

**TAX  
DEDUCTION  
AT  
SOURCE (TDS)**

Information to help you with TDS

Department of Revenue & Customs (HQ)  
Ministry of Finance  
Thimphu: Bhutan

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## **Introduction**

This booklet explains the applicability of Tax Deduction at Source (TDS) on different sources of income under the Income Tax Act of the Kingdom of Bhutan, 2001, and Rules thereto. It aims to inform and educate the general public on the rights and obligations for deducting and depositing TDS.

This booklet is organized in two parts. Part I explains different sources of income liable for TDS under BIT, CIT and PIT separately, while Part II discusses the roles and responsibilities of withholding agencies concerning deduction, deposit and accounting of TDS.

All should note that the information provided in this booklet is based on the tax laws and rules in force at the time of printing. Any changes to the provisions will be informed and the booklet updated accordingly. In case of difference in interpretation and meaning, the relevant sections of the Income Tax Act and Rules must be referred.

For any additional information or clarifications, the concerned Regional Revenue & Customs Office (RRCO) located in your own region or Tax Administration Division at DRC, HQ Thimphu may be contacted. The addresses and telephone numbers of dealing officials are given at the back of this booklet.

## **PART- I**

### **1. OVERVIEW**

#### **1.1 Definition of TDS**

TDS is a preliminary estimate of tax liability payable on a *Pay as You Earn* basis. It is deducted at source by a withholding agent and deposited into RGR account or RRCOs for adjustment with the final tax liability. TDS is not a separate or new form of tax, but a mode of collection on a current income basis, to ease the burden of tax payment at the end of the year.

#### **1.2 Scope of TDS**

All incomes falling within the definition of BIT, CIT, and PIT under the Income Tax Act of the Kingdom of Bhutan 2001, are subject to TDS. In principle, all corporate and business entities falling under full tax liability are liable to income tax on **worldwide income**, whereas companies and business entities under limited tax liability are liable to income tax only on **incomes sourced from or within Bhutan**.

#### **1.3 Objective**

The objective of TDS is

- a. To ease the burden of tax payment by paying taxes as it is earned.
- b. To ensure effective collection of taxes.
- c. For timely mobilization of internal revenues.

TDS is an important source of information for ascertaining income and expenditure of a taxpayer during assessments.

#### **1.4 Legal Authority**

The legal authority to deduct TDS is provided by the following sections of the Income Tax Act of the Kingdom of Bhutan, 2001.

- a. Chapter 3, Section 10, 11, 12, 13, 14, 15, 16, 17, 18, General Provisions of the Income Tax Act, 2001, - the applicability of TDS on various sources of income.
- b. Chapter 3, Section 19 of the Income Tax Act, 2001, - obligations to withhold taxes.
- c. Rule No. 3, General Provisions of the Rules on the Income Tax Act, 2001, - procedures to withhold taxes.

## **2. CORPORATE INCOME TAX**

### **2.1 Full Tax Liability**

#### *2.1.1 Entities liable for TDS under Full Tax Liability*

Companies under full tax liability are those that are **registered** under the Companies Act of the Kingdom of Bhutan, 2000. Therefore, all incomes earned by such entities or paid to another taxable entity, except those covered under section 2.3, are subject to TDS.

#### *2.1.2 Incomes liable for TDS under Full Tax Liability*

Any incomes, not limited to the ones mentioned below, earned from the following business activities are liable for TDS.

- Construction Income including sub-contract incomes;
- Logging related Income;
- Management Income;
- Supply Income;
- Transportation Income;
- Tour Income;
- Consultancy Income;
- Other professional service Income;
- Any other income derived directly or indirectly from business activities falling within the purview of CIT.

