

I-T to refund Rs 191cr to 4 Kerala banks

A dispute between the income tax department and banks over how to go about writing off bad loans appears to have been resolved in the latter's favour.

The income tax department is refunding Rs 191 crore to four Kerala-based private banks following the Supreme Court ruling in February that the banks can claim tax deductions on bad debts in urban areas too.

Catholic Syrian Bank had filed a case against the commissioner of income tax of income tax in this regard.

"As a result of the apex court judgment, the South Indian Bank is entitled to a refund of Rs 116 crore from the income tax department, while Federal Bank and Dhanlaxmi Bank would get Rs 30 crore each and the Catholic Syrian Bank Rs 15 crore," said Pratap Venugopal, counsel for Catholic Syrian Bank. As per section 36 (1) (vii) of I-T Act, 1961, banks can claim tax deduction on rural and urban bad debts written off as irrecoverable during the previous year of assessment.

Section, 36 (1) (vii a), allows banks to claim a 'provision' for rural bad and doubtful debts. The I-T department held the view that this would lead to double deduction. Chief Justice of India S H Kapadia in his judgment held that a proviso to Section 36 (1) (vii) would prevent double deduction with respect to rural loans.

An official with Dhanlaxmi Bank hinted that the bank would receive the tax refund within a month's time. "We may get an interest on the Rs 30 crore refund, at the rate of Rs 1.8 crore per annum. The interest paid on this refund will be considered as income in the subsequent quarterly result," the source said. The total monetary benefit of Dhanlaxmi bank would thus go up to Rs 35 crore.

Sources within the banking industry say that it would take few more weeks to quantify the impact of the verdict on the bottom line of banks. "We don't have any adverse impact due to the ruling and we are now examining in detail how this order would positively impact our finances," said PC John, executive director of the Aluva-based Federal Bank.

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