Interest on securities [Section 193]

(1) Person responsible for deduction of tax at source

This section casts responsibility on every person responsible for paying to a resident any income by way of interest on securities.

(2) Rate of TDS

Such person is vested with the responsibility to deduct income-tax at the rates in force from the amount of interest payable.

The rate at which tax is deductible under section 193 is **10%**, both in the case of domestic companies and resident non-corporate assesses.

(3) Time of tax deduction at source

Tax should be deducted at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Where any income by way of interest on securities is credited to any account in the books of account of the person liable to pay such income, such crediting is deemed to be credit of such income to the account of the payee and tax has to be deducted at source. The account to which such interest is credited may be called “Interest Payable account” or “Suspense account” or by any other name.

(4) Non-applicability of TDS under section 193

No tax deduction is to be made from any interest payable:

(i) on 4¼% National Defence Bonds 1972, where the bonds are held by an individual not being a non-resident;

(ii) on 4¼% National Defence Loan, 1968 or 4¾% National Defence Loan, 1972, where the interest is payable to an individual;

(iii) on National Development Bonds;

(iv) on 7-year National Savings Certificates

(v) On debentures issued by any institution or authority or any public sector company or any co-operative society (including a co-operative land mortgage bank or a co- operative land development bank), as notified by the Central Government;

(vi) on 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980, where the bonds are held by an individual (other than a non-resident), provided that the holders of the bonds make a written declaration that the total nominal value of the bonds held by him or on his behalf did not in either case exceed Rs. 10,000 at any time during the period to which the interest relates;

(vii) on any security of the Central Government or a State Government;

Note – It may be noted that tax has to be deducted at source in respect of interest payable on 8% Savings (Taxable) Bonds, 2003, or 7.75% Savings (Taxable) Bonds, 2018, only if such interest payable exceeds ` 10,000 during the financial year.

(viii) on any debentures (whether listed or not listed on a recognized stock exchange) issued by the company in which the public are substantially interested to a **Resident individual or HUF**. However,

(a) the interest should be paid by the company by an account payee cheque;

(b) the amount of such interest or the aggregate thereof paid or likely to be paid during the financial year by the company to such resident individual or HUF should not exceed Rs. 5,000.

(ix) on securities to LIC, GIC, subsidiaries of GIC or any other insurer, provided –

(a) the securities are owned by them or

(b) they have full beneficial interest in such securities.

(x) on any security issued by a company, where such security is in Dematerialised form (DEMAT) and is listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 and the rules made thereunder.

Dividend [Section 194]

(1) Applicability of TDS under section 194

The principal officer of a Domestic company is required to deduct tax on dividend distributed or paid by it to its resident shareholders.

The provisions of tax deduction at source under section 194, therefore, applies only to dividend distributed or paid to resident shareholders.

(2) Rate of TDS

The rate of deduction of tax in respect of such dividend is **10%**.

(3) Time of tax deduction at source

The deduction of tax has to be made before making any payment by any mode in respect of any dividend or before making any distribution or payment to a resident shareholder of any amount deemed as dividend.

Non-applicability of TDS under section194

(i) No tax is to be deducted in case of a shareholder, being an individual, where -

(a) the dividend is paid by any mode other than cash; and

(b) the amount of such dividend or aggregate of dividend distributed or paid or likely to be distributed or paid during the financial year by the company to such shareholder does not exceed Rs. 5,000.

(ii) The TDS provisions will **not** apply to such dividend credited or paid to

- LIC, GIC, subsidiaries of GIC or any other insurer provided the shares are owned by them, or they have full beneficial interest in such shares

(iii) *Any other person as may be notified by the Central Government.*

Interest other than interest on securities [Section 194A]

This section deals with the scheme of deduction of tax at source from interest other than interest on securities. The main provisions are the following:

(1) Applicability of TDS under section 194A

This section applies only to interest, other than "interest on securities", credited or paid by assesses other than individuals or Hindu undivided family.