#### *2.1.3 Rate of TDS under Full Tax Liability*

Companies under full tax liability are liable to TDS at the rates prescribed below:

- |  |   |
|--|---|
| a. Contract Income                                   | 2% of the gross amount  |
| b. Consultancy Income                                | 2% of the gross amount  |
| c. Royalty Income                                    | 5% of the gross amount  |
| d. Interest Income                                   | 5% of the gross amount  |
| e. Dividend Income                                   | 10% of the gross amount   |
| f. Rental Income                                     | 5% of the gross amount  |
| g. Income from subletting or<br>Subcontract Business | 2% of the gross amount  |
| h. Tour Operation Income                             | 2% of the gross tour operation income<br>after netting off royalty component. |

## 2.2 Limited Tax Liability

### 2.2.1 *Entities liable for TDS under Limited Tax Liability*

Companies under limited tax liability are those that are **not registered** under the Companies Act of the Kingdom of Bhutan, 2000, but operating a business under a temporary license/permit issued by MTI, through a permanent establishment in Bhutan. It includes the following:

- a. Companies or legal entities resident abroad, but doing business through a permanent establishment in Bhutan.
- b. Legal entities resident abroad, but participating in a business in collaboration or on a partnership basis, with Bhutanese counterparts.

### 2.2.2 *Incomes liable for TDS under Limited Tax Liability*

TDS or TDS in lieu of CIT under limited tax liability is limited to the following sources of incomes **derived from or within** Bhutan:

- a. Income received, by legal entities resident abroad, from activities such as preliminary survey, exploration or extraction of mineral resources through a permanent establishment in Bhutan;
- b. Income received, by legal entities resident abroad, from letting business in Bhutan, to either a Bhutanese entity or another legal entity resident abroad;
- c. Income received, by legal entities resident abroad, from immovable property in Bhutan, as an owner, co owner, and user of that property;
- d. Income received, by legal entities resident abroad, from contract works as defined under full tax liability;
- e. Income received, by legal entities resident abroad, from consultancy services, technical advisory services, or similar activities from sources in Bhutan;
- f. Income received, by legal entities resident abroad, as dividend from sources in Bhutan;
- g. Income received, by legal entities resident abroad, as royalties from sources in Bhutan;
- h. Income received, by legal entities resident abroad, as interest from sources in Bhutan;
- i. Income received, by way of grants or loans under bi-lateral/multi-lateral arrangements, either directly or indirectly through agencies in Bhutan for project executed in Bhutan. E.g. Income received by a foreign consultant or contractors from donor assisted projects executed in Bhutan;
- j. Interest paid or borne on indebtedness in connection with the permanent establishment in Bhutan;

- k. Royalties paid by a permanent establishment in Bhutan for its own use;
- l. Technical services or consultant fees paid by a permanent establishment for services availed.

### 2.2.3 *Rate of TDS under Limited Tax Liability*

Companies under limited tax liability are liable to TDS at the rate prescribed below:

a. Contract Income	3% of the gross amount
b. Consultancy Income	3% of the gross amount
c. Royalty Income	5% of the gross amount
d. Interest Income	5% of the gross amount
e. Dividend Income	10% of the gross amount
f. Rental Income	5% of the gross amount
g. Income from subletting or Subcontract Business	3% of the gross amount

TDS deducted under limited tax liability will be treated as the **final tax**, unless otherwise the company chooses to file a tax return.

## 2.3 **Incomes not liable for TDS**

The following incomes/transactions are **not liable** for TDS:

- a. Purchases made for retailing purposes by trading units;
- b. If a contract to supply goods is entered outside Bhutan and the delivery of the goods is also made outside Bhutan. Note that a supply order issued in Bhutan to a supplier resident abroad will be deemed as a contract entered in Bhutan, hence, TDS will be applicable;
- c. Customs duty and customs clearing charges paid on behalf of the importer by transporters shall be excluded when computing TDS on transport income;
- d. All authorised dealers/commission agents of motor vehicles, two wheelers and cement agents within Bhutan;
- e. Travel agents dealing in airline tickets;
- f. Distributors of petroleum products and BOD fuel advance;
- g. Utility bill payments e.g. City corporation bills, Survey bills, National Library bills, telephone bills, cable operators' bills, insurance premium payments, electricity bills, RSTA vehicle renewal and fitness payments, etc;
- h. On-the-spot petty cash purchases, referring to those purchases made without a supply order or competitive bid, not exceeding Nu. 20,000 per transaction;

- i. BST on hotels and service charges shall be excluded when computing TDS;
- j. Payments involving from one Govt. agency to another Govt. agency;
- k. Direct purchases from recognised manufacturers outside Bhutan only;
- l. Under-taking of projects by Govt. agencies;
- m. Training fees paid to training institutes outside Bhutan;
- n. Payments made to non-licensed individual labourers or labour contractors where the work executed is on a contract basis. This however will not include payments made to labour agents.

