

## Banks exempt from 10% TDS on one-time loan settlements, waivers: CBDT

Issue of bonus and rights shares too will not require tax to be deducted under a section introduced in the Union Budget

Nikunj Ohri | New Delhi September 14, 2022 Last Updated at 12:56 IST



Banks  
and  
financial

*Photo: Bloomberg*

institutions will not have to deduct 10 per cent tax deductible at source (TDS) on one-time loan settlements and waivers, the Central Board of Directs Taxes (CBDT) has said.

The CBDT clarified the issue of bonus and rights shares will not require tax to be deducted under the Section 194R introduced in the Union Budget. Section 194R came into effect from July 1, 2022 and required 10 per cent TDS deduction to persons providing any benefit or perquisite to a resident, on the value of such benefit.

Banks had raised concerns over the applicability of the provision, saying such a transaction to tax would burden them.

The clarification by the apex direct tax body exempts public financial instruction, scheduled banks, deposit-taking and systemically important non-deposit taking non-banking financial companies, asset reconstruction companies, co-operative banks, co-operative agricultural and rural development bank, state financial corporation, and State Industrial Investment Corporation from the provisions of the new section.

## CBDT CLARIFICATION

# Lenders Exempt from 10% TDS Deduction for One-time Settlement

### Our Bureau

**New Delhi:** Banks will not be required to deduct 10% tax at source (TDS) on one-time settlement (OTS) or loan waivers, the Central Board of Direct Taxes said on Tuesday.

CBDT said in a detailed clarification that OTS or loan waiver by a bank will not be treated as a benefit or a perquisite and not face Tax Deducted at Source as they would have to bear the additional cost of tax deduction besides the haircut.

The exemption will be available to all public financial institutions, scheduled banks, cooperative banks, rural development banks, state financial corporations, and state industrial investment corporations.

It would also be available to deposit taking non-banking finance companies, systemically important non-deposit taking NBFCs, and public companies engaged in providing long-term finance for construction or purchase of houses in India for residential purposes and asset reconstruction companies.

Budget 2022-23 had introduced a new section, 194R, in the Income Tax Act, which required TDS at a rate of 10% by any person providing any benefit or perquisite exceeding ₹ 20,000 in a year to a resident, arising from his business

or profession. Bankers felt the provision made them liable to TDS in case of OTS or loan waivers, which would be treated as benefits to customers and represented the issue to the CBDT seeking clarity.

CBDT also clarified that TDS would not be leviable on issuance of bonus or right shares by listed entities.

According to the clarification, in case a company conducts dealers' conferences to educate dealers about its products, it would not be considered a perquisite.

Also, participants overstaying a day prior and immediately after the conference would not be considered overstay.

The provision will also not apply on perquisites provided by organizations like the UN, an international organisation whose income is exempt under specific acts of Parliament, an embassy, a high commission, legation, commission, consulate and trade representation of a foreign state

"While this circular does clarify important points, many questions regarding the applicability of section 194R still remain unanswered," said Neeraj Agarwala, partner, Nangia Andersen India.



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