SECTION 194A

Deduction of tax at source - Interest other than 'Interest on securities'

Notified Scheme u/s 194A(3)(i)(c) - In exercise of the powers conferred by sub-clause (c) of clause (i) of sub-section (3) of section 194A, the Central Government hereby notifies the Senior Citizens Savings Scheme, 2004, published vide G.S.R. Number 490(E), dated 2nd August, 2004 and as amended from time to time, for the purposes of the said clause - *Notification No. SO 861(E), dated 1-6-2007*

Notified institutions under section 194A(3)(iii)(f):

Institution	*Notification*	
	No.	*Date*
Industrial Credit and Investment Corporation of India Ltd., Bombay Gujarat Co-operative Housing Finance Society Ltd., Ahmedabad	SO 3200	4-9-1967
Maharashtra Co-operative Housing Finance Society Ltd., Bombay	SO 3482	23-9-1967
Andhra Pradesh Industrial Development Corporation Ltd., Hyderabad	SO 4203	2-12-1967
National Industrial Development Corporation Ltd., New Delhi	SO 95	4-1-1968
Madras Industrial Investment Corporation Ltd., Madras	SO 1227	30-3-1968
State Industrial Investment Corporation of Maharashtra Ltd., Bombay	SO 1854	17-5-1968
National Small Industries Corporation Ltd., New Delhi	SO 2149	13-6-1968
Kerala State Industrial Development Corporation Ltd., Trivandrum	SO 2882	24-8-1968
Hindustan Steel Ltd., P.O. Hinoo, Ranchi Minerals & Metals Trading Corporation of India Ltd., New Delhi State Trading Corporation of India Ltd., New Delhi	SO 4222	23-11-1968
Amratlal Ravjibhai Parikh, Ahmedabad	SO 851	22-2-1969
Madhya Pradesh Audyogic Vikas Nigam Ltd., Bhopal	SO 1516	16-4-1969[1]
Madhya Pradesh State Road Transport Corporation, Bhopal	SO 1581	21-4-1969[1]

Gujarat Electricity Board, Baroda	SO 1825	30-4-1969
Hindustan Machine Tools Ltd., Bangalore	SO 2127	22-5-1969
National Textile Corporation Ltd., New Delhi	SO2128	25-5-1969
Agricultural Finance Corporation Ltd., Bombay	SO 2164	22-5-1969
Tea Board Calcutta	SO 3070	22-7-1969
Gujarat State Textile Corporation Ltd., Ahmedabad	SO 4712	21-11-1969
Madhya Pradesh State Textile Corporation Ltd., Madhya Pradesh	SO 825	8-2-1970
Indian Overseas Bank, Madras		
Indian Bank, Madras		
Allahabad Bank, Calcutta		
Dena Bank, Bombay		
Canara Bank, Bangalore	SO 710	16-2-1970[2]
Union Bank of India, Bombay		
United Commercial Bank, Calcutta		
Bank of Baroda, Bombay		
Punjab National Bank, New Delhi		
Bank of India, Bombay		
Central Bank of India, Bombay	SO 710	16-2-1970
United Bank of India, Calcutta		
Bank of Maharashtra, Poona		
Syndicate Bank, Mysore		
District, Taluka, Nagar and Gram Panchayats constituted under the Gujarat Panchayat Act, 1961, within the State of Gujarat	SO 828	24-2-1970
Market Committees established under the State Agricultural Produce Markets Act in various States	SO 2203	16-6-1970
Any corporation established by a Central, State or Provincial Act		
Any company in which all the shares are held (whether singly or taken together) by the Government or the Reserve Bank of India or a corporation owned by that Bank	SO 3489	22-10-1970
Any undertaking or body including a society		

