BEFORE THE MADURAI BENCH OF MADRAS HIGH COURT

Dated : 30.03.2026

CORAM

THE HONOURABLE MR.JUSTICE N.ANAND VENKATESH
and
THE HONOURABLE MR.JUSTICE K.K.RAMAKRISHNAN

C.M.A.(MD).No.426 of 2026

The Managing Director,
United India Insurance Company Ltd.,
Marthandam Branch,
No.2/60/1, Buildings, Main Road,
Marthandam, Nalloor Village,
Vilavancode Taluk, Kanyakumari District. ... Appellant

Vs.

1.Vasanthakumari

2.Rajesha (Minor)

3.Mithur (Minor)
(Minor respondent 2 and 3 represented
through their mother and next friend,
the 1st Respondent)

4.George

5.Santhosh Kumaran Nair

6.Sukumaran

7.The Managing Director,
Oriental Insurance Company Limited.,
Marthandam Branch,
Sundar Manzil, Near C.S.I.Hospital,
Nalloor Village, Marthandam Post,
Vilavancode Taluk, Kanyakumari District. ... Respondents

Prayer:- Civil Miscellaneous Appeal is filed under Section 173 of the Motor Vehicles Act, 1988, to enhance the award passed in M.C.O.P.No.48 of 2018 dated 08.02.2023 on the file of the Motor Accidents Claims Tribunal (Subordinate Judge), Kuzhithurai and allow the above Civil Miscellaneous Appeal.

For Appellants	: Mr.N.Dharmar
For Respondents	: Mr.M.R.Sreenivasan

J U D G M E N T

(Judgment of the Court was delivered by **K.K.RAMAKRISHNAN.J,)**

The appellant insurance company filed this appeal challenging the quantum of the award passed in M.C.O.P.No.48 of 2018, dated 08.02.2023, by the Motor Accident Claims Tribunal, (Subordinate Judge), Kuzhithurai.

2.**Facts of the case:**

The deceased, Radhakrishnan, was serving as a Havildar in the Indian Army. On 23.02.2008 at about 8.00 p.m., while he was returning from Thiruvananthapuram to his residence on his motorcycle bearing Registration No.TN-75-U-8727, and proceeding along the southern road adhering to traffic Rules, a Mahindra Maxi Cab bearing Registration No.KL-19-4942, insured with the appellant–Insurance Company, came from the opposite direction, in a rash and negligent manner violating the traffic rules, and dashed against the motorcycle of the deceased. Due to the impact, the deceased sustained multiple grievous injuries, including injuries to the head, face, neck, and chest, and succumbed to the same while being taken to the hospital. The dependents of the deceased, namely respondents 1 to 3, filed a claim petition in M.C.O.P. No. 48 of 2018 seeking compensation of Rs.1,00,00,000/-

2.1.The appellant–Insurance Company filed a counter statement denying the manner of accident and disputing the allegation of negligence on the part of the driver of the Maxi Cab. It was contended that the deceased himself was responsible for the accident. It was further pleaded that the deceased was not wearing a helmet and that the income claimed by the claimants was excessive and not supported by evidence. On these grounds, dismissal of the claim petition was sought.

2.2.In support of their claim, the claimants relied upon the First Information Report registered in Crime No.32 of 2008 on the file of the concerned Police Station against the driver of the Maxi Cab. After investigation, a final report was filed against the said driver.

2.3.Before the Tribunal, the claimants examined P.W.1 and marked Exs. P1 to P15. On the side of the Insurance Company, no oral or documentary evidence was adduced.

3.**Finding of the Tribunal:**

The learned Tribunal Judge, upon appreciation of the entire evidence on record, held that the accident occurred due to the rash and negligent driving of the Maxi Cab driver and awarded a total compensation of Rs.1,00,75,000/- to the claimants by way of the impugned award on the following heads:

Heads	***Amount in Rs.***
Total Loss of dependency (Loss of Dependency and Loss of future prospects 50) (Rs.59,96,340 + 44,97,300)	1,04,93,640/-
Loss of Consortium	1,32,000/-
Loss of Estate	16,500/-
Funeral Expenses	16,500/-
Total	***1,06,58,640/-***

3.1.Aggrieved by the quantum of compensation so awarded, the appellant–Insurance Company has preferred the present appeal.

