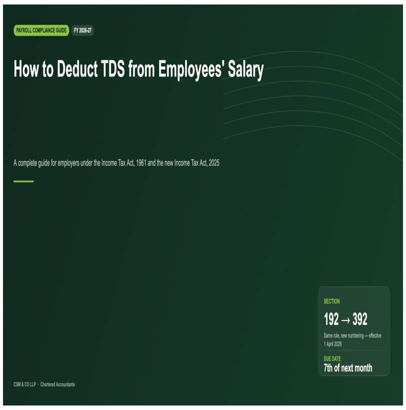

How to Deduct TDS from Employees’ Salary (FY 2026-27): A Complete Guide for Employers

Description

Salary TDS Deduction for Employees in FY 2026-27: Step-by-Step Guide

Every employer paying salary in India is legally required to deduct tax at source before crediting the payment. Getting this wrong, whether by under-deducting, over-deducting, or missing the deposit deadline, creates real compliance risk: interest, penalties, and even disallowance of expenses. This guide walks through exactly how salary TDS works for FY 2026-27, under both the old Income Tax Act, 1961 and the new Income Tax Act, 2025.

1. The Legal Basis: Section 192 (Old Act) and Section 392 (New Act)

Salary TDS has traditionally been governed by **Section 192 of the Income Tax Act, 1961**. With the Income Tax Act, 2025 coming into force from 1 April 2026, the same provision now sits under **Section 392 of the Income Tax Act, 2025**. There is no change in policy, only in section numbering and presentation.

Which Act applies depends on the *date of actual payment*, not accrual:

- Salary paid up to 31 March 2026 ? governed by Section 192, Income Tax Act, 1961
- Salary paid on or after 1 April 2026 ? governed by Section 392, Income Tax Act, 2025

So, salary for March 2026 paid on 31 March 2026 falls under the old Act, while the same salary paid even a day later, on 1 April 2026, falls under the new Act.

2. Who Needs to Deduct TDS, and When

Any person responsible for paying salary, be it a company, LLP, proprietorship, HUF, or individual employer, must deduct TDS if the employee’s **estimated total income for the year exceeds the basic exemption limit** applicable under the tax regime the employee has opted for:

- **New Regime (default):** basic exemption of ?4,00,000
- **Old Regime (opt-in):** basic exemption of ?2,50,000

If an employee's estimated income stays within these limits, no TDS is required. If not, the employer must deduct tax every month at the time of actual payment of salary, whether paid on time, in advance, or with delay.

3. How the TDS Amount Is Actually Calculated

Unlike TDS on contractor or professional payments, which apply a flat percentage, salary TDS has no fixed rate. It is computed using the employee's **average rate of income tax**, worked out from their estimated annual income. The process:

1. **Estimate annual gross salary**: basic, allowances (HRA, LTA, special allowance), perquisites, and any known bonus for the year.
2. **Apply the standard deduction**: ?75,000 under the new regime, or ?50,000 under the old regime.
3. **Deduct eligible exemptions/deductions** (old regime only): HRA exemption, 80C investments, 80D premiums, home loan interest, etc., based on proofs and declarations submitted by the employee.
4. **Add other declared income**: house property income/loss, income from a previous employer (via Form 12B), or other sources disclosed by the employee.
5. **Compute tax on the resulting taxable income** using the applicable slab rates for the chosen regime, then add 4% health and education cess (and surcharge, where applicable).
6. **Divide the annual tax liability by the number of salary months remaining in the financial year** to arrive at the monthly TDS instalment.

Important clarification: This monthly instalment method is not the same as the 15% / 45% / 75% / 100% advance-tax payment schedule under Section 234C. That quarterly schedule applies to a taxpayer's own advance tax payments on non-salary income. Salary TDS under Section 192 / 392 simply spreads the estimated annual tax liability equally across the remaining pay months of the year, and is recalculated whenever income, regime choice, or investment declarations change.

4. FY 2026-27 Slab Rates (No Change from FY 2025-26)

The Union Budget 2026 did not revise slab rates. The following continue to apply for FY 2026-27 (AY 2027-28):

New Tax Regime (default)

Income Slab	Rate
Up to ?4,00,000	Nil
?4,00,000 – ?8,00,000	5%
?8,00,000 – ?12,00,000	10%
?12,00,000 – ?16,00,000	15%
?16,00,000 – ?20,00,000	20%
?20,00,000 – ?24,00,000	25%
Above ?24,00,000	30%

A rebate of up to ?60,000 continues to apply for taxable income up to ?12,00,000 (making salary up to about ?12,75,000 effectively tax-free after the ?75,000 standard deduction, subject to conditions and provided the rebate isn't lost due to marginal cliff effects just above the threshold).

Old Tax Regime (opt-in)

Income Slab	Rate
Up to ?2,50,000	Nil
?2,50,000 – ?5,00,000	5%
?5,00,000 – ?10,00,000	20%
Above ?10,00,000	30%

5. Old Regime vs New Regime: What Employers Must Collect

Employees must indicate their choice of regime at the start of the year, and the employer must deduct TDS accordingly. Key differences that affect payroll:

- **New regime:** only the standard deduction is available; investment proofs are not required.
- **Old regime:** employer must collect investment/deduction proofs, such as 80C, 80D, HRA rent receipts, and home loan interest certificates, before finalising TDS, typically before the last quarter of the year.

If an employee doesn't declare a preference, the new regime applies by default.

6. Multiple Employers in the Same Year

If an employee joins mid-year, the new employer should obtain details of salary already paid and TDS already deducted by the previous employer, using **Form 12B**. This ensures the new employer computes TDS on the employee's full-year income rather than under-deducting.

7. Depositing TDS: Due Dates

Once deducted, TDS must be deposited with the government:

- By the **7th of the following month**, for TDS deducted in April–February
- By **30th April**, for TDS deducted in March

This applies whether the deduction falls under Section 192 (up to 31 March 2026) or the corresponding Section 392 (from 1 April 2026).

8. Returns and Certificates

- **Form 24Q**: the quarterly TDS return for salary payments, filed by all employers each quarter.
- **Form 16 / Form 130**: the annual TDS certificate issued to employees. Form 16 continues to apply for FY 2025-26 salary; Form 130 is the equivalent certificate for Tax Year 2026-27 salary under the new Act.

9. Consequences of Getting It Wrong

Failure to deduct or deposit TDS correctly can result in:

- Interest for late deduction or late deposit
- The employer being treated as an “assessee-in-default,” with recovery of the TDS amount plus interest
- Penalty and, in cases of deduction without deposit, potential prosecution
- Disallowance of 30% of the relevant expense while computing business income, where tax was deductible but not deducted or deposited on time

10. Quick Checklist for HR and Payroll Teams

- Collect tax regime declaration from every employee at the start of the year
- Confirm PAN is valid and updated in payroll records
- Collect Form 12B for employees who joined mid-year
- Collect investment/deduction proofs from employees on the old regime
- Recompute monthly TDS whenever salary, bonus, or declarations change
- Deposit TDS by the 7th of the following month (30th April for March)
- File Form 24Q every quarter and issue Form 16 / Form 130 after year-end

This article is for general guidance only and does not constitute tax advice. For specific queries relating to your organisation’s payroll and TDS compliance, please get in touch with our team.

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