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W.P.Nos.2221 of 2022 & batch

**IN THE HIGH COURT OF JUDICATURE AT MADRAS**

DATED: 18.11.2022

CORAM

THE HONOURABLE **DR. JUSTICE ANITA SUMANTH**

**W.P.Nos.2221, 2227, 2236, 2238, 2242, 2662, 3760, 14214, 14217, 14222, 14216, 14219, 14221, 14224, 14225, 14227, 14229, 14226, 14230, 14235, 14234, 14232, 14231, 14233, 14251, 14253, 14254, 14256 & 14257 of 2022 and**

**WMP.Nos.2389, 2390, 2396, 2397, 2407, 2408, 2409, 2410, 2413, 2418, 2816, 2817, 3898, 3900, 13446, 13447, 13450, 13452, 13455, 13457, 13448, 13449, 13451, 13453, 13454, 13456, 13459, 13461, 13465, 13466, 13467, 13468, 13458, 13460, 13463, 13464, 13482, 13483, 13480, 13481, 13474, 13475, 13469, 13470, 13471, 13473, 13476, 13477, 13487, 13489, 13492, 13493, 13494, 13495, 13496, 13497, 13501 & 13502 of 2022**

**WP.No.2221 of 2022:**

S-8718 Semmandapatty Primary Agricultural  
Co-operative Credit Society Ltd. (PACCS),  
Rep. by its Secretary,  
2/45B-4, Semmandapatty PO,  
Kadayampatti Taluk,  
Salem – 636 309.

... Petitioner

Vs

1.Salem District Central Co-Operative Bank Ltd.,  
Represented by its General Manager,  
Head Office,  
Salem – 636 001.

2.Deputy Commissioner of Income Tax,  
TDS Circle, Coimbatore,



W.P.Nos.2221 of 2022 & batch

1510, Mayflower Midcity, Trichy Road,  
Coimbatore – 641 018.

... Respondents

**Prayer:** Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus, calling for the records of the 1<sup>st</sup> Respondent herein relating to the deduction of TDS during the Financial Year 2021-22, from the Petitioner under Section 194 N of the Income Tax Act, based on the impugned Circular Na.Ka.No.2416/95/Accts dated 16.03.2021 along with Circular Na.Ka.No.2416/95/Accts 23.03.2021 issued by the 1<sup>st</sup> Respondent and quash the said impugned Circular and thereby directing the 1<sup>st</sup> Respondent, not to deduct TDS from the Petitioner under Section 194N of the Income Tax Act.

| <i><b>WP.Nos.</b></i>                                                                             | <i><b>For Petitioners</b></i> | <i><b>For Respondents</b></i>                                                                                                      |
|---------------------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| WP.Nos.2221, 2227, 2236, 2238, 2242 & 2662 of 2022                                                | Mr.T.Ramesh                   | Mr.A.Selvendran (for R1)<br>Special Government Pleader<br>Mr.Karthik Ranganathan (for R2)<br>Senior Standing Counsel               |
| WP.No.3760 of 2022                                                                                | Mr.G.Punniakoti               | Mr.A.Selvendran (for R2 to R4)<br>Special Government Pleader<br>Mr.A.P.Srinivas (for R1)<br>Senior Standing Counsel                |
| WP.Nos.14214, 14217, 14222, 14216, 14219, 14221, 14224, 14225, 14227, 14229, 14226, 14230, 14235, | Mr.K.Selvaraj                 | Mr.Prabu Mukund Arunkumar (for R1)<br>Junior Standing Counsel<br>Ms.G.Thilakavathy (for R2)<br>Senior Counsel<br>for Mr.R.Gopinath |



W.P.Nos.2221 of 2022 & batch

| <i><b>WP.Nos.</b></i>                                                                 | <i><b>For Petitioners</b></i> | <i><b>For Respondents</b></i> |
|---------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| 14234, 14232,<br>14231, 14233,<br>14251, 14253,<br>14254, 14256<br>& 14257 of<br>2022 |                               |                               |

### **COMMON ORDER**

This batch of Writ Petitions has been filed by Primary Agricultural Co-operative Credit Societies (in short ‘Society/Societies’) and turns on the appreciation of a common set of facts as well as legal provisions.

2. All the petitioner societies challenge Circulars issued by the District Central Cooperative Banks, Salem and Kancheepuram arrayed as R2 in all writ petitions except W.P.Nos.2221, 2242, 2238, 2236, 2227, 2662 arrayed as R1 (referred to as ‘Banks’) bearing Na.Ka.No.2416/95/Accts. Dated 16.03.2021 and Na.Ka.1545/2006-07/P.13 dated 29.03.2021 respectively. The societies function for the purposes of advancing crop and fertilizer loans to agriculturalists and have accounts with R2 banks.

