

### **Illustration – 1**

Essem Enterprises, a partnership firm took a loan of Rs. 8,40,000 from a person resident in India. Interest on loan for the financial year 2021-22 amounted to Rs. 84,000. Should the firm deduct tax at source from the interest?

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Tax is to be deducted under section 194A on interest (other than interest on securities).

Tax is to be deducted if the interest is paid to a resident. In this case, the firm has paid interest (other than interest on securities) to a resident and hence, the firm has to deduct tax under section 194A from interest of Rs. 84,000 paid by it.

### **Illustration – 2**

Essem Enterprises, a partnership firm took a loan of Rs. 8,40,000 from a non-resident. Interest on loan for the financial year 2021-22 amounted to Rs. 84,000. Should the firm deduct tax at source from the interest?

Tax is to be deducted under section 194A on interest (other than interest on securities).

Tax is to be deducted if the interest is paid to a resident. In this case, the firm has paid interest (other than interest on securities) to a non-resident and hence, the firm is not liable to deduct tax at source under section 194A. However, section 195 requires deduction of tax at source from payment made to a non-resident. Hence, the firm is not required to deduct tax at source under section 194A but it is required to deduct tax at source under section 195.

### Illustration 3

Mr. Rajat is running a garment factory. The total turnover of the factory during the financial year 2020-21 amounted to Rs. 1,84,00,000. On 1-4-2021, he took a loan from his relative residing in Delhi (the funds were used in business). Interest on loan for the financial year 2021-22 amounted to Rs. 84,000. Should Mr. Rajat deduct tax from the interest of Rs. 84,000?

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As per section 194A, an individual or a HUF has to deduct tax from interest (other than interest on securities) if his turnover or gross receipts, during the preceding financial year exceeds Rs. 1 crore in case of business and Rs. 50 lakhs in case of a profession. In this case, interest pertains to the financial year 2021-22. Thus, if in the financial year 2020-21, turnover or gross receipts of Mr. Rajat exceeds this limit, then he will be liable to deduct tax on interest of Rs. 84,000 to be paid by him in the financial year 2021-22. In this case, the turnover of Mr. Rajat for the financial year 2020-21 is Rs. 1,84,00,000 which is above Rs. 1,00,00,000. As the turnover or gross receipts of Mr. Rajat during the financial year 2020-21 exceeds the prescribed limit of Rs. 1 crore, he is liable to deduct tax in respect of interest paid by him during the financial year 2021-22

### Illustration – 3

Kumar & Co. a partnership firm is engaged in the business of trading of food grains. The total turnover of the firm during the financial year 2020-21 amounted to Rs. 84,00,000. On 1-4-2021, it took a loan from a friend of one of its partners (resident of Agra).

Interest on loan for the financial year 2021-22 amounted to Rs. 75,000. Should the firm deduct tax from interest of Rs. 75,000?

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As per section 194A, any person other than an individual or a HUF has to deduct tax from interest (other than interest on securities) irrespective of turnover or gross receipts during the preceding financial year. Hence, the firm has to deduct tax from interest paid by it.

#### Illustration 4

Essem Industries, a partnership firm has taken a loan of Rs. 8,40,000 from Mr. Kumar residing in Mumbai (friend of one of its partners). Interest on loan for the financial year 2021-22 amounted to Rs. 84,000. The interest is credited to the account of Mr. Kumar in the month of March 2022, but the same is actually paid in the month of May 2022.

When is the firm liable to deduct tax, in March 2022 or in May 2022?

As per section 194A, tax is to be deducted at the time of payment or credit of interest (to any account by whatever name called), whichever is earlier.

In this case, interest is credited to the account of the payee in March 2021 and the same is actually paid in the month of May 2021. In other words, the time of credit is March 2022 and the time of payment is May 2021, hence, the liability to deduct tax will arise in the month of March 2021.

Essem Enterprise., a partnership firm took a loan of Rs. 8,400 from Mr. Kumar residing in Mumbai (friend of one of its partners). Interest on this loan for the year 2021-22 amounted to Rs. 840. Is the firm required to deduct tax at source from interest paid by it?

As per section 194A, no tax is to be deducted if the aggregate amount of interest during the financial year does not exceed Rs. 5,000. In this case, the amount of annual interest is Rs. 840 i.e. below Rs. 5,000 and hence, the firm is not liable to deduct tax from the amount of interest of Rs. 840.

SM & Co., a partnership firm took a loan of Rs. 84,000 from Mr. Kamal residing at Delhi (friend of one of its partners). Interest on this loan for the year 2021-22 amounted to Rs. 8,400. Is the firm required to deduct tax at source from interest paid by it? If yes, then should it deduct tax on Rs. 8,400 or on Rs. 3,400 (i.e. excess over Rs. 5,000)?

As per section 194A, no tax is to be deducted if the aggregate amount of interest during the financial year does not exceed Rs. 5,000. Once the amount of interest exceeds Rs. 5,000, then tax is to be deducted on the entire amount. In this case, the amount of annual interest is Rs. 8,400 i.e. above Rs. 5,000 and hence, the firm is liable to deduct tax from entire amount of Rs. 8,400.

As per section 194A, no tax is to be deducted if the aggregate amount of interest during the financial year does not exceed Rs. 5,000. However, the limit of Rs. 5,000 is increased to Rs. 40,000 in case of interest paid/payable by banking company or co-operative society carrying on banking business and post office. Hence, in this case, the applicable limit will be Rs. 40,000.

