



Income Tax Department

Ministry of Finance, Government of India

FINANCIAL YEAR 1993-94

1710. Instructions for deduction of tax at source from interest on securities - Rate of deduction from interest on securities during financial year 1993-94

1. Reference is invited to the Board's Circular No. 630, dated 11-8-1992 regarding deduction of income-tax at source from the payment of interest on securities for the financial year 1992-93.
2. According to the provisions of section 193 of the Income-tax Act, 1961, the person responsible for paying any income by way of interest on securities shall, 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, deduct income-tax at the rates in force on the amount of interest payable. For this purpose, credit to any suspense account or any other account (by whatever name called) shall be deemed to be a credit of such income to the account of the payee.
3. For the financial year 1993-94, there is no change in the basic rates of tax and surcharge insofar as they relate to deduction of tax at source from the payment of interest on securities. The applicable rates are given in Part II of the First Schedule to the Finance Act, 1993. Briefly stated, these are as follows :—

(A) In the case of a payee other than a company,—

(i) where the payee is resident in India,—

- (a) On income by way of interest payable on any security, other than tax-free security, of the Central or State Government; 10 per cent
- (b) on income by way of interest payable on any debentures or other securities for money issued on behalf of any local authority or a corporation established by a Central, State or Provincial Act; 10 per cent
- (c) on income by way of interest on any debentures issued by a company where such debentures are listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956, and any rules made thereunder; 10 per cent
- (d) on any other income (excluding interest payable on tax-free security); 20 per cent

(ii) Where the payee is not resident in India (whether he is a non-resident Indian or any other person),—

- (a) on income by way of interest payable on a tax-free security;— 15 per cent
- (b) on the whole of the other Income 30 per cent of such income

OR

the amount of tax computed on such income at the rates prescribed in Sub-paragraph 1 of Paragraph A of Part III of the First Schedule to the Finance Act, 1993 (vide Annexure I), if such income had been the total income, whichever is higher.

(B) In the case of a company,—

- (i) where the company is a domestic company on income by way of interest on security (excluding interest payable on a tax-free security); 21.5 per cent
- (ii) where the company is not a domestic company,—
- (a) on income by way of interest on a tax-free security; 44 per cent
- (b) on income by way of interest on other securities; 65 per cent.

4. Surcharge —The amount of the tax deducted as per the rates given above shall be increased,—

- (i) by surcharge, for the purposes of the Union, @ 10% of such income-tax in the case of a resident person other than a company;
- (ii) by a surcharge @ 15% of such income-tax in the case of a domestic company.

5. It may be noted that,—

- (a) Tax will be deducted at source under section 193 at the time of credit to the account of the payee or at the time of payment thereof, whichever is earlier. For this purpose, credit to any suspense account or any other account, by whatever name called, shall be deemed to be a credit of such income to the account of the payee.
- (b) Tax will not be deducted at source from any interest payable to a resident individual on debentures issued by a company in which the public are substantially interested, being debentures listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956, and, any rules made thereunder, if the interest is paid by the company by an account payee cheque and the amount of such interest or, as the case may be, the aggregate amount of such interest paid or, likely to be paid, during the financial year by the company to such individual does not exceed Rs. 2,500.
- (c) Tax will not be deducted at source under section 193 in the case of a resident individual who makes a declaration in Form No. 15F (vide Annexure II) as provided by section 197A, to the effect that tax on his estimated total income of the financial year 1993-94 will be nil. A copy of such declaration should be forwarded by the tax deductor on or before the seventh day of the month next following the month in which the declaration is received by him, to the Chief Commissioner/Commissioner of Income-tax concerned, as provided in rule 29C(5) of the Income-tax Rules, 1962.
- (d) No tax will be deducted at source or it will be deducted at a lower rate in the case of a person (including a company) where a certificate under section 197 is issued by the Assessing Officer on, or after 1st April, 1993, specifying the rate of such deductor of tax at source. Where such exemption on abatement certificate has been issued before 1st April, 1993, it should be accepted and acted upon, if it is operative for the financial year ending on 31st November, 1994.
- (e) No tax should be deducted in cases in which, from a certificate issued by the Income-tax Officer/Assessing Officer, or otherwise, the tax deductor is satisfied that the payee is a person exempt from payment of income-tax under sections 10 to 13A of the Income-tax Act, 1961.
- (f) No tax should be deducted from interest payable on securities/bonds/debentures which have been specifically exempted from the requirement of tax deduction at source under the proviso to section 193, or, which have been specified by the Central Government by notification in the Official Gazette under the proviso to section 193.
- (g) No tax should be deducted from any sum payable in respect of any security owned by a corporation established by, or, under a Central Act, which under any law for the time being in force is exempt from income-tax on its income. For instance, payment made to the Life Insurance Corporation, Unit Trust of India and the Small Industries Development Bank of India (SIDBI) are exempt from the requirement of tax deduction at source by virtue of their respective Acts.
- (h) The term 'domestic company' means an Indian company or any other company which, in respect of its income liable to tax under the Income-tax Act, 1961, has made the prescribed arrangements for the declaration and payment within India, of the dividends (including dividends on preference shares) payable out of such income.