registered under the Societies Registration Act, 1860 (XXI of 1860) financed wholly by the Government		
Cawnpore Anti-Tuberculosis Association, Kanpur	SO 315(E)	29-3-1972
Amratlal Ravjibhai Parikh, Ahmedabad		
Amratlal Ravjibhai Parikh, Baroda	SO 362	16-11-1973
Amratlal Ravjibhai Parikh, Anand		
Amratlal Ravjibhai Parikh, Nadiad		
Maharashtra State Textile Corporation Ltd., Bombay	SO 2479	16-7-1974
Kerala State Textile Corporation Ltd., Cochin	SO 2677	21-9-1974
Steel Authority of India Ltd., New Delhi	SO 1247	11-3-1975
Amratlal Ravjibhai Parikh, Prop. Chandrakant		
Amratlal Parikh, Baroda		
Amratlal Ravjibhai Parikh, Prop. Mukundlal Amratlal Parikh, Nadiad	SO 1533	11-3-1976
Amratlal Ravjibhai Parikh, Prop. Balkrishna Amratlal Parikh, Anand		
Indian Dairy Corporation, Baroda	SO 1684	11-3-1976
Development Corporation of Konkan Ltd., Bombay	SO 1685	11-3-1976
Madras Fertilizers Ltd., Madras	SO 2043	25-5-1979
Tamilnadu Handloom Finance and Trading Corporation Ltd., Madras	SO 4000	26-11-1979
National Textile Corporation (Delhi, Punjab, Rajasthan) Ltd., New Delhi	SO 116	26-12-1979
Pratap Spinning, Weaving and Manufacturing Co. Ltd., Amalner	SO 723	28-2-1980
Housing Development Finance Corpn. Ltd., Bombay	SO 1724	2-6-1980
Management Development Institute, New Delhi	SO 1377	22-4-1981
Textile Corporation of Marathwada Ltd., Aurangabad	SO 3661	11-10-1982
Aspee Agricultural Research and Development Foundation, Bombay	SO 3779	22-10-1982
Fertilisers & Chemicals Travancore Ltd., Udyogamandal	SO 2412	18-5-1983
Army Group Insurance Fund, New Delhi	SO 819	24-2-1984
Air Force Group Insurance Society, New Delhi	SO 2825	5-6-1985

Naval Group Insurance Fund, New Delhi	SO 2551	29-5-1986
West Bengal Electronics Industry Development Corpn. Ltd., Calcutta	SO 621	28-1-1990
West Bengal Industrial Development Corpn. Ltd., Calcutta	SO 110(E)	15-2-1999
Insurance Regulatory and Development Authority	SO 644(E)	5-7-2000
Maulana Azad Education Foundation, New Delhi	SO 252	15-1-2003
Tourism Finance Corporation of India Ltd.	SO 253	15-1-2003
Power Finance Corporation Limited, New Delhi	SO 3355	18-8-2006
India Infrastructure Finance Company Ltd., New Delhi	288	10-12-2007

[F. No. 275/68/2007-IT(B)]

Notified certificates/deposit schemes under section 194A(3)(*vi*):

TABLE

Description of Certificates/Deposit Schemes

1. Post Office Recurring Deposit Account
2. Post Office Time Deposit Account (1 year, 2 years, 3 years and 5 years)
3. Post Office Monthly Income Account
4. Kisan Vikas Patras
5. National Savings Certificates (VIII Issue)
6. Indira Vikas Patras

Notification : No. SO 72(E), dated 24-1-1992.

Notified schemes under section 194A(3)(*vi*):

(*1*) The Scheme of Post Office (Time Deposits) governed by the Post Office (Time Deposits) Rules, 1970.

(*2*) The Scheme of Post Office (Recurring Deposits) governed by the Post Office (Recurring Deposits) Rules, 1970—*Notification : No. SO 2878, dated 1-9-1970.*

(*3*) Investment Deposit Account Scheme, 1986—*Notification : No. SO 4247, dated 11-12-1986.*

Notified certificates :

TABLE

Sl. No.	*Description of Certificates*
1.	National Savings Certificates (V Issue)
2.	National Savings Annuity Certificates
3.	National Savings Certificates (VI Issue)
4.	National Savings Certificates (VII Issue)
5.	Social Security Certificates

Notification : No. SO 2703, dated 1-9-1990.

Point of time for deduction - The material expression in section 194A(1) is 'at the time of credit of such income in the account of the payee. . .' When interest is debited to 'Interest Account', or any other nominal account, the debit is for a specific amount calculated with reference to the deductor's liability to a particular creditor in accordance with the terms and conditions of the loan. What is, therefore, important is that the interest payable to a creditor has constructively been credited to the account of the payee; the apparent nomenclature of the particular account in which the credit is made is not conclusive in the matter. The time for deduction would be when the interest is credited. The time for making the payment of the tax deducted at source would reckon from the date of credit of interest made constructively to the account of the payee which would ordinarily be within one week from the last day of the month in which deduction is made.—*Circular : No. 288 [F. No. 275/46/79-IT(B)], dated 22-12-1980.*

Deposits in joint names - In the case of a deposit in joint names in the absence of any proof to the contrary, both the persons can be treated as payees for the purposes of deduction of tax under section 194A.

