

Chit fund dividend paid to customers couldn't be treated as interest; not liable to sec. 194A TDS

Summary – The High Court of Karnataka in a recent case of Panchajanya Chits (P.) Ltd., (the Assessee) held that 'Chit dividend paid by chit fund company to its customers would not amount to interest as defined under section 2(28A) and, consequently, no deduction of TDS under section 194A was required to be made'

Facts

- Assessee-company was engaged in the business of chit funds.
- It paid dividend to its customers who had participated in the scheme. However, while making such payment, it had not deducted TDS on the sum earned as income by the customers.
- The Assessing Officer held that the assessee ought to have deducted tax at source at the time of disbursement of chit dividends and as the same was not done, it had defaulted under the provisions of sections 201 and 201(1A).
- On appeal, the Appellate Commissioner held that there was no liability on the part of assessee to deduct tax at source on payment of chit dividend.
- On revenue's appeal, the Tribunal upheld the findings of the Appellate Commissioner.
- On appeal to the High Court:

Held

- The Delhi High Court in *CIT v. Sahib Chits (Delhi) (P.) Ltd.* [\[2010\] 328 ITR 342/\[2009\] 185 Taxman 34](#) held that in the first place the amount paid by way of dividend cannot be construed as interest. It was further held that the dividend/discount cannot be mistaken for interest income in the hands of the subscribers and, therefore, there has been no default under the provisions of section 194A. Further, section 194A has no application to such dividends and, therefore, it held that there is no obligation on the part of the assessee to make any deduction under section 194A before such dividend is paid to its subscribers of the chit. The aforesaid Division Bench decision of the Delhi High Court squarely applies to the facts of the present case. Hence, there is no merit in the present appeal.