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(f) As provided by section 288B of the Income-tax Act, 1961, fractions of one rupee contained in the amount of tax will have to be rounded off to the nearest rupee by ignoring amounts less than fifty paise, and, increasing amounts of fifty paise or more to one rupee. Hence, the amount of tax to be deducted at source should be rounded off to the nearest rupee in accordance with the aforesaid provision of the Act.

6. The responsibilities, obligations, etc., under the Income-tax Act, of the person deducting tax at source, are as follows:—

- (a) According to the provisions of section 200, any person deducting any sum in accordance with the provisions of section 193 is required to pay within the prescribed time (as laid down in rule 30 of the Income-tax Rules, 1962) the sum so deducted to the credit of the Central Government. In the case of deduction by or on behalf of the Government, the sum has to be paid on the day of deduction itself. In other cases, normally, the sum has to be paid within one week from the last day of the month in which the deduction is made. If a person fails to pay tax to the credit of the Central Government, he shall be liable to action under the provisions of section 201. Sub-section (1A) of section 201 lays down that such person shall also be liable to pay simple interest at fifteen per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid. Further, section 271C lays down that if any person fails to deduct tax at source, he shall be liable to pay by way of penalty a sum equal to the amount of tax which he failed to deduct at source. In this regard, attention is also invited to the provisions of section 276B which lays down that if a person fails to pay to the credit of the Central Government the tax deducted at source by him, he shall be punishable with rigorous imprisonment for a term which shall not be less than 3 months but which may extend to 7 years, and with fine.
- (b) According to the provisions of section 203, every person deducting tax at source is required to furnish a certificate to the effect that tax has been deducted and to specify therein the amount so deducted and certain other particulars. The certificate has to be furnished in Form No. 16A (Copy enclosed at Annexure III within the prescribed period of one month and fourteen days to the person to whose account credit is given or to whom payment is made by any mode, as the case may be). Form No. 16A can be issued by the tax deductors on their own stationery. Detailed instructions regarding the use of these forms are contained in Board's Circular No. 597 [F. No. 275/42/91-IT(B)] dated 27-3-1991. If a person fails to furnish a certificate as required under section 203, he shall be liable to pay, by way of penalty under section 272A(2), a sum which shall not be less than Rs. 100 but which may extend to Rs. 200 for every day during which the failure continues.
- (c) According to the provisions of section 203A, it is obligatory for all persons responsible for deducting tax at source to obtain and quote the tax deduction account number (TAN) in the challans, TDS certificates, returns, etc. Detailed instructions in this regard are available in the Board's Circular No. 497 [F. No. 275/118/87-IT(B)] dated 9-10-1987. If a person fails to comply with provisions of section 203A, he shall be liable to pay, by way of penalty under section 272BB, a sum up to Rs. 5,000.
- (d) According to the provisions of section 206, read with rules 36A and 37 of the Income-tax Rules, the prescribed person in the case of every company, the prescribed person in the case of every office of Government, the principal officer in the case of every local authority or other public body or association, every private employer and every other person responsible for deducting tax at source under the various provisions of the Act shall prepare and deliver by the prescribed date the annual return of deduction of tax at source to the designated/concerned Assessing Officer. In the case of deduction of tax at source from interest on securities, the said annual return has to be prepared in Form No. 25 and delivered by the 30th June following the financial year to which it relates. It may be noted that a copy of each TDS certificate issued during the financial year should be enclosed with the annual return. If a person fails to furnish in due time the annual return, he shall be liable to pay, by way of penalty, under section 272A(2), a sum which shall not be less than Rs. 100 but which may extend to Rs. 200 for every day during which the failure continues. The maximum penalty will, however, not exceed the amount of tax deductible at source.

7. The State Government/Union Territory Administrations, the Reserve Bank of India, other Banks/Financial Institutions, etc., are requested to bring the contents of this Circular to the notice of their concerned departments/officers, who are responsible for making payment of interest on securities, for necessary action and compliance.

8. These instructions are not exhaustive and are issued with a view to helping the persons responsible for deducting tax at source from payment of interest on securities. In the case of any doubt, reference should be made to the relevant provisions of the Income-tax Act, 1961 and the Income-tax Rules, 1962. If any assistance is required, the Assessing Officer or the Public Relations Officer of the Income-tax Department should be contacted.

Circular: No. 655, dated 26-8-1993.

