

The Tax Audit Trap Every Founder Forgets

When you miss a TDS entry, a real business expense quietly becomes taxable income.

TDS

TAX AUDIT

INCOME-TAX ACT 2025

13 days to the 30 September 2026 tax audit. A S Banka Advisors Private Limited. Cross-Border and Startup Structuring.



What Actually Happens

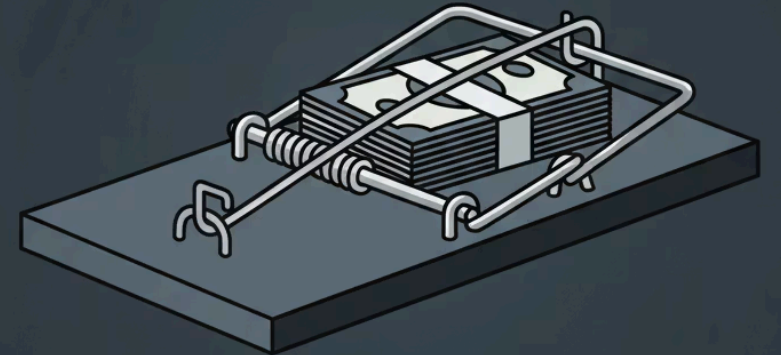
This is not a penalty, it is a disallowance, and it hits your bottom line the same way.

Resident Vendor Default

If you pay a resident vendor and do not deduct TDS, or you deduct it but deposit it after your return-filing due date, **30 percent of that expense is added back to your taxable income.**

Non-Resident or Foreign Vendor Default

Pay a non-resident or a foreign vendor with a TDS default, and the disallowance is not 30 percent. **It is 100 percent of the payment.**



FINANCIAL TRAP

The Numbers That Sting

Same mistake, very different bill.

Resident Contractor

A resident contractor bill of **Rs 50 lakh** with TDS missed means **Rs 15 lakh** added straight to taxable income.

Resident default: **30 percent add-back**

Foreign Vendor

A payment of **Rs 20 lakh** to a foreign vendor with TDS missed means the **entire Rs 20 lakh is disallowed**.

Non-resident or foreign default: **100 percent add-back**

Why Cross-Border Payments Hurt More

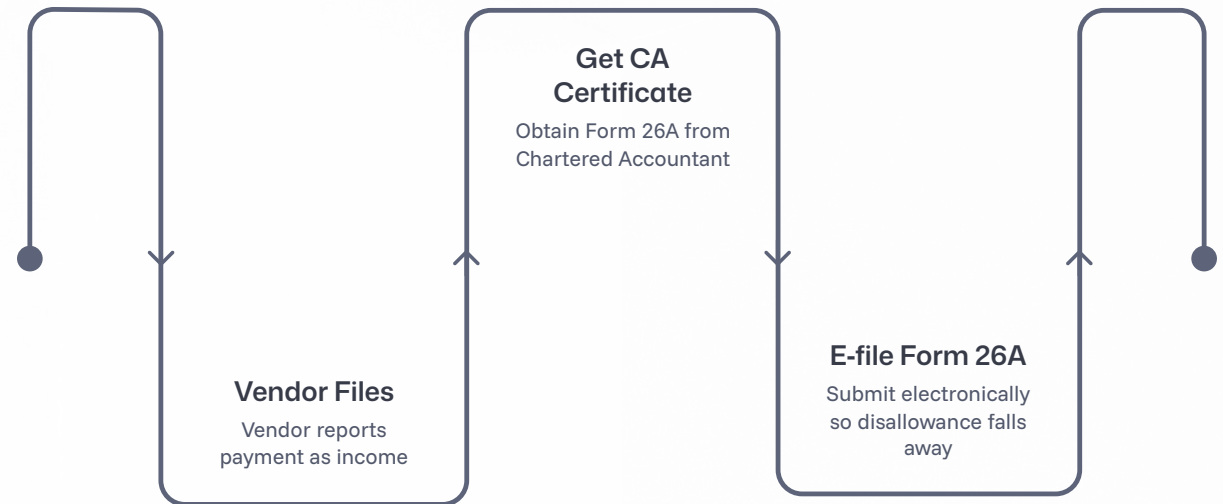
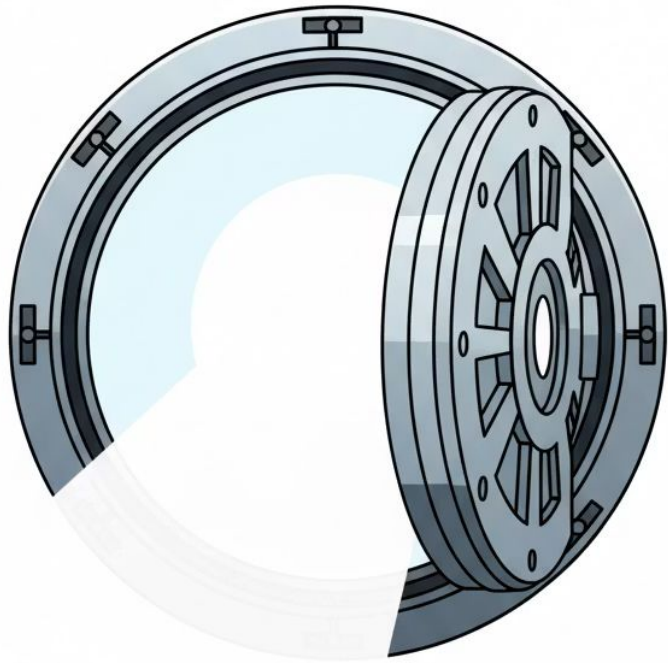
Interest, royalty, and fees for technical services paid to a non-resident or paid outside India carry a **100 percent disallowance** on any TDS default, against **30 percent for a resident vendor**.

