STUDY NOTES · BASIC CONCEPT

What is Advance Tax? Tax Deducted at Source (TDS), Self-Assessment Tax

Indian Economy

25 Dec 2016

1. What is Advance Tax?

Advance Tax is the income tax that is paid in advance during the financial year in which the income is earned, instead of paying the entire tax amount at the end of the year. It follows the principle of “pay as you earn.” Advance Tax is paid in instalments on prescribed dates and helps the government maintain a steady flow of revenue while reducing the year-end burden on taxpayers.

Who is liable to pay Advance Tax under the Income Tax Act, 1961?

- Under Section 208 of the Income Tax Act, 1961, the following persons are liable to pay Advance Tax:
- Any individual, Hindu Undivided Family (HUF), firm, company, or other taxpayer
- Whose estimated tax liability for the financial year is ₹10,000 or more, after adjusting TDS/TCS

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Categories of taxpayers liable to pay Advance Tax:

1. Business owners and traders
2. Self-employed professionals (doctors, lawyers, consultants, freelancers)
3. Freelancers and gig workers
4. Salaried individuals, if tax payable remains after TDS
5. Individuals earning income from capital gains, rental income, interest, or dividends

Exception: Resident senior citizens (60 years or above) having no income from business or profession are exempt from paying Advance Tax (Section 207).

2. Tax Deducted at Source (TDS)

TDS is a system where tax is deducted at the source of income by the person making the payment, such as an employer, bank, or company. The deducted amount is deposited with the government on behalf of the taxpayer. It applies to specified incomes like salary, interest, rent, and professional fees, and helps prevent tax evasion by ensuring early collection of tax.

3. Self-Assessment Tax

Self-Assessment Tax is the final tax paid by the taxpayer after computing total income and adjusting Advance Tax and TDS already paid. It is paid at the time of filing the Income Tax Return under Section 140A of the Income Tax Act. This tax ensures that any remaining liability is settled before submission of the return, completing the tax compliance process.

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