4.Submission of the learned counsel appearing for the appellant:

The learned counsel for the insurance company would submit that the learned Tribunal Judge has committed error in calculating the future prospect in paragraph No.15 of the impugned judgment. Further, the learned counsel would also submit there was no reduction towards the income tax and hence, he seeks to reduce the compensation.

5.Submission of the learned counsel appearing for the respondent:

Learned counsel for the respondent would fairly submit that there was an inadvertent mistake in calculating the future prospects and he produced the recalculation memo which was accepted by the learned counsel appearing for the insurance company. So far as the income tax is concerned, the same is not liable to be deducted. Therefore, he seeks to award the amount on the basis of the recalculation memo without deduction of the income tax.

6. This Court considered the rival submissions made by the learned counsel appearing for the appellant and the learned counsel appearing for the insurance company/third respondent and perused the materials available on record.

7. The following point arise for consideration of this appeal:

7.**1.**Whether the compensation granted is in accordance with law?

8.Findings:

The learned counsel appearing for the appellant–Insurance Company raised two principal contentions:

(i)that the learned Tribunal committed an error in the calculation of future prospects; and

(ii) that the Tribunal failed to deduct income tax from the income of the deceased while computing compensation.

8.1.Insofar as the first contention is concerned, the learned counsel appearing for the claimants fairly submitted that there was an inadvertent error in the calculation of future prospects by the Tribunal. Both sides, upon due verification, admitted and affirmed that the claimants would be entitled to a total compensation of Rs.91,84,460/-. In view of the consensus reached, this Court recalculates and modifies the award accordingly.

8.2.With regard to the second contention relating to deduction of income tax, this Court is unable to accept the submission made by the learned counsel for the appellant. It is well settled that compensation awarded under the Motor Vehicles Act is in the nature of just compensation for loss suffered and cannot be equated to taxable income in *stricto sensu* so as to warrant automatic deduction of income tax at source. Before the Division Bench of this Court in C.M.A(MD).No.609 of 2024, a similar contention was raised and the Division Bench has framed the following question:

(i)Whether the appellant is entitled to deduct 20% in the total income towards income tax?

8.3.After framing the said question, after elaborate discussion answered negatively. The operative portion of the judgment as follows:

" 18.Point No.3

The learned counsel for the claimant opposed to deduct the income tax and he specifically submitted that the compensation is awarded to recompense for the death caused due to the "act of tortfeasor". Therefore, he submitted that the present practice of deducting the income tax from deceased income while calculating the compensation is against the law as laid down by the Hon'ble Supreme Court and the various Division Bench of the various High Courts. He elaborated the above argument on the basis of the following judgment:

18.1.In the case of All India Reporter Ltd. v. Ramchandra D. Datar, reported in AIR 1961 SC 943.

"The Hon'ble Three Member Bench of the Supreme Court has not accepted the contention that there should be a deduction of the income tax while calculating the compensation payable to an employee by an employer for wrongful termination of the employment in the following