## **2.4 Companies under Tax Holidays**

All corporate units enjoying tax holiday as per Notification No. DRC/TP-02/2002/878 dated 13<sup>th</sup> September 2002, are **not liable for TDS** during the tax holiday period. The list of eligible companies is given in **Annexure I**. However, the units will be required to submit the books of accounts at the time filing for verification by the RRCOs concerned.

## **3. BUSINESS INCOME TAX**

### **3.1 Full Tax Liability**

#### *3.1.1 Entities liable for TDS under Full Tax Liability*

All individual business houses **not incorporated** under the Companies Act of the Kingdom of Bhutan, 2000 are termed as businesses under full tax liability. It includes all those individual business houses operating under a trade license or permit issued by MTI.

### 3.1.2 *Incomes liable for TDS under Full Tax Liability*

Any incomes, not limited to the ones mentioned below, earned from the following business activities **are liable** for TDS.

- Construction Income including sub-contract incomes;
- Logging related Income;
- Management Income;
- Supply Income;
- Transportation Income;
- Tour Income;
- Consultancy Income;
- Other professional service Income;
- Any other income derived directly or indirectly from business activities falling within the purview of BIT.

### 3.1.3 *Rate of TDS under Full Tax Liability*

Business houses under full tax liability are liable for TDS at the rates prescribed below:

- |   |  |
|---|--|
| a. Contract Income                                | 2% of the gross amount   |
| b. Consultancy Income                             | 2% of the gross amount   |
| c. Royalty Income                                 | 5% of the gross amount   |
| d. Interest Income                                | 5% of the gross amount   |
| e. Dividend Income                                | 10% of the gross amount  |
| f. Rental Income                                  | 5% of the gross amount   |
| g. Income from subletting or Subcontract Business | 2% of the gross amount   |
| h. Tour Operation Income                          | 2% of the gross tour income after netting off royalty component. |

## 3.2 **Limited Tax Liability**

### 3.2.1 *Entities liable for TDS under Limited Tax Liability*

Any business houses or individuals, who are resident abroad, but receiving income from **businesses conducted through a permanent establishment** in Bhutan, are termed as businesses falling under limited tax liability. It includes the following:

- a. Individuals or businesses resident abroad but doing business in Bhutan through a permanent establishment;

- b. Individuals or businesses resident abroad but participating in a business in Bhutan, in collaboration or on a partnership basis with a Bhutanese counterpart.

### 3.2.2 *Incomes liable for TDS under Limited Tax Liability*

Income liable for TDS or TDS in lieu of BIT is limited to **sources from or within** Bhutan as given below.

- a. Income received from subletting or subcontracting business;
- b. Income received immovable property in Bhutan, as an owner, co owner, and user of the property;
- c. Income received from contracts as defined under full tax liability. Supply order issued in Bhutan to a supplier outside will be deemed to be a contract entered in Bhutan, hence, TDS will be applicable;
- d. Income received for consultancy services, technical advisory services, or similar activities from sources in Bhutan;
- e. Income received as dividend from sources in Bhutan;
- f. Income received as royalties from sources in Bhutan;
- g. Income received as interest from sources in Bhutan;
- h. Income received, by way of grants or loans under bi-lateral/multi-lateral arrangements, either directly or indirectly through agencies in Bhutan for project executed in Bhutan. E.g. Income received by a foreign consultant or contractors from donor assisted projects executed in Bhutan;
- i. Interest paid or borne on indebtedness in connection with a permanent establishment in Bhutan;
- j. Royalties paid by a permanent establishment in Bhutan for its own use;
- k. Technical services or consultant fees paid by a permanent establishment for services availed.

### 3.2.3 *Rate of TDS under Limited Tax Liability*

Businesses under limited tax liability are liable for TDS at the rate prescribed below:

- |                              |                         |
|------------------------------|-------------------------|
| a. Contract Income           | 3% of the gross amount  |
| b. Consultancy Income        | 3% of the gross amount  |
| c. Royalty Income            | 5% of the gross amount  |
| d. Interest Income           | 5% of the gross amount  |
| e. Dividend Income           | 10% of the gross amount |
| f. Rental Income             | 5% of the gross amount  |
| g. Income from subletting or |                         |

Subcontract Business	3% of the gross amount
h. Tour Operation Income	3% of the gross tour income after netting off royalty component.