Persons responsible for deducting the tax in the absence of any information to the contrary, may aggregate the interest on a joint account with the interest on deposit in the individual's account who has higher interest income.

The certificate of deduction of tax at source under section 203 will be given to the person in whose name the interest on joint account has been aggregated.

Credit for the payment of tax deducted at source under section 199 will be given to the person in whose name the certificate under section 203 has been issued.

If any objection is taken to the deduction of tax at source in the above manner or it is contended that the joint account holders constitute a separate person and no deduction of tax at source should be made, it will be up to them to point it out to the person paying the interest by leading evidence, *i.e.,* by filing affidavits or statements in the manner laid down in the proviso to sub-section (1) of section 194A.—*Circular : No. 256 [F. No. 275/17/79-IT(B)], dated 29-5-1979.*

Interest payable on behalf of Government - The provisions of section 194A are equally applicable to persons responsible for paying such interest on behalf of the Government to any person resident in India. —*Circular : No. 22/68-IT(B) [F. No. 12/23/68-IT(B)], dated 28-3-1968/13-5-1968 as modified by Letter F. No. 12/23/68-IT(B), dated 7-11-1968.*

Discounting of usance bills and hundis - Where the supplier of goods makes over the usance bill/hundi to his bank which discounts the same and credits the net amount to the supplier's account straightaway without waiting for realisation of the bill on due date, the property in the usance bill/hundi passes on to the bank and the eventual collection on due date is a receipt by the bank on its own behalf and not on behalf of the supplier. For such cases of immediate discounting the net payment made by the bank to the supplier is in the nature of a price paid for the bill. Such a payment cannot technically be held as including interest and therefore no tax need be deducted at source from such payments by the bank.

Where there is no immediate discounting and the bank merely acting as agent receives on the expiry of the period the payment for the bill from the buyer on behalf of the supplier and credits it to him accordingly, the bank receives interest on behalf of the supplier and the buyer will have to deduct the tax from the interest.—*Circular: No. 65 [F. No. 275/79/ITJ], dated 2-9-1971.*

Interest paid by consignors to commission agents - Tax will have to be deducted at source in accordance with section 194A from the interest paid by consignors to their commission agents even where such interest is paid under an arrangement whereby the commission agent retains for himself the interest due to him at the time of paying to the consignor the moneys due to him on account of the consignment.—*Letter : F. No. 12/12/68-IT(A-*

II), dated 23-9-1968.

Payments to exempt educational institutions/charitable trusts - So far as an educational institution whose income is exempt from tax under section 10(*22*) is concerned, the provision of section 194A will not apply to it and no deduction of tax at source from interest is required to be made by the payers. As regards a charitable trust whose income is exempt under section 11, a statement in writing may be made by the institution concerned under section 194A, or the institution may apply for a certificate for deduction at a lower rate or for authorisation of non-deduction at source under section 197.—*Letter : F. No. 12/113/68-IT (A-II), dated 28-10-1968.*

Interest under Land Acquisition Act - Interest payments under Land Acquisition Act are covered by section 194A.—*Circular: No. 526, dated 5-12-1988.*

The responsibility for making deduction of tax at source under section 194A, should be that of the Collector (Land Acquisition) or any other authority empowered under the Land Acquisition Act, 1894, to acquire land for a public purpose as laid down by that Act. When the concerned parties, whose land has been acquired, go to the court of law, seeking higher compensation (with interest) and the court allows their claims, the concerned authority which had acquired their land, shall, while paying the compensation deduct tax at source from the amount of interest forming part of the compensation and deposit the remaining amount with the court of law, for disbursement to the successful litigants. The same authority shall also issue the TDS certificates to the concerned parties in the prescribed form—*Letter : F. No. 275/109/92-IT(B), dated 21-9-1994.*

Interest on time deposits with banks - Only the interest paid/credited by banks on time deposits after 1-10-1991 will be liable for deduction of tax at source at the specified rate. The interest paid/credited during the period 1-4-1991 to 30-9-1991 will be reckoned only for the purpose of seeing whether the aggregate interest paid/credited during the financial year exceeds the limit of Rs. 2,500—*Circular: No. 626, dated 12-2-1992.*

Interest on cumulative deposits/debentures/bonds - In respect of cumulative deposits/debentures/bonds tax is required to be deducted at source every time the interest is credited in the account books of the payer and is not to be postponed till the maturity of the deposit/debenture/bond—*Circular : No. 643, dated 22-1-1993.*

