

Can't levy tax on accident claim amount, interest: HC to I-T department

The Himachal Pradesh high court has ruled that no income tax is payable on claim amount and interest on the deposits made under the orders of the court in motor accident claims cases.

The high court held that compensation awarded for death of a person or bodily injury suffered in a vehicular accident is damages and cannot be called income.

With this order, the HC also quashed income tax (I-T) department's circular, dated October 14, 2011, which required deduction of the tax in such cases. The bench comprising Chief Justice Mansoor Ahmad Mir and Justice Tarlok Singh Chauhan, while disposing of a PIL on Wednesday, said that in case any such deduction has been made by respondents, they are directed to refund the same, with interest at the rate of 12% from the date of deduction till payment, within six weeks from today.

The circular issued by the income tax authorities, was not in tune with the mandate of Sections 2(42) and 2(31), read with Section 6 of the Income Tax Act, 1961, the court observed. The said circular also is not in accordance with the mandate of Section 194A of the Act, the decision reads.

Having said so, the circular issued by the income tax authorities, whereby deduction of income tax has been ordered on the award amount and interest accrued on the deposits made under the orders of the court in motor accident claims cases, is quashed, court said.

The PIL was born of the court's internal processes and suo motu cognizance taken by it. The registrar (judicial) of the high court had put up a note that bank authorities are making tax deductions on interest accrued on the term deposits, which are fixed deposits made by the registry in terms of the orders passed by the court in motor accident claims cases. The matter was referred to the finance committee for examination.

The committee convened its meeting on May 20 this year and was of the view that since dispute involved was intricate and public interest was also involved, therefore, it was recommended that the matter requires consideration on judicial side. The recommendation of the committee was treated as a public interest litigation (PIL) and suo motu proceedings were drawn.

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