The annual interest is below Rs. 40,000 and hence, the bank will not deduct tax from the interest of Rs. 34,000.

### Illustration 5

**Mr. Kapoor (Age 54 Years) has made a fixed deposit with ABC Bank. The annual interest on deposit will amount to Rs. 55,000. Should the bank deduct tax at source from the interest to be paid to Mr. Kapoor? If yes, then should it deduct tax on Rs. 55,000 or on Rs. 15,000 (i.e. on excess over Rs. 40,000)?**

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**As per section 194A, no tax is to be deducted if the aggregate amount of interest during the financial year does not exceed Rs. 5,000. However, the limit of Rs. 5,000 is increased to Rs. 40,000 in case of interest paid/payable by banking company or co-operative society carrying on banking business and post office. Once the interest exceeds the above limit, tax is to be deducted on the entire amount of interest. The annual interest in this case exceeds Rs. 40,000 and hence, bank has to deduct tax on the total interest of Rs. 55,000.**

**Mr. Kapoor (Age 64 Years) has made a fixed deposit with ABC Bank. The annual interest on deposit will amount to Rs. 44,000. Should the bank deduct tax at source from the interest to be paid to Mr. Kapoor?**

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**As per section 194A, no tax is to be deducted if the aggregate amount of interest during the financial year does not exceed Rs. 5,000. However, the limit of Rs. 5,000 is increased to Rs. 50,000 in case of interest paid/payable to a resident senior citizen by banking company or co-operative society carrying on banking business and post office.**

**Once the interest exceeds the above limit, tax is to be deducted on the entire amount of interest.**

**The annual interest in this case does not exceed Rs. 50,000 and hence, bank shall not deduct tax on the total interest of Rs. 44,000.**



## **Illustration 6**

**SM Traders, a partnership firm has taken a loan from Mr. Kumar residing in Delhi (friend of one of its partners). The annual interest on the loan amounted to Rs. 84,000. Mr. Kumar has furnished the copy of his PAN card. At what rate the firm has to deduct tax from the interest?**

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**In respect of interest other than interest on securities, tax is to be deducted @ 10%. Tax is to be deducted at a higher rate if the payee does not furnish his PAN. In this case, Mr. Kumar has furnished his PAN and hence, tax is to be deducted @ 10%. The firm has to deduct tax of Rs. 8,400 (10% of Rs. 84,000) from interest to be paid to Mr. Kumar.**

## **Illustration 7**

**M/s. X & Co., partnership firm, pays ₹ 15000 as interest on capital to partner Mr. R, a resident in India and ₹ 25000 as interest on capital to partner Mr. N, a non-resident.**

**In such a case, as per section 194A tax is not to be deducted from interest paid or payable by a partnership firm to its partner, who is resident in India. Hence, the firm need not deduct tax at source from payment of interest to its partner, Mr. R.**

**However, payment of interest by the firm to its non-resident partner is not governed by Section 194A. The same is governed by Section 195, which requires deduction of tax at source from interest paid or payable to any non-resident.**

**4) Interest is paid/ credited in respect of deposits under the schemes of Post Office (Time Deposits), Post Office (Recurring Deposits), Post Office Monthly Income A/c, Kisan Vikas Patra, NSC VIII Issue, Indira Vikas Patra. Interest on PPF account is exempt u/s 10. Hence no TDS required.**

**5) Interest paid/credited in respect of deposits (by non-members) with a primary agricultural credit society or primary credit society or co-operative land mortgage bank or co-operative land development bank. In order to extend the scope of this section to interest paid by large co-operative society, it is amended to provide that a co-**

**operative society referred to in sub section (3)(v) or (viia) shall be liable to deduct income-tax,**

**if-**

**a. the total sales, gross receipts or turnover of the co-operative society exceeds ₹ 50 crore during the financial year immediately preceding the financial year in which the interest is credited or paid; and**

**b. the amount of interest, or the aggregate of the amount of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than ₹ 50,000 in case of payee being a senior citizen and ₹ 40,000, in any other case.**

**6). Interest paid/credited by Central Govt. under different provisions of Direct Taxes.**

**7). Interest paid/credited on compensation awarded by the Motor Accidents Claim Tribunal if the aggregate amount does not exceed ₹50,000. Threshold limit of ₹50,000 is applicable separately where interest is to be shared by 2 or more claimants. (w.e.f. 1<sup>st</sup> June 2015, deduction of tax u/s 194A from interest payment on the compensation amount awarded by the Motor Accident Claim Tribunal shall be made only at the time of payment, if the amount of such payment or aggregate amount of such payments during the FY exceeds ₹50,000.)**

## **Illustration 8**

**Why does NHB deduct TDS with a ceiling of Rs.5000/- p.a. whereas it is Rs.10,000/-p.a. for banks?**

**As per Section 194A of the Income Tax Act, TDS with a ceiling of Rs.10,000 is deducted in case of following Institutions:**

- a. where the payer is a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution, referred to in section 51 of that Act);**
- b. where the payer is a co-operative society engaged in carrying on the business of banking;**
- c. on any deposit with post office under any scheme framed by the Central Government and notified by it in this behalf;**

**And in any other case TDS is deducted with a ceiling of Rs.5000/p.a.. As NHB does not fall in any of the above stated category of Institutions, it deducts TDS with a ceiling of Rs.5000/- p.a.**