3. We are not concerned to decide in this appeal whether in the hands of the respondent the amount due to him under the decree, when paid, will be liable to tax; that question does not fall to be determined in this appeal. The question to be determined is whether as between the appellant company and the respondent the amount decreed is due as salary payment of which attracts the statutory liability imposed by Section 18. The claim decreed by the civil court was for compensation, for wrongful termination of employment, arrears of salary, salary due for the period of notice and interest and costs, less withdrawals on salary account. The amount for which execution was sought to be levied was the amount decreed against which was set off the claim under the cross-decree. A substantial part of the claim decreed represented compensation for wrongful termination of employment and it would be difficult to predicate of the claim sought to be enforced what part thereof if any represented salary due. Granting that compensation payable to an employee by an employer for wrongful termination of employment be regarded as in the nature of salary, when the claim is merged in the decree of the court, the claim assumes the character of a judgment-debt and to judgment-debts Section 18 has not been made applicable. The decree passed by the civil court must be executed subject to the deductions and adjustments permissible under the Code of Civil Procedure. The judgment-debtor may, if he has a cross-decree for money, claim to set off the amount due thereunder. If there be any adjustment of the decree, the decree may be executed for the amount due as a result of the adjustment. A third person who has obtained a decree against the judgment-creditor may apply for attachment of the decree and such decree may be executed subject to the claim of the third person : but the judgment-debtor cannot claim to satisfy, in the absence of a direction in the decree to that effect the claim of a third person against the judgment-creditor, and pay only the balance. The rule that the decree must be executed according to its tenor may be modified by a statutory provision. But there is nothing in the Income Tax Act which supports the plea that in respect of the amount payable under a judgment-debt of the *nature sought to be enforced, the debtor is entitled to deduct income tax which may become due and payable by the judgment-creditor on the plea that the cause of action on which the decree was passed was the contract of employment and a part of the claim decreed represented amount due to the employee as salary or damages in lieu of salary."*

18.2.The Hon'ble Division Bench of the Allahabad in [2012] 211 TAXMAN 369(AII) in the case of Commissioner of Income tax Vs. The Oriental Insurance Co. Ltd., has held that the amount of compensation under the Motor Vehicle Act do not come within the definition of income and has held as follows in Paragraph No.40:

"40. To our opinion, the award of compensation under motor accudents claims cannot be regarded as income. The award is in the form of compensation to the legal heirs for the loss of life of their bread earner."

18.3.The Hon'ble Thiru. Justice J.B.Padriwala, (as he then was) leading the Division Bench of Gujarat High Court, after eloquent discussion has held as follows:

" 73.The upshot of the aforesaid discussion is that the compensation received under the Motor Vehicle act is either on account of loss of earning capacity on account of death or injury or on account of pain and suffering and such receipt is not by way of earning or profit. The award of compensation is on the principle of restitution to place the claimant in the same position in which he would have been as the loss of life or injury would not have been suffered."

18.4.From the above discussion, this Court accepts the argument of the learned counsel for the claimant and declines to deduct 10% of the amount as claimed by the learned counsel appearing for the insurance company *and holds that the claimant is entitled to receive the entire compensation without any income tax deduction. This point is answered accordingly."*

8.4.The similar view also taken by one of us, leading the Division Bench in C.M.A.(MD).No.555 of 2019, 609 of 2024 and 925 of 2021 and held that compensation awarded in the case of death or injury is not liable to be taxed under the any of the provision of the Income Tax Act.

8.5.Earlier, The Income Tax Department issued a circular dated 14.10.2011, whereby rates of income tax has been added on the award amount and interest accrued and deposit made under the order of the Court in the Motor Accident cases. The Hon'ble Division Bench of Himachal Pradesh took suo motu cognizance of the matter in ***Court on its Motion v. H.P. State Cooperative Bank Ltd., & ors.***, ***2014 SCC Online HP 4273*** and has quashed the circular upon making elaborate consideration and the operative portion of the judgment as follows:

7. 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 of the Income Tax Act, 1961, (hereinafter referred to as the Act). The said circular also is not in accordance with the mandate of Section 194A of the Act.

.....

13. 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 cannot be said to be taxable income. The compensation is awarded in lieu of death of a person or bodily injury suffered in a vehicular accident, which is damage and not income.

14. Chapters 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. We 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.

15. 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.

16. The Apex Court in the cases titled N.K.V. Bros. (P.) Ltd. v. M. Karumai Ammal, AIR 1980, SC 1354, and Sohan Lal Passi v. P. Sesh Reddy, AIR 1996 Supreme Court 2627, observed that the Courts, while awarding compensation under the Motor Vehicles

Act, should not succumb to niceties, technicalities and mystic maybes.

