TRACARTA RESEARCH · TDS

The TDS credit that never reaches your 26AS

TDS made up 41% of India's gross direct tax receipts in FY2022-23, and the department refunded ₹4.72 lakh crore in FY2025-26. For a large company, we estimate 3–8% of TDS credit is unmatched at filing time, cash that waits years or is lost.

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Gross direct tax, FY2025-26 **₹28.12 lakh cr** CBDT provisional, up 4.0% on FY2024-25	TDS share of gross receipts **41 %** FY2022-23, highest in at least 23 years
Refunds issued, FY2025-26 **₹4.72 lakh cr** Much of it TDS deducted in excess of final tax	Credit unmatched at filing **3–8 %** TraCarta view for large B2B companies; illustrative

Tax deducted at source is the largest single stream of direct tax in India. For the companies on the receiving end, every rupee deducted is a credit they are owed. A meaningful share of it arrives late, arrives short, or never arrives in Form 26AS at all.

When a customer pays your invoice and deducts TDS, the tax has already left your hands. You get it back only if the customer deposits it, reports it against your PAN in the right quarter, and the amount shows up in your tax credit statement before you file. Any break in that chain turns an asset on your balance sheet into a receivable nobody is chasing.

This report sizes the pool, maps where credit goes missing, sets out who has to fix it, and explains what changed on 1 April 2026, when the Income-tax Act, 2025 replaced the 1961 Act. It ends with five actions for CFOs.

> **TDS credit is not a tax cost. It is cash your customers have already paid to the government on your behalf. Losing it is a process failure.**

The scale of TDS

India collected ₹28.12 lakh crore in gross direct taxes in FY2025-26, up 4.0% on the year before. Refunds of ₹4.72 lakh crore took net collections to ₹23.40 lakh crore. These are CBDT's provisional figures as on 31 March 2026.

Exhibit 1

Direct tax collections, FY2024-25 and FY2025-26

₹ crore	FY2024-25	FY2025-26	Change
Gross collections	27,03,107	28,11,936	+4.0%
Refunds issued	4,76,732	4,71,531	−1.1%
Net collections	22,26,375	23,40,406	+5.1%
of which corporation tax (net)	9,86,767	10,99,166	+11.4%
of which non-corporate tax (net)	11,82,972	11,83,405	0.0%

Source: CBDT, Direct Tax Collections for FY2025-26 as on 31.03.2026 (provisional).

TDS is the backbone of these numbers. Business Standard's analysis of CBDT time-series data found that TDS made up 41% of gross direct tax receipts in FY2022-23, the highest share in at least 23 years, and had grown 68% since FY2018-19 to about ₹8.2 lakh crore. CBDT does not publish the TDS component in its monthly releases, so we have not assumed a figure for FY2025-26. If the share has held near 40%, TDS would account for roughly ₹11 lakh crore of gross collections.

The refund line matters just as much. Almost ₹4.7 lakh crore went back to taxpayers in each of the last two years. For many companies, especially those in services, lending and infrastructure, the refund is largely TDS that customers deducted in excess of the final tax. It comes back only after the return is processed, and only for credit that matches.