3.I have had occasion to consider the identical issue as arising in these writ petitions in a batch of matters in the case of *S.N.299 Molasi Primary Agricultural Cooperative Credit Society Ltd. V. The Income Tax Officer, Namakkal* (W.P.Nos.17136 of 2022 etc. Batch dated 04.11.2022),



wherein I have passed the following order:

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3. *The impugned Circulars refer to the statutory mandate of Section 194 N of the Income Tax Act, 1961 (in short 'Act') providing for deduction of tax on cash withdrawal. The provisions of Section 194 N coming under Chapter XVII dealing with 'collection and recovery – deduction at source' provides for deduction of an amount equal to 2% of any cash withdrawal made by persons from*

*(i) a banking company to which the Banking Regulation Act, 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act);*

*(ii) a co-operative society engaged in carrying on the business of banking;*

*or*

*(iii) a post office.*

4. *It is the case of the petitioners that there should be no deduction at all, that could be effected from the withdrawals made by them from the banks. The petitioner societies are intermediaries between the bank and agriculturists, who are beneficiaries of the withdrawals made by the petitioners.*

5. *In most instances, the amounts have been sanctioned by the State and the petitioner societies are mere conduits or facilitators. Thus, deduction of tax, in such a situation, would greatly prejudice the ultimate beneficiaries of the loans who are farmers and small traders.*

6. *That apart, the funds withdrawn by the petitioners for onward transmission to the farmers, even if construed to be the income of the petitioner societies together with other incomes earned by the societies, are entitled for deduction in terms of Section 80P of the Act. This would also support their stand that no tax is liable to be deducted at source from the withdrawals.*



7. The petitioners additionally submit that, in the budget speech of the Hon'ble Finance Minister, while introducing Section 194N, the proposal for deduction of tax of cash withdrawals was restricted to business payments only. The avowed object was 'to discourage the practice of making business payments in cash' and it was proposed 'to levy TDS of 2% of cash withdrawal exceeding one crore in an year from a bank account'. Thus, Section 194N must be held to be applicable only in respect of business payments and the present payments would not come within the ambit of Section 194N.

8. They also refer in their pleadings, to the judgment of the Hon'ble Supreme Court in the case of Commissioner of Income Tax, New Delhi Vs. Eli Lilly and Co. (India) (P) Ltd., [178 Taxmann 505]. This judgment is to the effect that the purpose of provisions for tax deduction under Chapter XVIIIB, is to see that any sum which is chargeable to tax under Section 4 of the Income Tax Act must be brought within the ambit of tax with the requisite deduction.

9. Thus, it is only in respect of amounts that constitute income in the hands of the payee that tax should be deducted. In the present case, the withdrawals do not constitute income of the petitioner and hence such liability would not arise.

10. They place great reliance upon a CBDT Notification bearing No.70 of 2019 dated 20.09.2019, whereunder commission agents or traders operating under the provisions of the Agricultural Produce Market Committee (APMC) have been permitted to withdraw cash in excess of one crore without deduction of tax at source, upon them establishing that such withdrawals were for the purpose of making payments to the farmers for purchase of agricultural produce as well as satisfaction of other allied conditions. They would claim parity with the APMCs and thus argue that there would be no liability to tax and consequently no necessity to deduct tax at source.

11. The respondents contest the writ petitions vehemently. The Income tax department reiterates the mandatory nature of Section 194 N. Only the Kanchipuram Central Cooperative Bank Ltd has filed a counter in W.P.No.21856 of 2022 challenging the maintainability of the Writ Petitions in light of



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W.P.Nos.2221 of 2022 & batch

*the decision of this Court in K.Marappan V. Deputy Registrar of Co-operative Society (2006 (4) MLJ 641).*

*12. The Full Bench of this Court has in the above decision, held that under the scheme of the Tamil Nadu Cooperative Societies Act, 1983, it is only the alternative and statutory appeal mechanism, particularly appeal provision under Section 153 that must be invoked by the Co-operative Societies. The Banks also point out that the Circulars merely draw attention to the statutory provisions of the Income tax Act in regard to tax deduction.*

*13. Heard learned counsel. The counter filed by the Kancheepuram Central Cooperative Bank Limited, R2 in W.P.No.21856 of 2022 states that there are 264 Primary Agricultural Societies (PACCS) functioning under it. Pursuant to the introduction of Section 194 N w.e.f. 01.07.2020, there was a wide ranging survey by the Income-tax Department where it was noticed that the bank had not deducted taxes for the cash payments exceeding, in aggregate, a sum of rupees one crore.*

*14. The bank was thus taken to task and its liability for non-deduction was determined at a sum of Rs.9,58,77,590/-. This demand relates to the period 01.09.2019 to 31.03.2020, post introduction of Section 194 N as well as the period 2020-21. It is only thereafter, that the banks proceeded to apply the provisions of Section 194 N to insulate themselves from any liability in this regard. The impugned circulars have been issued, and must be seen, in the background of the aforesaid events.*

*15. The provisions of Section 194 N provide for a mandatory deduction of 2% of cash withdrawals and the object is to discourage, and drive the move toward a cashless or cash-free economy. The scheme of tax deduction also allows, by way of an application under Section 197, for a payee to seek the remedy of deduction at nil/lower rate under various provisions of the Act. However, Section 194N is conspicuous by its absence therein, and does not figure in the list of such*



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provisions.