17. The Apex Court in Savita v. Bindar Singh, 2014 AIR SCW 2053, has held that at the time of fixing compensation, courts should not succumb to niceties or technicalities of law. It is apt to reproduce paragraph 6 of the said decision hereunder:

"6. After considering the decisions of this Court in Santosh Devi (Supra) as well as Rajesh v. Rajbir Singh (supra), we are of the opinion that it is the duty of the Court to fix a just compensation. At the time of fixing such compensation, the court should not succumb to the niceties or technicalities to grant just compensation in favour of the claimant. It is the duty of the court to equate, as far as possible, the misery on account of the accident with the compensation so that the injured or the dependants should not face the vagaries of life on account of discontinuance of the income earned by the victim. Therefore, it will be the bounden duty of the Tribunal to award just, equitable, fair and reasonable compensation judging the situation prevailing at that point of time with reference to the settled principles on assessment of damages. In doing so, the Tribunal can also ignore the claim made by the claimant in the application for compensation with the prime object to assess the award based on the principle that the award should be just, equitable, fair and reasonable compensation."

18. The ratio of the above said decision is to provide immediate relief to the victims of a vehicular accident, who have suffered damages, in order to save them from starvation and other social evils.

19. The damages are to be assessed while making guess work read with the fact as to what is the loss of dependency to the claimants/victims of a vehicular accident.

20. The Apex Court in Ghaziabad Development Authority v. Dr. N.K. Gupta, 2002 INDLAW NCDRC 189, has held that damages paid for the death of a person cannot be equated with the income and tax cannot be deducted. It is apt to reproduce the observations made by the Apex Court hereunder:

"It would, therefore, appear to us that the provisions of the Land Acquisition Act where interest is payable under Sections 28 and 34 and tax is deducted at source under section 194A of the Income-tax Act would not apply in the present case where the GDA has been asked to pay interest on the amount refunded to the complainant because of its failure to construct the promises flat and to prive necessary facilities. The amounts which were paid to the GDA by the complainant were not paid by way of any deposit or the GDA had not borrowed that money. And, as a matter of fact, interest as defined in clause (28) of Section 2 of the Income Tax Act is not that interest as was directed to be paid to the complainant by the GDA. Interest to the complainant (here Dr. Gupta) has not been awarded on the basis of any deposit made by the complainant or the GDA being the borrower of any money of the complainant. Here interest payment is by way of damages. Merely describing the damages as by way of interest does not make them as interest under the Income-tax Act.

A similar question arose before the Income-tax Appellate Tribunal in the case of Delhi Development Authority v. ITO 1995 53 ITD 19 (Delhi), and the Appellate Tribunal held that the amounts credited in the accounts of the allottees were not in the nature of interest within the meaning of section 2(28A) of the Income-tax Act *and the Appellate Tribunal quashed the orders of those authorities and directed that what is recovered by the DDA be refunded. The Appellate Tribunal also hoped that the DDA will be equally quick in paying back the amounts it recovered from the allottees. It appears to us that the Revenue authorities did not challenge this order of the Appellate Tribunal by making reference to the High Court under Section 256 of the Income-Tax Act. The Appellate Tribunal held that the amounts paid/credited to the allottees by the DDA under SFS (Self-Finance Scheme) did not fall under any category in section 2(28A) of the Income-tax Act, but represented measure for quantifying compensation for delay in construction and handling over possession of dwelling unit which was in the nature of non-taxable capital income. In coming to this conclusion the Appellate Tribunal relied on various judgments including that of the Supreme Court in the case of Dr. Shamlal Narula v. CIT 1964 Indiaw SC 263.*

In our view, therefore, considering the definition of "interest" as contained in Section 2(28A) of the Income-tax Act, the provisions of section 194A were not applicable and the GDA was clearly wrong in deducting the tax deducted at source from the interest payable to the complainant. Accordingly, the order of the State Commission is upheld and this revision petition is dismissed."