### 3.3 Income not liable for TDS

The following incomes/transactions are **not liable** for TDS:

- a. Purchases made for retailing purposes by trading units;
- b. If a contract to supply goods is entered outside Bhutan and the delivery of the goods is also made outside Bhutan. Note that a supply order issued in Bhutan to a supplier resident abroad will be deemed as a contract entered in Bhutan, hence, TDS will be applicable;
- c. Customs duty and customs clearing charges paid on behalf of the importer by transporters shall be excluded when computing TDS on transport income;
- d. All authorised dealers/commission agents of motor vehicles, two wheelers and cement agents within Bhutan;
- e. Travel agents dealing in airline tickets;
- f. Distributors of petroleum products and BOD fuel advance;
- g. Utility bill payments e.g. City corporation bills, Survey bills, National Library bills, telephone bills, cable operators bills, insurance premium payments, electricity bills, RSTA vehicle renewal and fitness payments, etc;
- h. On-the-spot petty cash purchases. It refers to those purchases made without a supply order or competitive bid, not exceeding Nu. 20,000 per transaction;
- i. BST on hotels and service charges shall be excluded when computing TDS;
- j. Payments involving from one Govt. agency to another Govt. agency;
- k. Direct purchases from recognised manufacturers outside Bhutan only;
- l. Under-taking of projects by a Govt. agency;
- m. Training fees paid to training institutes outside Bhutan;
- n. Payments made to non-licensed individual labourers or labour contractors where the work executed is on a contract basis. This however will not include payments made to labour agents.

### 3.4 Business Houses under Tax Holidays

All business or individual houses enjoying tax holiday as per Notification No. DRC/TP-02/2002/878 dated 13<sup>th</sup> September 2002, are **not liable for TDS** during the tax holiday period. The list of eligible BIT units is given **Annexure II**.

However, they will be required to submit the books of accounts at the time filing for verification by the RRCOs concerned.

#### **4 Exempt Organizations**

TDS is **not applicable** on payments made to those organizations registered under the Civil Society Organizations Act of the Kingdom of Bhutan, 2007. The list of exempt organizations is given in **Annexure IV**. However, such organizations will be required to deduct and deposit TDS from payments made to another taxable entity.

## **5. PERSONAL INCOME TAX**

### **5.1 Persons or Individuals liable for TDS under PIT**

All persons or individuals earning income from sources specified under 5.2 are liable for TDS.

- a. A person, for the purpose of PIT/TDS, means citizens and residents. Citizen refers to those individuals possessing the citizenship of the Kingdom of Bhutan, whereas resident refers to non Bhutanese whose stay in the kingdom of Bhutan during an income year is equal to or more than six months.
- b. Income year means a calendar year starting from the 1<sup>st</sup> of January to the 31<sup>st</sup> of December.
- c. Residents, as defined in 5.1 (a), are liable for TDS on income received from sources from or within Bhutan or for the work performed in Bhutan.
- d. Bhutanese citizens working in UN organizations/branches within the country are not liable for TDS.
- e. Persons other than Bhutanese citizens not covered under fiscal privileges of members of Diplomatic Missions or Consular Posts under the General Provisions of International Law or persons under the provision of special agreements are liable for TDS.

### **5.2 Sources of Income liable for TDS**

Income from sources in Bhutan refers to those incomes earned or derived from taxable sources in Bhutan or for work performed in Bhutan. It includes the following:

- a. Income from salary;
- b. Rental Income;
- c. Dividend Income;
- d. Interest Income;
- e. Income from Other Sources.

#### *5.2.1 Income from Salary*

##### *a. Definition of Salary*

Income from salary, for the purpose of PIT/TDS, includes pay, wages, remuneration, bonus, commission, fees, children's educational allowances, and benefits received free or at a concessional rate. It also includes retirement benefits received on a monthly or periodical basis such as pension. TDS on income from salary is payable on Gross Salary received or earned.

##### *b. Exemptions from TDS under Salary Income*

The following incomes are exempted from TDS under salary income provided they are within the limits prescribed by the Govt. from time to time.