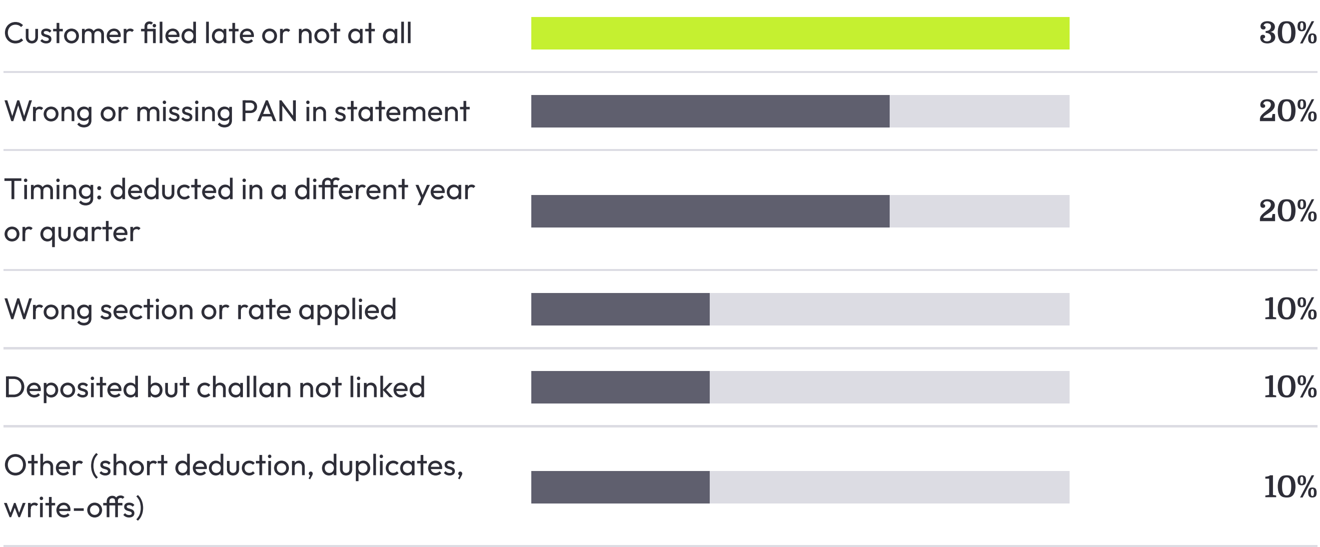
Where credit goes missing

A TDS credit can fail at five points. The customer must deduct at the right rate, deposit it on time, file its quarterly statement with your correct PAN, report it in the same quarter you book the income, and the credit must be claimed in the year the income is offered to tax. Each is simple. Across hundreds of customers and four quarters, they compound.

Exhibit 2

Why TDS credit fails to match: TraCarta view of typical causes

Share of unmatched credit value by cause, illustrative for a large B2B services company



Source: TraCarta view based on engagement experience; illustrative, not a statistical sample.

Official data confirms that deductor-side failures are not rare. The Comptroller and Auditor General's performance audit of TDS and TCS schemes (Report 4 of 2017) found cases where the department failed to levy ₹902 crore of interest for non or short deduction, and noted that government deductors alone accounted for 42.3% of defaults by value. CBDT's own recovery drive in FY2024-25 collected about ₹1,100 crore from TDS defaults.

PAN errors deserve special attention. A single wrong character in a customer's vendor master sends every deduction for that supplier to someone else's PAN, quarter after quarter, until someone notices. Inoperative PANs cause a related problem: the customer may deduct at a higher rate, and the excess becomes a refund claim that takes even longer to clear.

> **The most common pattern we see is timing. The customer books the expense and deducts TDS in March, the supplier books the income in April. The credit sits in one year's 26AS and the income in the next year's return. Both are right. The credit still does not flow on its own.**

None of this shows up as a tax problem in the monthly accounts. The TDS receivable sits on the balance sheet at the amount deducted. The shortfall appears only when the return is processed and the department allows less credit than was claimed, often a year or more later. By then the people who could have fixed it have moved on to the next close.

Who has to fix it

The hard truth for a finance team is that most fixes sit with someone else. Only the deductor can file a correction statement. Your job is to find the gap, prove it, and get the customer to act while the correction window is open.

Exhibit 3

Who owns each fix

Problem	Who fixes it	How
Customer has not filed or filed late	Customer (deductor)	File the quarterly statement (Form 26Q till FY2025-26, Form 140 from FY2026-27)
Wrong PAN, amount or section	Customer (deductor)	Correction statement through TRACES
Tax deducted but not deposited	Customer (deductor)	Deposit with interest, then file or correct statement
Income and credit in different years	You (deductee)	Claim credit in the year income is offered, with supporting reconciliation
Credit claimed but not allowed at processing	You (deductee)	Rectification request, with 26AS/AIS evidence

Source: TraCarta summary of TRACES and e-filing portal procedures; income-tax department FAQs on tax credit mismatch.

Correction is a relationship exercise as much as a tax one. Customers are rarely unwilling. They are busy, and a TDS correction for a supplier is low on their list. The companies that recover the most send customers a clean list, customer by customer, quarter by quarter, with the exact line that needs to change.

Timing also matters on your side. Correction statements are only possible within the limits the rules set, and customers change accounting teams, software and service providers. The longer a gap stays open, the harder it becomes to find someone at the customer who can still fix it.

The cost of waiting

Unmatched credit costs money in two ways. Some of it is lost outright, once the customer relationship ends or the correction window closes. The rest is delayed: it sits as a receivable until the return is processed, a rectification is accepted or an appeal is decided.

The law compensates only part of that delay. Interest on refunds under section 437 of the Income-tax Act, 2025 (formerly section 244A) is 0.5% a month, or 6% a year, and no interest is payable on delays attributable to the taxpayer. Credit that is missing from 26AS because a customer filed late is not the department's delay, so the refund can arrive late with little or no interest. For a company whose cost of capital is 10–12%, every year of delay costs 4–12% of the amount stuck.

Exhibit 4

Illustrative cost of ₹10 cr of TDS credit stuck for two years

₹ lakh, at a 11% cost of capital

Source: TraCarta illustrative calculation. Refund interest rate per section 437, Income-tax Act, 2025. Simple interest; excludes amounts lost outright.

Scale this to a large company. A business with ₹3,000 crore of receipts subject to TDS at an average 2% carries around ₹60 crore of TDS credit a year. In our experience, 3–8% of that value is unmatched at the time of filing, or ₹1.8–4.8 crore.

That is a TraCarta view, not official data: CBDT does not publish company-level mismatch rates.