Before you wire a foreign vendor, check the tax-treaty rate and whether a lower-deduction certificate applies. A single unchecked foreign invoice can cost you the whole deduction.



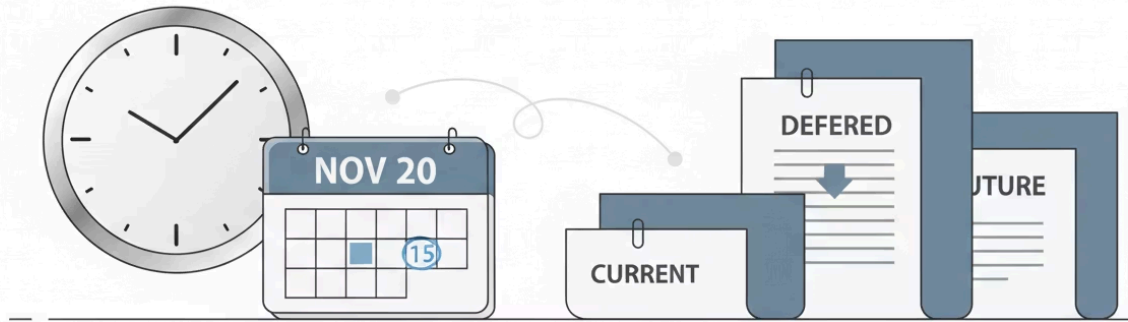
The Escape Hatch: Form 26A

This is the most under-used relief in the entire tax audit.



- ✓ If your resident vendor has already filed its own return, included your payment as income, and paid tax on it, you are not treated as a defaulter.

It Is Deferral, Not a Permanent Loss



The 30 Percent Rule on Resident Payments

The 30 percent that gets disallowed on a resident payment is not gone forever. It becomes deductible in the year you finally deposit the missed TDS.

The Practical Move

Deposit every pending TDS now, so the deduction unlocks in the next year rather than staying stuck.

Where the Auditor Looks

Every non-deduction and short-deduction surfaces in your tax audit report, Form 3CD, clause 21(b). Reconcile each expense head against your quarterly TDS returns, Form 26Q for residents and Form 27Q for non-residents.

1

TDS Not Deducted

Payments made to vendors where TDS was never deducted at source. These surface directly in Form 3CD clause 21(b).

2

TDS Short-Deducted

Payments where TDS was deducted but at a rate lower than required, creating a partial default exposure.

3

TDS Deducted but Deposited Late

TDS was correctly deducted but deposited after the return-filing due date, triggering the disallowance provision.

The 2025 Renumbering: Do Not Get Caught

This Year's Audit

The audit for FY 2025-26 runs under the **Income-tax Act 1961**.

From FY 2026-27 Onwards

The **Income-tax Act 2025** governs, in force from **1 April 2026**. The 30 percent and 100 percent disallowance logic carries forward unchanged into the new Act, but the section numbers move.

What You Must Do

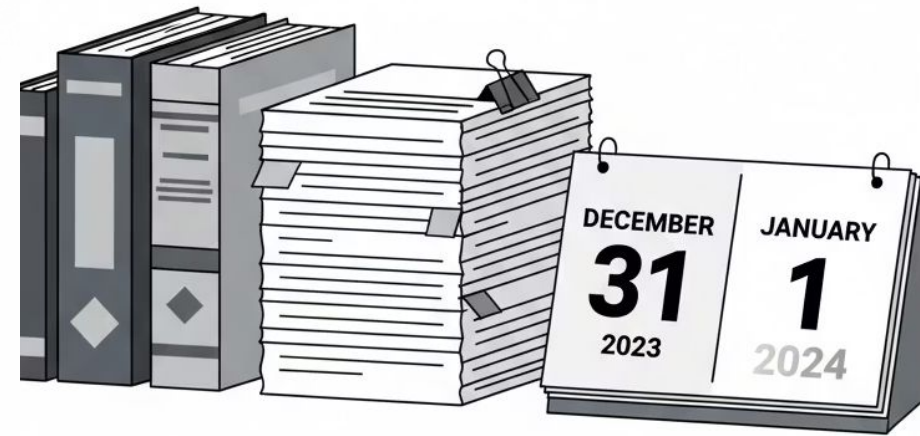
State the concept, verify the successor provision at source before you cite a number.

What Changes

Section numbers and references shift under the new Act.

What Does Not Change

The 30 percent disallowance for resident defaults and the 100 percent disallowance for non-resident defaults carry forward unchanged.



Your 13-Day Action Plan

Not sure where your file stands? Book a quick call with **A S Banka Advisors Private Limited**.

1 Reconcile All Four Quarters

Reconcile all four quarters of Form 26Q and 27Q against your expense ledger.

2 Quantify the Add-Backs

Quantify the 30 percent and 100 percent add-backs for clause 21(b) of Form 3CD.

3 File Form 26A

File Form 26A wherever a resident vendor has paid tax on the sum received from you.

4 Deposit Every Pending TDS

Deposit every pending TDS before the 30 September 2026 audit deadline to unlock deductions.

📄 A S Banka Advisors Private Limited specializes in Cross-Border and Startup Structuring. Reach out directly to review your TDS position before the 30 September 2026 deadline.