

**CIRCULAR NO- 03/2010.**

**F.No.275/66/2007-IT (B)  
Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes**

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New Delhi, the 2<sup>nd</sup> March, 2010.

**Sub: Tax Deduction at Source on payment of interest on time deposits under Section 194A of the Income Tax Act, 1961 by banks following Core-Branch Banking Solutions (CBS) software – reg.**

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As per provisions of section 194A of the Income Tax Act 1961, income tax has to be deducted at source at the time of credit of interest 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, at the rates in force if such interest amount exceeds specified limit. Further, Explanation to section 194A states that *“for the purpose of this section, where any income by way of interest as aforesaid is credited to any account, whether called ‘Interest payable account’ or ‘Suspense Account’ or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly”*.

2. Representations have been received from Indian Banks Association (IBA) seeking clarification regarding deduction of tax at source from payment of interest on time deposits by banks using Core-Branch Banking Solutions (CBS) software. In case of banks using CBS software, interest payable on time deposits is calculated generally on daily basis or monthly basis and is swept & parked accordingly in the provisioning account for the purposes of macro-monitoring only. However, constructive credit is given to the depositor’s / payee’s account either at the end of the financial year or at periodic intervals as per practice of the bank or as per the depositor’s / payee’s requirement or on maturity or on encashment of time deposits; whichever is earlier.

3. The matter has been considered by the Board. Explanation to section 194A was introduced with effect from 1.4.1987 by the Finance Act, 1987 to plug the loophole of avoiding deduction of tax at source by crediting interest in the books of accounts under accounting heads ‘interest payable account’ or ‘suspense account’ instead of to the depositor’s / payee’s account. Therefore, the

Explanation is not meant to apply in cases of banks where credit is made to provisioning account on daily/monthly basis for the purposes of macro monitoring only by the use of CBS software.

4. In view of the above position, it is clarified that since no constructive credit to the depositor's / payee's account takes place while calculating interest on time deposits on daily or monthly basis in the CBS software used by banks, tax need not be deducted at source on such provisioning of interest by banks for the purposes of macro monitoring only. In such cases, tax shall be deducted at source on accrual of interest at the end of financial year or at periodic intervals as per practice of the bank or as per the depositor's / payee's requirement or on maturity or on encashment of time deposits; whichever event takes place earlier; whenever the aggregate of amounts of interest income credited or paid or likely to be credited or paid during the financial year by the banks exceeds the limits specified in section 194A.

Hindi version to follow.

(Ansuman Pattnaik)  
Director (Budget)

Copy to:-

1. All Chief Commissioners and Director Generals of Income Tax.
2. All CIT (TDS).
3. The Chairman, Members and other offices in CBDT of the rank of Under Secretary and above.
4. DIT (TDS), DIT (Recovery), DIT (System), DIT (DOMS), DIT (Vigilance) and DIT (IT).
5. 100 copies to DIT (PR, PP & OL) for printing in the quarterly tax bulletin and for circulation as per their usual mailing list.
6. The Comptroller and Auditor General of India (40 copies).
7. Guard File.

(Ansuman Pattnaik)  
Director (Budget)