There is a second-order cost too. Where credit is disallowed at processing, the return can show a demand rather than a refund. That demand may then be adjusted against refunds from other years, which ties up more cash and more management time than the original gap ever justified.

What changed with the new Act

The Income-tax Act, 2025 took effect on 1 April 2026. It did not change the basic logic of TDS, but it changed almost every reference a finance team uses. Contracts, ERP tax codes, customer letters and internal controls that cite the old sections now need updating.

Exhibit 5

Key TDS references, old and new

Item	Income-tax Act, 1961 / Rules 1962	Income-tax Act, 2025 / Rules 2026
TDS on salary	Section 192	Section 392
TDS on other payments (contractors, fees, rent, commission, non-residents)	Sections 194A–194T, 195 and others	Section 393, organised in tables by payee type
Interest for failure to deduct or deposit	Section 201(1A): 1% and 1.5% a month	Section 398: 1% and 1.5% a month
Interest on refunds	Section 244A	Section 437
Quarterly statement, salary / non-salary	Form 24Q / 26Q	Form 138 / 140
TDS certificate, salary / non-salary	Form 16 / 16A	Form 130 / 131
Annual tax credit statement	Form 26AS and AIS	Form 168 (from tax year 2026-27)

Source: Income-tax Act, 2025; Income-tax Rules, 2026 as summarised by Taxguru, TDSMAN and Business Standard. FY2025-26 statements continue in the old forms.

Two points matter for credit. First, the transition year splits the trail: Q4 of FY2025-26 is reported on old Form 26Q, while Q1 of FY2026-27 is reported on new Form 140. Customers switching forms and codes mid-relationship are a fresh source of errors. Second, Form 168 brings TDS, other tax payments, refunds and demands into one statement. That is useful, but it will not fix a credit the customer never reported.

Actions for CFOs

Recovering TDS credit is a monthly discipline, not a year-end scramble. These five actions cover most of the value.

01 Reconcile quarterly, not annually

Match your receivables ledger to 26AS (and Form 168 when it arrives) every quarter, customer by customer. A gap found in July can be corrected. A gap found at return time usually cannot, in time.

02 Rank customers by credit at risk

A small number of customers typically account for most unmatched value. Chase those first, with a named contact and a written correction request.

03 Fix the timing gap in your own books

Track credit by the year income is offered, not the year TDS is deducted. Carry forward credit that belongs to the next year with a documented trail.

04 Update masters for the new Act

Refresh ERP tax codes, invoice text, contract clauses and customer communications for sections 392, 393 and the new form numbers. Check your PAN and name are correct in every customer's vendor master.

05 Make one person own the recovery

Give TDS credit a monthly statement of recovered, pending and awaiting customer action. What gets reported gets recovered.

TraCarta's TDS Recovery practice runs this reconciliation and reports results in a signed quarterly TDS statement (see what you receive). AI does the matching at volume. Our specialists prepare customer correction requests and handle rectifications. See how we work or talk to us.

Methodology and sources

Collection and refund figures are CBDT's provisional numbers for FY2025-26 as on 31 March 2026. The TDS share of gross collections (41% in FY2022-23) is from Business Standard's analysis of CBDT time-series data; CBDT has not published a TDS breakdown for FY2025-26 in the sources we reviewed, so any current-year TDS figure in this report is presented only as an approximation.

Company-level mismatch rates are not published by CBDT or CAG. The 3–8% unmatched range and the cause mix in Exhibit 2 are TraCarta views based on engagement experience with large B2B companies. They are illustrative. Exhibit 4 uses simple interest, an 11% cost of capital and the statutory refund interest rate of 0.5% a month.

Section and form references for the Income-tax Act, 2025 and Income-tax Rules, 2026 were checked against published guides from tax practitioners and the business press as of September 2026. Readers should confirm current positions against the bare Act and CBDT notifications before acting.

Sources

1. CBDT: Direct Tax Collections for FY2025-26 as on 31.03.2026 (via Taxguru)
2. Business Standard: TDS, explaining the rise and rise of a safe-bet tax collection method
3. CAG Report No. 4 of 2017: Performance audit of implementation of TDS/TCS schemes (press release)
4. CAClubIndia: CBDT recovers ₹92,400 crore in outstanding tax for FY2024-25
5. Taxguru: FAQs on TDS provisions under Income Tax Act 2025
6. TDSMAN: Section 398 of the Income Tax Act 2025, consequences of TDS defaults
7. Taxguru: New TDS Forms 138 and 140 replace Forms 24Q/26Q from FY2026-27
8. Business Standard: Form 168 vs Form 26AS
9. R Negi & Co: Form 16 and 16A replaced by Forms 130 and 131
10. Section 437, Income-tax Act, 2025: Interest on refunds
11. Income Tax Department: Tax credit mismatch FAQs

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General information only, not tax advice.