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WP.Nos.17136 of 2022 &



IN THE HIGH COURT OF JUDICATURE AT MADRAS

Dated: 04.11.2022

CORAM

THE HONOURABLE DR. JUSTICE ANITA SUMANTH

**W.P.Nos.17136, 17927, 18787, 21856, 24245, 24249, 24251,
24253, 24792, 25143, 25481, 25486, 25719, 25813 & 26343 of 2022**

and

**WMP,Nos.16441, 16442, 16443, 17259, 17260, 18143, 18144, 18145, 20872,
20873, 23222, 23225, 23229, 23230, 23232, 23233, 23236, 23237, 23727, 23728,
24095, 24097, 24480, 24481, 24487, 24488, 24774, 24776, 24873, 24874, 25419**

&

25420 of 2022

WP.No.17136 of 2022:

- 1 S.N.299 Molasi Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary, S.Sureshkumar M/49
S/o.R.Selvaraj, Kattuvelampalayam
A.Erayamangalam Post, Tiruchengode Taluk,
Namakkal District – 637 210.
- 2 S.1290 Pudupuliampatti Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary S.Marimuthu
M/53, S/o.Sengodan, Pudupuliampatti
Sithalandur Post, Tiruchengode Taluk,
Namakkal District.



- 3 S.608 Patlur Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary S.Kavery F/59 W/o.
Sengodan P.Goundampalayam Post
Tiruchengode Taluk Namakkal District -637 210.
- 4 S.N.204 Thokkavadi Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary S.Sankar M/53
S/o.Sidha Naiker Thokkavadi Post 637 215
Tiruchengode Taluk, Namakkal District.
- 5 S.5834 T.Anangoor Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary V.Kalaiselvi F/51
W/o.S.Ramasamy T.Anangoor Post - 637 304
Tiruchengode Taluk, Namakkal District.
- 6 S.304 Vattur Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary A.Sarojini F/54 W/o.
T.Radhakrishnan Vattur Post 637 205
Tiruchengode Taluk, Namakkal District.
- 7 S.1405 Kolikalnatham Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary P.Kalyani
F/56 W/o.Periyasamy Kolikalnatham Post
Tiruchengode Taluk, Namakkal District-637 209.
- 8 S.404 P.Komarapalayam Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary K.Sivakumar
M/49 S/o.M.Kuppusamy P.Komarapalayam 638 183,
Komarapalayam Taluk, Namakkal District.



- 9 S.297 Padaveedu Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary A.Sekar M/55 S/o.
Athiyannan Padaveedu Post Kumarapalayam Taluk
Namakkal District – 637 303.
- 10 S.679 Karuveppampatti Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary P.Murugesan
M/55 S/o.Periya Gounder Karuveppampatti Post 637 304
Thanneerpandhalpalayam via,
Tiruchengode Taluk, Namakkal District.
- 11 S.748 Varakurampatti Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary M.Jeevanandam
M/57 S/o.Muthusamy Animoor Post 637 214
Tiruchengode Taluk, Namakkal District.
- 12 S.449 Sirumolasi Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary M.Selvi F/52 D/o.
Murugesan Panneerkuthipalayam Post 637 209
Tiruchengode Taluk, Namakkal District.
- 13 S.291 Morangam Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary R.Mani M/59 S/o.A.
Rathinam Palamedupudur Palamedu 637 503
Tiruchengode Taluk, Namakkal District.
- 14 S.1072 T.Neikarapatti Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary K.Natarajan
M/58 S/o.Kaliyanna Gounder
Chinnathambipalayam Post 637 209,



Tiruchengode Taluk, Namakkal District.

