries on a monthly basis, TDS on salary is deducted each month. If the employer fails to deduct TDS, they may incur penalties and interest charges.

How to Claim Revised TDS Return?

TDS on salary is eligible for a refund when the deducted amount exceeds the employee's tax liability. Often, the declared investment details at the beginning of the financial year do not align with the actual investments made by year-end. In such cases, excess TDS on salary is refundable.

How to Check if You are Eligible for a TDS Refund?

If you've applied for a TDS refund, here are some steps to check your TDS refund status:

1. Apply for a lower or nil TDS certificate in Form 13 if your taxable income exceeds the basic exemption limit.
2. If the TDS deducted is more than the actual tax payable, file an Income Tax Return (ITR).
3. Register on the IT department's website to file your TDS online.
4. Download the relevant ITR form, fill in the required details, upload the form, and submit it.
5. E-verify the ITR using a digital signature, Aadhaar-based OTP, or net banking account.
6. Check the status of your TDS refund claim using the acknowledgement and refund processing email sent by the IT Department, your PAN card number on the Income Tax website, or by calling CPC Bangalore on their toll-free number.

We've got a whole [article on claiming and checking your TDS refund status](#). Make sure to read it and share it with your friends.

What Happens If TDS Is Not Deposited?

All companies, whether government or private, are subject to a daily penalty of Rs. 200 for the late filing of TDS or TDS returns beyond the due date, as per Section 234E. However, this penalty will not exceed the total TDS amount for which the statement was required to be filed.

Furthermore, Section 271H imposes a penalty ranging from Rs. 10,000 to Rs. 1 lakh if a company provides inaccurate information or fails to submit returns by the due date. This penalty is imposed in addition to the penalty under Section 234E.

No penalty under Section 271H is applicable for delayed TDS/TCS return filing if the following conditions are met:

- The TDS/TCS amount is paid to the government.
- Late filing fees and interest (if any) are paid to the government.
- The TDS/TCS return is filed within one year from the specified due date.

How Can I Save TDS?

You can potentially save on TDS (Tax Deducted at Source) by considering the following strategies:

- **Submit Form 15G/15H:** If your total income is below the taxable threshold, you can submit Form 15G (for individuals under 60 years) or Form 15H (for senior citizens) to request that no TDS be deducted on interest income from bank accounts, fixed deposits, or other sources.
- **Claim Deductions:** Ensure you claim all eligible deductions and exemptions under the Income Tax Act to reduce your taxable income, thus lowering the TDS liability.
- **Opt for the Lower TDS Rate:** If you are eligible for lower TDS rates based on your income and investments, you can provide the necessary documentation to your deductors to reduce the TDS rate.
- **Tax Planning:** Plan your investments and finances strategically to minimize the impact of TDS, such as investing in tax-saving instruments or tax-efficient funds.
- **Review Taxable Income:** Consider your overall income sources and assess whether certain income components can be classified as exempt from TDS.

It's essential to consult with a tax professional or financial advisor to develop a customized tax strategy that aligns with your financial situation and goals.

TDS Certificate Issuance

The employer's responsibility is to issue a TDS certificate, detailing the tax deducted from the employee's salary. Once the TDS return has been filed, a TDS certificate (Form 16) can be obtained from the [TRACES utility website](#). To learn more about Form 16, [click here](#).

Conclusion

TDS is a way to collect taxes from the source of income in India. It applies to both individuals and businesses and can be complicated to calculate. However, accurate calculation of TDS on salary can be made by understanding the formula and the different components of income, deductions, and exemptions. The Indian government has introduced new tax regimes, revised tax rates and limits for LTA, and increased tax rebate limits and standard deductions.

Get a Salary Account That Rewards You Every Month

Fi, and its licensed partner Federal Bank, provide a Salary Program with many benefits.

1. Yearly benefits worth up to ₹30,000
2. Free 2x health insurance top-up up to ₹20 lakhs
3. Access to Instant Salary
4. 2% cashback on Debit Card and UPI spends
5. Free Debit Card
6. 0 Forex markup
7. Priority customer support
8. 0 penalties for not maintaining a minimum balance
9. Joining vouchers worth ₹500
10. Exclusive vouchers every month

Frequently Asked Questions

1. Is TDS Deducted Every Month from Salary?

According to Section 192, the employer deducts TDS from the employee's salary when paying. Since employees receive their monthly salaries, TDS on salary is deducted each month. If the employer fails to deduct TDS, they may incur penalties and interest charges.

2. Is TDS Deduction On Salary Mandatory?

Yes, TDS (Tax Deducted at Source) deduction on salary is mandatory in India. Employers are required by law to deduct TDS from the salaries of their employees as per the applicable income tax slabs. The deducted TDS is then deposited with the government on behalf of the employee.

3. How Many Types of TDS are there?

Type of Payment	Section	Threshold (Above)
Salaries	192	Rs. 2.5 lakh for individuals Rs. 3 lakh for senior citizens Rs. 5 lakh for super senior citizens
Provident fund balance	192A	Rs. 50,000
Interest paid on debentures	193	Rs. 5,000 in a financial year
Interest from banks	194A	Rs. 40,000 in a financial year
Senior Citizen Savings Scheme	194A	Rs. 40,000 in a financial year
Lottery prize, crosswords and horse races	194B, 194BB	Rs. 10,000 in a financial year
Sum payable under a life insurance policy	194DA	Rs. 1,00,000 in a financial year
Payment of rent	194-I	Rs. 2,40,000 in a financial year
Fee for professional services	194J	Rs. 30,000 in a financial year

4. How to calculate TDS on salary?

The formula for calculating TDS in salary is - Average Income Tax Rate = Income Tax Payable (computed through old/new slab rates) / Estimated Income for the year.

Disclaimer

Fi Money is not a bank; it offers banking services through licensed partners and investment services through epiFi Bank Pvt. Ltd. and its partners. This post is for information only and is not professional financial advice.

Share this article ↗

Your salary account could be doing so much more!

Become a part of Fi's Salary program and manage your Salary without breaking a sweat

GET STARTED

Blog > Work & Money > How To Calculate TDS On Salary: Formula, Calculation & Examples

View similar articles in Work & Money

How to Enable a Card for International Transactions

4 min • Pranav Karnad

Everything You Need to Know About a Contactless Debit Card

3 min • Anoop Menon

Mastercard Debit Card - Types, Features and Benefits

4 min • Rupali Amin

How to Find Your Bank Account Number from Debit Card?

3 min • Shefaali Bopana

Your Privacy. You are in control. Minus the jargon. ↗

Finally! A Credit Card made just for you ↗

Join the team and help us build the future of tech-fin. ↗