16. The intention is clear, that compliance with the requirement of Section 194 N is non-negotiable except in line with the specific exceptions stipulated under the proviso extracted below:

*Provided also that nothing contained in this section shall apply to any payment made to—*

*(i) the Government;*

*(ii) any banking company or co-operative society engaged in carrying on the business of banking or a post office;*

*(iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934 (2 of 1934);*

*(iv) any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007 (51 of 2007):*

*Provided also that the Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the provision of this section shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification.*

17. There is thus, an avenue provided for a recipient falling outside the scope of the exceptions, to seek exemption from the application of Section 194N and hence, if at all the petitioners believe that they qualify for the exemption, they may seek redressal under the in-built statutory mechanism provided as above, if they so choose.



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W.P.Nos.2221 of 2022 & batch

18. *To a query from the Court, as to who would constitute the specific authority before whom such prayer was to be made, the respondents have reported written instructions from the Commissioner of Income Tax (TDS), Coimbatore stating thus: 'As per business allocation rule, Central Government for tax purposes is Finance Minister of India. Hence, any request may be in the name of the Finance Minister with copy to CIT ITA CBDT North Block who would process such requests.' The petitioners may thus approach the competent authority in the Government seeking relief from the application of Section 194N of the Act.*

19. *The submissions in relation to the grant of deduction under Section 80P are premature as is reliance upon the judgement in the matter of Eli Lilly. Eligibility to deduction must be tested by the authorities in the course of assessment as it involves the determination of several questions of fact. The society is always entitled to, in the return of income filed by it, seek credit of the taxes attributable to the income returned by it and any excess deduction, if the stand of the societies is accepted in assessment, would have to be refunded to them.*

20. *My attention is also drawn to an order passed by learned Judge in Madurai in Tirunelveli District Central Cooperative Bank Limited V. The Joint Commissioner of Income Tax (TDS) (W.P.(MD)Nos.6102 to 6125 of 2020 etc. batch, order dated 27.07.2020).*

21. *Those Writ Petitions have been allowed and the impugned assessments remitted to the file of the assessing officers to be redone afresh. Inter alia, a direction has been given to the assessing officers to exclude the Pongal cash gift distributed by the petitioner banks at the instance of the Government of Tamil Nadu on the reasoning that the societies had merely acted as business correspondents of the banks.*

22. *The learned Judge also proceeds to state that it was open to the banks to establish before the assessing officers that the sums withdrawn by the member societies did not represent*



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W.P.Nos.2221 of 2022 & batch

*income in their hands, after considering the evidence available in that regard. In my considered view, the aforesaid examination can be carried out only in the instance of the societies and not at the instance of the banks, who are payers, with statutory responsibility to deduct. That apart, the matter is stated to be pending in appeal in W.A.(MD)Nos.1137 of 2020 etc. batch and interim stay granted on 17.12.2020.*

*23. For the above reasons, the challenge to the impugned Circulars cannot be entertained as the District Central Cooperative Banks have, therein, merely sought to bring to the notice of the petitioner societies the statutory provisions in regard to deduction of tax, enjoining that they adhere to, and comply with the same, scrupulously. There could be no fault attributed to R2 Banks in this regard.*

*24. In light of the discussion as above, the challenge to the Circulars fail and these Writ Petitions are dismissed both on the ground of maintainability as well as merits. No costs. Connected Miscellaneous Petitions are also dismissed.*

4. In light of the identity in facts and legal circumstances, the same order passed in those cases is taken to be passed in these matters as well.

5. These Writ Petitions are dismissed. No costs. Connected Miscellaneous Petitions are also dismissed.

**18.11.2022**

vs

Index : Yes

Speaking Order



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**DR.ANITA SUMANTH, J.**

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VS

To

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2816, 2817, 3898, 3900, 13446, 13447, 13450, 13452, 13455, 13457,  
13448, 13449, 13451, 13453, 13454, 13456, 13459, 13461, 13465, 13466,  
13467, 13468, 13458, 13460, 13463, 13464, 13482, 13483, 13480, 13481,  
13474, 13475, 13469, 13470, 13471, 13473, 13476, 13477, 13487, 13489,  
13492, 13493, 13494, 13495, 13496, 13497, 13501 & 13502 of 2022**

**18.11.2022**