However, an individual or Hindu undivided family whose total sales, gross receipts or turnover from the business or profession carried on by him **exceed Rs. 1 crore** in case of business and **Rs. 50 lakhs** in case of profession during the immediately preceding financial year is liable to deduct tax at source under this section.

These provisions apply only to interest paid or credited to residents.

(2) Time of tax deduction at source

The deduction of tax must be made at the time of crediting such interest to the payee or at the time of its payment in cash or by any other mode, whichever is earlier.

(3) Rate of TDS

The rate at which the deduction is to be made is given in Part II of the First Schedule to the Annual Finance Act. The rate at which tax is to be deducted is 10% both in the case of resident non-corporate assessees and domestic companies.

(4) Non-applicability of TDS under section 194A

No deduction of tax shall be made in the following cases:

(a) If the aggregate amount of interest paid or credited during the financial year does not exceed Rs. 5,000.

(b) This limit is Rs. 40,000 where the payer is a –

(i) banking company;

(ii) Co-operative society engaged in banking business; and

(iii) post office and interest is credited or paid in respect of any deposit under notified schemes.

Note: In respect of (i), (ii) and (iii) above, the limit is Rs. 50,000, in case of payee, being a senior citizen.

Note: The limit will be calculated with respect to income credited or paid by all branch of a banking company or a co-operative society or a public company.

(c) **Interest paid or credited by a firm to any of its partners;**

(d) **Interest paid or credited in respect of deposits under any scheme framed by the Central Government and notified by it in this behalf**;

(e) **Income paid or credited by a co-operative society (other than a co-operative bank) to a member** thereof or to such income credited or paid by a co-operative society to any other co-operative society;

However, a cooperative society referred to in (f) is liable to deduct tax if –

(i) the **total sales, gross receipts or Turnover of the co-operative society exceeds Rs. 50 crores during the financial year immediately preceding the financial year** in which interest is credited or paid;

and

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

(f) **Interest income credited or paid by the Central Government under any provisions of the Income-tax Act, 1961.**

(g) **Interest paid or credited to the following entities:**

1. **Banking companies, or Co-operative societies engaged in the business of banking, including co-operative land mortgage banks;**

2. **Financial corporations established under any Central, State or Provincial Act.**

3. **the Life Insurance Corporation of India.**

4. **companies and co-operative societies carrying on the business of insurance.**

5. **the Unit Trust of India; and**

6. **notified institution, association, body or class of institutions, associations or bodies (National Skill Development Fund and Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi have been notified by the Central Government for this purpose)**

(i) Income credited by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal;

(j) Income paid by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal where the amount of such income or, as the case may be, the aggregate of the amounts of such income paid during the financial year does not exceed Rs. 50,000.

(k) income paid or payable by an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or public sector company or scheduled bank in relation to a Zero Coupon Bond issued on or after 1.6.2005.

Note: A zero-coupon bond, also known as an accrual bond, is a debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full-face value.

Illustration:

Examine the TDS implications under section 194A in the cases mentioned hereunder –

1. ***On 1.10.2021, Mr. Mukesh, aged 45 years, made a six-***

month fixed deposit of Rs. 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2022.

2. On 1.6.2021, Mr. Ganesh, aged 35 years, made three nine months fixed deposits of Rs. 3 lakh each, carrying interest @ 9% with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2022.

3. On 1.10.2021, Mr. Rajesh, aged 40 years, started a six months recurring deposit of Rs. 2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2022.

SOLUTION

1. ABC Co-operative Bank has to deduct tax at source@ 10% on the interest of ` 45,000 (9% × ` 10 lakh × ½) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs. 4,500.
2. XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ` 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ` 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ` 60,750 exceeds the threshold limit of ` 40,000, tax has to be deducted@10% u/s 194A.
3. No tax has to be deducted under section 194A by PQR Bank on the interest of ` 28,000 falling due on recurring deposit on 31.3.2022 to Mr. Rajesh, since such interest does not exceed the threshold limit of ` 40,000.