- a. Leave Travel Concession (LTC);
- b. Travel Allowances (TA) and Daily Allowances (DA) given while on tours;
- c. Transfer Grants and Transportation Costs given on transfers;
- d. Retirement Benefits paid in lump sum in the form of gratuity and provident fund at the time of retirement or retrenchment;
- e. All allowances and free or subsidized facilities of Armed Forces;
- f. Stipend received by trainees, exchange students and living allowances received by volunteers working in Bhutan;
- g. Foreign Allowance (FA) and Representational Grants (RG) given to the civil servants of the RGOB stationed outside Bhutan;
- h. Children's Education Allowance and other compensatory allowances received by employees under deputation.

c. *Rate of TDS*

TDS on salary income must be deducted as per the Annexure III of the Rules on The Income Tax Act of the Kingdom of Bhutan, 2001.

d. *TDS for Special Category of Income*

TDS on salary received in arrears must be pro-rated on a monthly basis and deducted as per the slabs prescribed in Annexure III.

TDS on non-licensed consultancy income must be deducted as per Annexure III of the Income Tax Rules for both resident and non residents. The total consultancy income must be broken down into a monthly payment basis (by dividing the total income by number of months taken to complete consultancy work) and deducted accordingly. The number of months, however, should be as per the contract agreement between the consultants and contract awarder.

### 5.2.2 *Rental Income*

a. *Definition of Rental Income*

Income from rental property means income received from hire of land, building, houses, factory buildings, warehouses and any other structures earning rental income.

b. *Rate of TDS*

TDS on rental income must be deducted at 5% on the gross rent paid for hiring rental properties.

### 5.2.3 *Dividend Income*

a. *Definition of Dividend Income*

Dividend income means income received from shareholding in a company registered in Bhutan. Dividend income received in a form of bonus shares is not liable for TDS.

b. *Rate of TDS*

TDS must be deducted at the rate of 10% of the gross amount, if the total dividend payment is more than or equal to Nu. 10,000. TDS is not applicable for dividend payments below Nu. 10,000 per annum. It should be deducted on a receipt basis, i.e., based on the year in which the income is actually received.

However, for persons other than citizens and residents, TDS is applicable even if the dividend income is less than Nu. 10,000.

#### 5.2.4 *Interest Income*

##### a. *Definition of Interest Income*

Interest income means income earned from fixed deposits maintained with a financial institution in Bhutan. Interest income received from other deposits such as saving, recurring, OD etc is not liable for TDS.

##### b. *Rate of TDS*

TDS must be deducted at the rate of 5% of the gross amount, if the total interest payment is more than or equal to Nu. 10,000. TDS is not applicable for dividend payments below Nu. 10,000 per annum. It should be deducted on a receipt basis, i.e., based on the year in which the income is actually received.

However, for persons other than citizens and residents, TDS is applicable even if the interest income is less than Nu. 10,000.

#### 5.2.5 *Income from Other Sources*

##### a. *Definition of Income from other sources*

Income from other sources means income earned from the hire of privately owned plant & machineries, vehicles excluding trucks and taxis, and income from intellectual property rights including income earned from film making activities such as script writing, directing, acting, etc.

##### b. *Rate of TDS*

TDS on income from other sources must be deducted at the rate of 5% of the gross income paid.

## PART II

### 6. DEDUCTION, TDS CHEQUES, DEPOSIT, ACCOUNTING & ADJUSTMENT OF TDS, FINES & PENALTIES

#### 6.1 Deduction

##### 6.1.1 Agencies responsible for deducting TDS

All government, semi-government, corporate bodies, and private agencies, as specified in Table I below, are liable to deduct TDS. The authority and responsibility to deduct TDS is provided by Chapter 3, Section 19 of the Income Tax Act, 2001 and the Rules thereto.

Table I

Sl. No	Withholding Agencies	Sources of Income	Rates
1	Employer or authorized representative	Salary Income	As per Annexure III
2	Government, Semi-Govt., & Non-Govt. Organization(s), Companies and Businesses	Rental Income	5%
3	Companies	Dividend Income	10%
4	Financial Institutions	Interest Income	5%
5	Department of Tourism	Tour Income	2%
6	Contract Awarder or authorized representative	Contract income	2% or 3%
7	Government, Semi-Govt., Non-Govt. Organization, Companies and Businesses.	Income from Other Sources	2% for companies & businesses and 5% for individuals

##### 6.1.2 When should TDS be deducted?

TDS must be deducted **at time of bill payment/disbursement or credit in the books of accounts**, whichever is earlier as per the rates prescribed in Table I above. The amount deducted must be deposited immediately following the deduction and issue of cheques to the parties concerned.