21. The Apex Court in the decision in Haryana Urban Development Authority v. Dev Dutt Gandhi, (2005) 9 SCC 497, while dealing with the land acquisition cases, held that compensation awarded in lieu of the acquired land or enhanced amount paid or interest thereon made cannot be termed as income and income tax cannot be deducted. It is apt to reproduce paragraphs 3, 8 and 9 hereunder:

3. Before this Court a large number of Appeals have been filed Ghaziabad Development Authority challenging Orders of the

National Consumer Disputes Redressal Commission, granting to Complainants, interest at the rate of 18% per annum irrespective of the fact of each case. This Court has, in the case of Ghaziabad Development Authority v. Balbir Singh reported in (2004) 5 SCC 65, deprecated this practice. This Court has held that interest at the rate of 18% cannot be granted in all cases irrespective of the facts of the case. This Court has held that the Consumer Forums could grant damages/compensation for mental agony/harassment where it finds misfeasance in public office. This Court has held that such compensation is a recompense for the loss or injury and it necessarily has to be based on a finding of loss or injury and must co-relate with the amount of loss or injury. This Court has held that the Forum or the Commission thus had to determine that there was deficiency in service and/or misfeasance in public office and that it has resulted in loss or injury. This Court has also laid down certain other guidelines which the Forum or the Commission has to follow in future cases.

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8. The National Commission disposed of the Revision filed by the Appellants with a one paragraph Order relying upon its own decision the case of Haryana Urban Development Authority v. Darsh Kumar.

9. We are informed that on 18th March, 1998 a sum of Rs. 2,26,470/- has been paid to the Respondent. As the Appellants were at fault in not developing the area for a number of years, the Commission was right in directing refund of amounts deposited. Normally, in case of refund of amount the Interest Act would have been applicable. However, as interest at the rate of 18% has already been paid on the principle laid down by this Court in the case of Ghaziabad Development Authority v. Balbir Singh (supra) no *refund can be claimed. Counsel could not explain whether TDS had been deducted before making the payment of Rs. 2,26,470/-. As has been set out by the National Commission in its earlier Judgments and even by this Court, these are cases where amounts are being directed to be paid as compensation for mental harassment and agony and for failure of public duty. In such cases there is no question of deduction of TDS. If TDS has been deducted the Appellants shall, within two weeks from today, forward to the Respondent the amount of TDS deducted along with interest thereon at the rate of 12% from the date it was deducted till payment."*

22. The Apex Court in another case titled Commissioner of Income-Tax v. Ghanshyam (HUF), reported in [2009] 315 ITR 1 (SC) 1, laid down similar preposition. It is apt to reproduce paragraphs 24, 25 and 27 hereunder:

"24. To sum up, interest is different from compensation. However, interest paid on the excess amount under Section 28 of the 1894 Act depends upon a claim by the person whose land is acquired whereas interest under Section 34 is for delay in making payment. This vital difference needs to be kept in mind in deciding this matter. Interest under Section 28 is part of the amount of compensation whereas interest under Section 34 is only for delay in making payment after the compensation amount is determined. Interest under Section 28 is a part of enhanced value of the land which is not the case in the matter of payment of interest under Section 34.

25. It is clear from reading of Sections 23(1A), 23(2) as also Section 28 of the 1894 Act that additional benefits are available on the market value of the acquired lands under Section 23(1A) and 23(2) whereas Section 28 is available in respect of the entire compensation. It was held by the Constitution Bench of the Supreme Court in Sunder v. Union of India - (2001) 7 SCC 211, that "indeed *the language of Section 28 does not even remotely refer to market value alone and in terms it talks of compensation or the sum equivalent thereto. Thus, interest awardable under Section 28, would include within its ambit both the market value and the statutory solatium. It would be thus evident that even the provisions of Section 28 authorise the grant of interest on solatium as well." Thus solatium means an integral part of compensation, interest would be payable on it. Section 34 postulates award of interest at 9% per annum from the date of taking possession only until it is paid or deposited. It is a mandatory provision. Basically Section 34 provides for payment of interest for delayed payment.*

