

## Compensation awarded under Motor Vehicle Act and interest accrued thereon in bank weren't taxable

**Summary – The High Court of Himachal Pradesh in a recent case of H.P. State Cooperative Bank Ltd., (the Assessee) held that Compensation awarded under Motor Vehicles Act is in lieu of death of a person or bodily injury suffered in a vehicular accident and it cannot be said to be taxable income; - [Circular No. 8/2011, dated 14-10-2011](#) quashed.**

### Facts

- The Registrar of the High Court had put up a note that Bank Authorities were making tax deductions on interest accrued on the term deposits, *i.e.*, 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/Purchase Committee for examination. The Committee was of the view that since the dispute involved was intricate and public interest was involved, it was recommended that the matter required consideration on judicial side.
- The recommendation of the Committee was treated as Public interest Litigation and *suo motu* proceedings were drawn.
- The department filed the reply and pleaded that in terms of [Circular No. 8/2011, dated 14-10-2011](#), issued by the income-tax authorities, income-tax was to be deducted on the interest periodically accruing on the deposits made on the court orders to protect the interest of the litigants.

### Held

- The circular, dated 14-10-2011, issued by the income-tax authorities, is not in tune with the mandate of sections 2(42) and 2(31), read with section 6. The said circular also is not in accordance with the mandate of section 194A.
- Section 194A clearly provides that any person, not being an individual or a Hindu undivided family, responsible for paying to a "resident" any income by way of interest, other than income by way of interest on securities shall deduct income tax on such income at the time of payment thereof in cash or by issue of a cheque or by any other mode.
- While going through the said provisions of law, one comes to the inescapable conclusion that the mandate of the said provisions does not apply to the accident claim cases and the compensation awarded under the Motor Vehicles Act is awarded in lieu of death of a person or bodily injury suffered in a vehicular accident, which is damage and not income.
- Chapter X and XI of the Motor Vehicles Act, 1988 provides for grant of compensation to the victims of a vehicular accident. The Motor Vehicles Act has undergone a sea change and the purpose of granting compensation under the Motor Vehicles Act is to ameliorate the sufferings of the victims so that they may be saved from social evils and starvation, and that the victims get some sort of help as

early as possible. It is just to save them from sufferings, agony and to rehabilitate them. One wonder how and under what provisions of law the income tax authorities have treated the amount awarded or interest accrued on term deposits made in Motor Accident Claims cases as income. Therefore, the said Circular is against the concept and provisions referred to hereinabove and runs contrary to the mandate of granting compensation.

- The Apex Court has gone to the extent of saying that the Claims Tribunals, in Motor Accident Claims cases, should award compensation without succumbing to the niceties of law and procedural wrangles and tangles.
- The Circular dated 14-10-2011, 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, was quashed, and in case any such deduction has been made by department, they are directed to refund the same, with interest at the rate of 12% from the date of deduction till payment.