- 15 S.288 Pilikkalpalayam Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary R.Sureshkumar
M/57 S/o.Ramasamy Pilikkalpalayam Post
Paramathi Velur Taluk, Namakkal District.
- 16 S.1067 Jameen Ilampalli Primary
Agricultural Cooperative Credit
Society Ltd. Rep. by its Secretary
R.Mohanraj M/37 S/o.Raman
Jameen Ilampalli Post 637 210,
Paramathi Velur Taluk, Namakkal District.
- 17 S.1274 Sullipalayam Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary Kuppayee F/56
W/o.Rasappan Sullipalayam Post 637 203
Paramathi Velur Taluk, Namakkal District.
- 18 S.390 Pothanur Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary S.Prabakaran M/41
S/o.R.Somasundaram Pothanur Post 638 181
Paramathi Velur Taluk, Namakkal District.
- 19 S.1314 Periyasolipalayam
Primary Agricultural Cooperative Credit
Society Ltd. Rep. by its Secretary
K.Shanmugam M/58 S/o.Kumarappa Gounder
Periyasolipalayam Post Kabilarmalai Via,
Paramathivelur Taluk, Namakkal District.



- 20 S.1392 Sidhampoondi Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary R.Balasubramaniam
M/55 S/o.Rajavel Kondarasampalayam Post
Kandampalayam Via, Paramathi Velur Taluk,
Namakkal District.
- 21 S.1394 Kurumbalamahadevi
Primary Agricultural Cooperative Credit
Society Ltd. Rep. by its Secretary
T.Mohanraj M/51 S/o.V.Thangavel
Kurumbalamahadevi Post Paramathivelur Taluk,
Namakkal District.
- 22 S.909 Anangoor Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary N.Thiyagarasan M/60
S/o.Nachimuthu Anangoor K.Ayyampalayam Post,
Jedarpalayam Via, Paramathivelur Taluk,
Namakkal District – 637 213.
- 23 S.431 Perunkurichi Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary T.Mani M/47
S/o.Thangaraj Perunkurichi Post
Paramathivelur Taluk Namakkal District.
- 24 S.1310 Solasiramani Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary C.Ramamoorthi
M/54 S/o.Chinnappa Gounder Solasiramani
Post Paramathivelur Taluk, Namakkal District.
- 25 S.3576 Pandamangalam Primary
Agricultural Cooperative Credit Society Ltd
Rep. by its Secretary P.Susiladevi



M/57 S/o.Kumarasami Pandamangalam Post
637 208 Paramathivelur Taluk, Namakkal District.

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- 26 S.210 Vengarai Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary V.Balasubramanian
M/52 S/o.Vaiyapuri Vengarai Post 637 208
Paramathivelur Taluk, Namakkal District.
- 27 S.1322 Pillur Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary M.G.Dhandapani M/53
S/o.Gopal Pillur Post 637 206 Nadanthai Via
Paramathivelur Taluk, Namakkal District.
- 28 S.887 Kudacherry Primary Ag
ricultural Cooperative Credit Society Ltd.
Rep. by its Secretary C.Thangavelu M/59
S/o.Channamuthu Nadanthai Via
Paramathivelur Taluk Namakkal District-637206.
- 29 S.609 Ramadevam Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary K.Murugan M/47 S/o.
Kathamuthu Ramadevam Post 637 203
Paramathivelur Taluk, Namakkal District.
- 30 S.1393 Arthanaripalayam Primary
Agricultural Cooperative Credit
Society Ltd. Rep. by its Secretary
K.Thiyagarajan M/59 S/o.Karuppan
Arthanaripalayam Nadanthai Post-637 206,
Namakkal District.
- 31 S.1280 Thidumal Primary Agricultural
Cooperative Credit Society Ltd.



Rep. by its Secretary S.N.Jayaraman M/59
S/o.Narayanan Thidumal Post 637 204
Kabilarmalai Via, Paramathivelur Taluk,
Namakkal District.

- 32 No.5559 Nadanthai Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Manivannan M/57
S/o.K.Poosaripillai Nadanthai Post 637 206,
Paramathivelur Taluk, Namakkal District.
- 33 No.6041 Kunnamalai Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Shanmugam M/56
S/o.Palaniyappan Kunnamalai Post
Paramathivelur Taluk, Namakkal District -637 203.
- 34 No.849 Nallur Primary Agricultural
Cooperative Credit Society Ltd.
Rep. by its Secretary M.Mohanapriya F/42
W/o.Shanmugam N.Kandampalayam Post
Paramathivelur Taluk, Namakkal District.
- 35 S.741 Karichipalayam Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Loganatha M/59
S/o.Palaniappan Karichipalayam Post
Sithalandur Via, Paramathivelur Taluk,
Namakkal District – 638 181.
- 36 S.336 Nachipatty Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary G.Sakunthala F/56
W/o.P.Ganesan Nachipatty Post Vennandhur Via,
Rasipuram Taluk, Namakkal District-637 505.



