

Clarification on TDS on interest u/s Section 194A in the case of banking institutions.

Under the provisions of Section 194A of the Income-tax Act, 1961, tax is required to be deducted at source on interest other than interest on securities. However, in terms of provisions of section 194A(3), banking companies are not required to deduct tax where such interest does not exceed the prescribed threshold (Rs. 50,000/Rs. 1,00,000, as applicable).

2. In the Income-tax Act, 1961, the scope of “banking company” included not only banking companies to which the Banking Regulation Act, 1949 applies, but also “any bank or banking institution referred to in section 51 of that Act.”

3. Under the Income-tax Act, 2025, the corresponding provision relating to TDS on interest is contained in Section 393(1) [Table: Sl. No. 5(ii)], and the definition of “banking company” has been provided in Section 402 of the Act.

4. The definition of “banking company” in Section 402 of the Income-tax Act, 2025 refers to a banking company to which the provisions of the Banking Regulation Act, 1949 apply. The earlier phrase “including any bank or banking institution referred to in section 51 of that Act” has not been included

5. By virtue of the extant Section 51 of the Banking Regulation Act, 1949, such banks and banking institutions fall within the meaning of “banking company” under Section 402 of the Income-tax Act, 2025, even without explicit mention.

6. Thus, such banks or banking institutions will not be required to deduct income-tax on the amount below the threshold provided in Section 393(1) [Table: Sl. No. 5(ii)] of Income-tax Act, 2025.

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