##### 6.1.3 TDS Cheques

All withholding agents must prepare a separate cheque for every TDS amount deducted for depositing with the RRCO concerned.

##### Exceptions

However, TDS withheld from the following sources of income can be prepared in one consolidated cheque for depositing with RRCO concerned or RGR account, as the case may be.

- TDS on Salary Income withheld by employers;
- TDS on Tour Operation Income withheld by DOT;
- TDS on Interest Income withheld by BNB and BOB;
- TDS on Dividend Income withheld by all publicly listed companies;
- TDS amounting to Nu. 1000 and less. TDS amount exceeding Nu. 1000 per transaction must, however, have a separate Cheque prepared; see 6.1.4 (c) and 6.2.1 (c) for details.

#### 6.1.4 TDS Certificate

The withholding agencies must issue a standard TDS certificate as prescribed in **Annexure IV** to the parties concerned at the time of bill payment or disbursement. It should include the following details:

- a. Taxpayer Number (TPN)/Entity Code
- b. Name of the party from whom the deduction is made
- c. Date of deduction;
- d. Amount deducted;
- e. Type of Income;
- f. Cheque No in lieu of Revenue Receipt No.

The cheque No. details should be clearly mentioned in the TDS Certificate for proper tax adjustment at the time of filing. It shall be the responsibility of the parties concerned to furnish the TPN details to the withholding agencies. The above procedures must be followed in respect of all income sources except under the following cases.

##### *Exceptions*

- a. TDS Certificate for Salary Income may be issued annually at the end of year, unless otherwise a taxpayer requires it for purposes other than for filing.
- b. TDS Certificate for deposits made directly in cash/cheque to RRCO will be issued by the RRCO concerned.
- c. Certificate for TDS amounting to Nu. 1000 and less must be issued latest by the 10<sup>th</sup> of the following month to the parties concerned.

## 6.2 Deposit

### 6.2.1 Depositing TDS

All TDS deductions must be deposited with the RRCO concerned **on the next working day**. While making the deposit, the withholding agencies must ensure that a Revenue Money Receipt is obtained from RRCO for every Cheque deposited.

##### *Exceptions*

- a. TDS collection made by BOB and its branches on interest income must be transferred directly into their RGR account allotted to them. They will be required to submit copies of the TDS schedules and Bank Statements in a standard format prescribed by DRC to the RRCO concerned. The direct transfer No. must be clearly mentioned in the statement.
- b. Similarly, TDS on interest and dividend income deducted and deposited by BNB and its branches into their current account must be transferred to the RGR account maintained with the BOB. They will be required to submit copies of the TDS schedules and Bank Statements in a standard format

prescribed by DRC to the RRCO concerned. The direct transfer No. must be clearly mentioned in the statement.

- c. TDS amounting to Nu. 1000 and below as referred in 6.1.3 (e) must be deposited with the RRCO concerned, and TDS certificate issued to the parties latest by the 10<sup>th</sup> of the following month, to avoid fines and penalties.

### **6.3 Accounting of TDS**

The RRCOs concerned will ensure that TDS amounts remitted by the withholding agencies are correctly accounted for against each individual or entities for tax adjustment at the time of the filing.

#### **6.3.1 Receipt of TDS**

The Cash Counter Unit under Revenue Accounts & Audit Section shall ensure that

- TDS deposits along with the TDS schedules from withholding agencies are received on time;
- RMR No. is issued in acknowledgement of TDS amount received;
- TDS deposits are correctly accounted in the RAS;
- RMR No. are correctly noted in the TDS schedule and forwarded to the TDS unit/Tax Adm;
- Refund claims and tax adjustments are verified with the deposits made.

#### **6.3.2 Compilation**

The Compilation Unit under Revenue Accounts & Audit Section shall ensure that

- TDS schedules from BNB, BOB and its branches under its jurisdiction are received on time.
- Deposits reflected in the TDS Schedules are reconciled, verified, and forwarded to TDS Unit for crediting.