Commercial papers/Certificates of Deposits - The difference between the issue price and the face value of the Commercial Papers and the Certificates of Deposits is to be treated as 'discount allowed' and not as 'interest paid'. Hence, the provisions of the Income-tax Act relating to deduction of tax at source are not applicable in the case of transactions in these two instruments.—*Circular : No. 647, dated 22-3-1993.*

Reinvestment term deposits - In the case of reinvestment term deposit, tax has to be deducted at source at the time of credit of interest to the account of the payee or at the time of payment thereof, whichever is earlier. If credit is given to the account of the payee or payment is made to him annually, the tax may be deducted annually. It is clarified that a credit to interest payable account or suspense account, etc., is also taken as credit to the account of the payee, even though this credit is not reflected separately in the payee's account—*Circular : No. 715, dated 8-8-1995.*

Variable deposits - As variable deposits are in the nature of time deposits, tax is deductible at source from interest on such deposits—*Circular : No. 715, dated 8-8-1995.*

Retrospective renewal of time deposits - When a time deposit is renewed retrospectively, the relevant date for deciding the applicability of section 194A would be that date of renewal. Thus, if the time deposit is renewed on or after 1-7-1995, the tax deduction at source will have to be made from interest paid or credited in respect of such a time deposit—*Circular : No. 715, dated 8-8-1995.*

Deposits in co-operative banks - A member of a co-operative bank shall receive interest on both time deposits and deposits other than time deposits with such co-operative bank without TDS under section 194A by virtue of the exemption granted *vide* clause (*v*) of sub-section (3) of the said section. The provisions of clause (*viia*) of the said sub-section are applicable only in case of a non-member depositor of the co-operative bank, who shall receive interest only on deposits other than time deposits made on or after 1-7-1995 without TDS under section 194A.

A question has also been raised as to whether nominal members, associate members and sympathizer members are also covered by the exemption under section 194A(3)(*v*). It is hereby clarified that the exemption is available only to such members who have joined in application for the registration of the co-operative society and those who are admitted to membership after registration in accordance with the bye-laws and rules. A member eligible for exemption under section 194A(3)(*v*) must have subscribed to and fully paid for at least one share of the co-operative bank, must be entitled to participate and vote in the General Body Meetings and/or Special General Body Meetings of the co-operative bank and must be entitled to receive share from the profits of the co-operative bank.—*Circular : No. 9/2002, dated 11-9-2002*.*

Exemption to Sri Sathya Sai Trusts qua cases covered by sections 194A, 194-I & 194K - In the cases of Sri Sathya Sai Central Trust, Shri Sathya Sai Medical Trust and Shri Sathya Sai Institute of Higher Learning, Bangalore, the incomes by way of—

(*i*) interest other than 'income by way of interest on securities',

(*ii*) rent, and

(*iii*) income in respect of units of a Mutual Fund specified under section 10(*23D*) or of the Unit Trust of India,

may be paid to these Institutions without deduction of income-tax at source. The provisions of this circular shall be applicable for the financial years 2002-03 and 2003-04 (assessment years 2003-04 and 2004-05). —*Circular : No. 12/2002, dated 22-11-2002.*

Exemption to Sri Ram Chandra Mission qua cases covered by sections 193, 194, 194A and 194K - In the case of Shri Ram Chandra Mission, Chennai, the incomes by way of—

(*i*) Interest on securities,

(*ii*) Dividends,

(*iii*) Interest other than 'income by way of interest on securities', and

(*iv*) Income in respect of units of a Mutual Fund specified under section 10(*23D*) or of the Unit Trust of India,

may be paid to the Mission without deduction of income-tax at source. The provisions of this circular shall be applicable for the financial years 2002-03 and 2003-04 (assessment years 2003-04 and 2004-05)—*Circular : No. 2/2003, dated 11-3-2003.*

Exemption to World Renewal Spiritual Trust qua cases covered by sections 193, 194A & 194K - In the case of World Renewal Spiritual Trust, Mumbai, the incomes by way of—

(*i*) Interest on securities,

(*ii*) Interest other than 'income by way of interest on securities', and,

(*iii*) Income in respect of units of a Mutual Fund specified under section 10(*23D*) or of the Unit Trust of India,

may be paid to the Trust without deduction of income-tax at source. The provisions of this circular shall be applicable for the financial years 2002-03 and 2003-04 (assessment years 2003-04 and 2004-05)—*Circular : No. 3/2003, dated 11-3-2003.*

Other exemptions - *See* section 193.