ANNEXURE I

[See item (A)(ii)(b) of para 3]

EXTRACT FROM THE FINANCE ACT, 1993, PART III OF THE FIRST SCHEDULE

Paragraph A

Sub-paragraph I

In the case of every individual or Hindu undivided family or association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which sub-Paragraph II of this Paragraph or any other Paragraph of this Part applies:—

Rate of income-tax

(1)	where the total income does not exceed Rs. 30,000	Nil.
(2)	where the total income exceeds Rs. 30,000 but does not exceed Rs. 50,000	20 per cent of the amount by which the total income exceeds Rs. 30,000;
(3)	where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000	Rs. 4,000 plus 30 per cent of the amount by which the total income exceeds Rs. 50,000;
(4)	where the total income exceeds Rs. 1,00,000	Rs. 19,000 plus 40 per cent of the amount by which the total income exceeds Rs. 1,00,000.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this sub-Paragraph or section 112 shall,—

- (i) in the case of every individual, Hindu undivided family or association of persons or body of individuals referred to in section 88 having a total income exceeding one hundred thousand rupees, be reduced by the amount of rebate of income-tax calculated under Chapter VIIIA, and the income-tax as so reduced,
- (ii) in the case of every person, other than those mentioned in item (i), having a total income exceeding one hundred thousand rupees,

be increased by a surcharge for purposes of the Union calculated at the rate of twelve per cent of such income-tax:

Provided that no such surcharge shall be payable by a non-resident.

ANNEXURE II

FORM NO. 15F

[See Rule 29C(1)]

DECLARATION UNDER SECTION 197A(1) OF THE INCOME-TAX ACT, 1961 TO BE MADE BY AN INDIVIDUAL CLAIMING RECEIPT OF "INTEREST ON SECURITIES" WITHOUT DEDUCTION OF TAX

I,, son/daughter/ wife of..... resident of @..... do hereby declare :—

1. that the securities particulars of which are given below, stand in my name and are beneficially owned by me, and the interest therefrom is not includible in the total income of any other person under sections 60 to 64 of the Income-tax Act, 1961:



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Description of securities	Number of securities	Date of securities	Amount of securities	Date(s) on which the securities were acquired by the declarant

2. that my present occupation is.....
3. that the tax on my estimated total income, including the interest on securities referred to in paragraph 1 above, computed in accordance with the provisions of the Income-tax Act, 1961, for the previous year ending on.....relevant to the assessment year 19.....19.....will be nil ;
4. *that I have not been assessed to income-tax at any time in the past but I fall within the jurisdiction of the Chief Commissioner or Commissioner of Income-tax.....
- or
- that I was last assessed to income-tax for assessment year 19.....19..... by the Assessing Officer..... Circle/Ward/District and the permanent account number allotted to me is.....
5. that I am resident in India within the meaning of section 6 of the Income-tax Act, 1961.

.....
Signature of the declarant

Verification

I.....do hereby declare that to the best of my knowledge and belief what is stated above is correct, complete and is truly stated.

Verified today, the.....day of19.....

Place

Signature of Declarant

Notes :

- @ Give complete postal address.
- The declaration should be furnished in duplicate.
- *Delete whichever is not applicable.
- Before signing the verification, the declarant should satisfy himself that the information furnished in the declaration is true, correct and complete in all respects. Any person making a false statement in the declaration shall be liable to prosecution under section 277 of the Income-tax Act, 1961, and on conviction be punishable—
 - in a case where tax sought to be evaded exceeds one lakh rupees, with rigorous imprisonment which shall not be less than six months but which may extend to seven years and with fine;
 - in any other case, with rigorous imprisonment which shall not be less than three months but which may extend to three years and with fine.

[FOR USE BY THE PERSON TO WHOM THE DECLARATION IS FURNISHED]

- Name and address of the person responsible for paying the interest on securities mentioned in Paragraph 1 of the declaration.
- Date on which the declaration was furnished by the Declarant
- Period for which interest is paid
- Amount of interest
- Date on which interest is paid

Forwarded to the Chief Commissioner or Commissioner of Income-tax.....

Place.....

Date.....

.....
Signature of the person

responsible for paying

interest on securities.

ANNEXURE III

FORM NO. 16A

[See rule 31(1)(b)]

Certificate of deduction of tax at source under section 203 of the Income-tax Act, 1961

[For interest on securities, dividends, interest other than 'interest on securities' winnings from lottery or crossword puzzle, winnings from horse race, payments to contractors and sub-contractors, insurance commission, payments to non-resident sportsmen/sports associations, payments in respect of deposits under National Savings Scheme, payments on account of repurchase of units, by Mutual Fund or Unit Trust of India, commission, remuneration or prize on sale of lottery tickets, other sums under section 195, income of foreign companies referred to in section 196A(2), income from units referred to in section 196B, income from foreign currency bonds or shares of an Indian company referred to in section 196C, income of Foreign Institutional Investors from securities referred to in section 196D].

Name and address of the person deducting tax	TDS circle where Annual Return under section 206 is to be delivered	Name and address of the person to whom payment is made or in whose account it is credited
TAX DEDUCTION A/C NO. OF THE DEDUCTOR	NATURE OF PAYMENT	PAN/GIR NO. OF THE PAYEE
PAN/GIR NO. OF THE DEDUCTOR		FOR THE PERIOD 19 TO 19



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Date of payment/ credit	Amount paid/ credited (Rs.)	Amount of income-tax deducted (Rs.)	Rate at which deducted	Date & challan No. of deposit of tax into Central Govt. Account	Name of the Bank & Branch where tax deposited

Certified that a sum of Rs. (in words).....has been deducted at source and paid to the credit of the Central Government as per details given above.

Place.....

Date.....

.....
Signature of person responsible
for deduction of tax

Full Name
Designation.....