#### **6.3.3 Updating and Crediting**

The Tax Administration Section shall be responsible for:

- Updating TDS information in the RMS, maintaining and filing of all TDS records.
- Verifying whether TDS is deducted as per the rates prescribed in the rules.
- Issuing TDS certificates for TDS deposited in cash. Revenue Receipt No. must be reflected in the certificate in lieu of Cheque No. or Cheque No. if TDS is deposited directly in Cheque.

## **6.4 Adjustment**

### *6.4.1 Adjustment of TDS*

The TDS amount deposited by withholding agencies will be adjusted against the tax liability of the company/business units/ individuals at the time of:

- a. Advance tax payment, i.e., during the filing of half yearly returns for units paying CIT and BIT
- b. Provisional tax payment, i.e., during the filing of annual tax returns for units paying CIT and BIT.
- c. Final tax payment after DA or FA as the case maybe for those paying CIT, BIT and PIT
- d. TDS amount shall be adjusted on receipt basis.

### *6.4.2 Documentation*

The adjustment of TDS as specified above shall be given subject to the fulfillment of the following conditions.

- a. Submission of proper books of accounts;
- b. Production of a standard TDS certificate issued by the withholding agencies.

## **7 Fines and Penalties**

### **7.1 Fines and Penalties as per the Income Tax Act**

As per Chapter 5, section 34 of the Income Tax Act of the Kingdom of Bhutan, 2001 and the Rules thereto, all withholding agencies shall be liable for the following fines and penalties.

#### *7.1.1 Failure to Deduct*

Failure to deduct whole or part of tax at sources as required under the above Act shall attract a penal interest at the rate of 24 percent per annum on the amount due in addition to the tax in arrears; or

#### *7.1.2 Failure to Deposit*

Failure to deposit the tax deducted at source as required under the above Act, shall attract a penal interest at the rate of 24 percent per annum from the due date in addition to the tax in arrears.

#### *7.1.3 Prosecutions*

Notwithstanding the above provisions, prosecutions shall be initiated for the following offences:

- a. Making a false statement or deliver false accounts; (Note - issuing a falsified TDS certificate to the parties shall constitute as making a false statement under the Income Tax Act)
- b. Willful act or omission to deduct tax at source or pay tax to the Govt.;

- c. Willful attempt to evade tax or failure to pay fines, penalty or interest imposed under the Income Tax Act of the Kingdom of Bhutan, 2001;
- d. Willful act or omission to produce books of accounts and documents.

**7.2 Fines and Penalties as per the Negotiable Instrument Act, 2002**

As per the Negotiable Instrument Act of the Kingdom of Bhutan 2002, the cases mentioned below shall attract the following fines and penalties.

**7.2.1 Dishonored Cheques**

Cheques dishonored by banks due to lack of insufficient fund shall attract a compensation of 15% of the value of the cheque per annum.

**7.2.2 Clearing of Dishonored Cheques**

Dishonored cheques must be cleared within fifteen days of the intimation, failing which legal action will be initiated.

**Formula to Compute TDS if the monthly gross salary is more than Nu. 150,200.00**

Monthly Gross Salary			XXXX
Subtract			83,333
That gives you			XXXX..... (A)
Multiply (A) by 25%			XXXX..... (B)
Add to (B)	Nu.		12,708
<b>Monthly TDS is</b>			<b>XXXX</b>

ANNEXURE – V

TDS CERTIFICATE

**Royal Government of Bhutan**

**Name of Agency :** .....

**RRCO :** .....

**TDS Certificate**

<b>Reference No:</b> .....	<b>Date:</b> .....	<b>Entity Code :</b> .....
<b>Name:</b> .....		<b>Entity Name :</b> .....
<b>CID No.</b> .....		
<b>TPN No.</b> .....		

<b>Income Type:</b> .....
<b>Agency Code:</b> .....
<b>Withholding Agency:</b> .....

Month	Gross Income	TDS Amount	Cheque No./ Direct Transfer No.	Cheque date	Remarks
<b>Grand Total</b>					

I hereby certify that the information given in this certificate is true and correct to the best of my knowledge. In case any information is found untrue and false, I shall be liable for fines and penalties as per chapter 5, General Provisions of the Income Tax Act of the Kingdom of Bhutan, 2001.

**Name & Signature of Disbursing Officer**  
**Office Seal**

*Note: Direct Transfer No. is applicable for BNB & BOB only.*

## Contact Details for further information

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