

## **Brief Note on Provisions of Section 194A(3)(v)** **relating to Co-operative Banks**

- **Section 194A of the Income-tax Act, 1961 (“the Act”) was introduced through the Finance Act, 1967 with effect from 1<sup>st</sup> April, 1967. Clause (v) of the sub-section (3) of section 194A specifies that a co-operative society is not required to deduct tax at source, if the interest is paid or credited to the members of the society or any other co-operative society. Of late, the Income-tax authorities were of the view that a co-operative bank is not a co-operative society and were denying the benefit provided in the above provisions to co-operative banks and making huge additions. Two contrary views with regard to the applicability of provisions of Section 194A(3)(v) to co-operative banks have been expressed by various Income-tax Appellate Tribunals.**
- **The Central Board of Direct Taxes (CBDT) had clarified the applicability of the provisions of Section 194A(3)(v) to co-operative banks vide its Circular No.9/2002 dated 11<sup>th</sup> September 2002 that a co-operative bank is not required to deduct tax at source on interest on deposits of members. Hence, it is clear that Co-operative banks are Co-operative societies and are therefore, entitled for the benefits provided under section 194A(3)(v).**
- **The provisions of section 194A(3)(v) of the Act were amended in the Finance Act, 2015 with effect from 1<sup>st</sup> June, 2015 so as to mandate a co-operative bank to deduct tax at source on interest paid or credited to its members. Despite the fact that the above provisions were amended with effect from 1<sup>st</sup> June, 2015, the income-tax officers / authorities were still of the view that co-operative banks were liable to deduct tax on interest paid or credited to its members even for the earlier periods.**

- However, the CBDT vide its Circular No.19/2015 dated 27<sup>th</sup> November, 2015 has issued Explanatory Notes to the Provisions of the Finance Act, 2015 clarifying the applicability of the amended provisions. In para 42.5 of the above circular, it is very clearly mentioned that co-operative banks are not required to deduct tax from payment of interest on time deposits of its members paid or credited before 1<sup>st</sup> June, 2015.
- For ready reference, the extract of Para 42.5 of the explanatory notes is reproduced hereunder:

**42.5 In view of this, the provisions of the section 194A(3)(v) of the Income-tax Act have been amended so as to expressly provide that the exemption provided from deduction of tax from payment of interest to members by a co-operative society under section 194A(3)(v) of the Income-tax Act shall not apply to the payment of interest on time deposits by the co-operative banks to its members. As this amendment is effective from the prospective date of 1<sup>st</sup> June, 2015, the co-operative bank shall be required to deduct tax from the payment of interest on time deposits of its members, on or after the 1<sup>st</sup> June, 2015. Hence, a cooperative bank was not required to deduct tax from the payment of interest on time deposits of its members paid or credited before 1<sup>st</sup> June, 2015.**

- From the above clarification issued by the CBDT, it is very clear that co-operative banks are required to deduct tax on interest on time deposits paid or credited to its members only on or after 1<sup>st</sup> June, 2015. Hence, a co-operative bank was not required to deduct tax on interest on time deposits of its members paid or credited before 1<sup>st</sup> June, 2015.