37 S.1286 R.Pudupalayam Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Raja M/49
S/o.S.Periyasamy R.Pudupalayam Post 637 408
Rasipuram Taluk, Namakkal District.

38 S.236 Akkaraipatty Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Selvi M/52
S/o.Palanivel Akkaraipatty Post 637 503
Rasipuram Taluk, Namakkal District.

39 S.1239 Athanur Ayeepalayam
Primary Agricultural Cooperative Credit
Society Ltd. Rep. by its Secretary S.
Palaniappan M/56 S/o.Sundra Gounder
Athanur Post Rasipuram Taluk,
Namakkal District – 636 301.

40 No.10288 K.K.Valasai Primary
Agricultural Cooperative Credit Society
Ltd. Rep. by its Secretary S.Palaniappan
M/56 S/o.Sundra Gounder K.K.Valasai
P.Mettur Post 636 203, Rasipuram Taluk,
Namakkal District.

41 S.11042 Palanthinnipatty Primary
Agricultural Cooperative Credit Society Ltd.
Rep. by its Secretary P.Sakthivel M/55 S/o.Periyanna
Palanthinnipatty Post Rasipuram Taluk,
Namakkal District – 637 505.

... Petitioners

Vs



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1.The Income Tax Officer,
Namakkal, Namakkal District.

2.The General Manager,
Salem District Central Cooperative Bank Ltd.,
Salem, Salem District.

... Respondents

PRAYER: Writ Petition filed under Article 226 of the Constitution of India praying to issue a Writ of Certiorari, calling for the entire records relating to the impugned order passed by the 2nd respondent in his proceedings Na.Ka.No.2416/95/Accts., dated 16.03.2021 and quash the same.

WP.Nos.	For Petitioners	For Respondents
WP.17136 & 18787 of 2022	Mr.C.Prakasam	Mr.ANR.Jayaprathap (for R1) Junior Standing Counsel No Appearance (for R2)
WP.17927, 21856, 24245, 24249, 24251 & 24253 of 2022	Mr.K.Selvaraj	Mrs.Hema Muralikrishnan Senior Standing Counsel (for R1) Mrs.G.Thilagavathy, Senior Counsel for Mr.R.Gopinath (for R2 in WP.No.21856 of 2022) No Appearance (for R2 in WP.17927, 24245, 24249, 24251 & 24253 of 2022)
WP.24792, 25143, 25481, 25486, 25719, 25813 & 26343 of 2022	Mr.M.Govindan	Mr.ANR.Jayaprathap (for R1) Junior Standing Counsel



	No Appearance (for R2 to R4 in WP.Nos.24792, 25143, 25481 & 25486 of 2022)
	Mr.R.U.Dinesh Rajkumar, Additional Government Pleader (for R2 to R4 in WP.Nos.25719, 25813 & 26343 of 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, Kancheepuram and Kumbakonam, arrayed as R2 in all writ petitions (referred to as 'Banks') bearing Na.Ka.No.2416/95/Accts. dated 16.03.2021, Na.Ka.1545/2006-07/P.13 dated 29.03.2021 and Na.Ka.No.2727/2020-B3, dated 07.01.2022 respectively. The societies function for the purposes of advancing crop and fertilizer loans to agriculturalists and have accounts with R2 banks.



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 XVIIB, 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 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 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;



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(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.

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 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.

04.11.2022

Index : Yes / No
Speaking Order / Non Speaking Order
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To

- 1.The Income Tax Officer,
Namakkal, Namakkal District.
- 2.The General Manager,
Salem District Central Cooperative Bank Ltd.,
Salem, Salem District.



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WP.Nos.17136 of 2022 &



Dr.ANITA SUMANTH,J.

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24097, 24480, 24481, 24487, 24488, 24774,
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04.11.2022