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27. In the case of Hindustan Housing (supra) certain lands belonging to the assessee-company, which was in the business of dealing in land and which maintained its account on mercantile system, were first requisitioned and then compulsorily acquired by the State Government. The Land Acquisition Officer awarded Rs. 24,97,249/- as compensation. On appeal the Arbitrator made an award at Rs.30,10,873/- with interest at 5% from the date of acquisition. Thereupon, the State preferred an appeal to the High Court. Pending the appeal, the State Government deposited in the Court Rs.7,36,691/- being the additional amount payable under the award and the assessee was permitted to withdraw that additional amount on furnishing a security bond for refunding the amount in the event of the said Appeal being allowed. On receiving the amount, the assessee credited it in its suspense account on the same date. The question was : whether the additional amount of Rs. 7,24,914/- could be taxed as the income on the ground that it became payable pursuant to the award of the Arbitrator. The Tribunal held that the amount did not accrue to the assessee as its income and was, *therefore, not taxable in the assessment year 1956-57. The financial year in which the additional amount came to be withdrawn ended on 31.3.56. It was held by this Court that although award was made on 29.7.1955, enhancing the amount of compensation payable to the assessee, the entire amount was in dispute in the appeal filed by the State. Therefore, there was no absolute right to receive the amount at that stage. It was held that if the Appeal was to be allowed in its entirety, the right to payment of enhanced compensation would have fallen altogether. Therefore, according to this Court, the extra amount of compensation of Rs. 7,24,914/- was not income arising or accruing to the assessee during the previous year relevant to the assessment year 1956-57."*

23. Having said so, 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, is quashed and in case any such deduction has been made by respondents, they are directed to refund the same, with interest at the rate of 12% from the date of deduction till payment, within six weeks from today.

9. Against the said decision of ***2014 SCC Online HP 4273***, the Department prepared appeal before the Supreme Court and no stay was granted. Subsequently, the said issue was reconsidered by the in a celebrated judgment of the ***Hon'ble Thiru.Justice J.B.Padriwala (as he then was)*** *leading the Division Bench of Gujarat High Court in the case of Oriental Insurance*

Company Ltd. vs. Chief Commissioner of Income Tax (TDS) reported in 2023 (1) TNMAC 465 and has held that there shall be no deduction of income tax.

10.Now in the similar line, in the new Land Acquisition Act (RLCTR Act), there is provision incorporated to the effect that there shall be no income tax reduction in the compensation awarded under the Act in favour of the land owners.

10.1.The Motor Vehicle Act is a social welfare legislation and provided benevolent provisions for compensating the accident victims and hence any compulsory deduction of income tax has crept into the realm of Compensation payment in Motor Vehicle Accident cases and the same is in deprivation of achievement of social justice as enshrined in the constitution of India. Therefore, now the Central Government , keeping in view the objective of "ease of living" and to ensure that victims of motor accidents receive full and unimpeded compensation under the Motor Vehicles Act, 1988., has provided exemption in the year 2025-2026 and the relevant portion as follows:

> *Exiting Section 11 of the Income-tax Act, 2025 inter alia provides for the exemption of income of persons included in Schedule III subject to the fulfilment of conditions specified therein.*

2.The provisions of Motor Vehicles Act, 1988 ***inter alia provides for compensation and interest on such compensation*** *to be awarded by the tribunal under said Act, to an individual or his legal heir, on account of death or on account of permanent disability or any bodily injury under the said Act.*

3.In order to alleviate sufferings of victims of such accident and their family which may cause extreme hardship to the aggrieved person and family, it is proposed to amend the said Schedule to provide exemption to an individual or his legal heir, on any income in the nature of interest under the Motor Vehicles Act, 1988

4.These amendments will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the tax year 2026-2027 and subsequent tax years

[Clause 108]

No tax to be deducted at source in respect of interest on compensation amount awarded by Motor Accidents Claims Tribunal to an individual:

As per the provisions of Section 393(4) [Table:Sl.No.7, Column C (c)(iv)] of the Act, tax is not required to be deducted in respect of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal, if the amount or the aggregate of the amounts of such income does not exceed Rs.50,000/- during the tax year.

2.In order to provide relief to the individual and to alleviate the hardship caused due to accident, it is proposed that no tax shall be deducted at source in respect of interest on the compensation *amount awarded by the Motor Accidents Claims Tribunal to an individual.*

3.The amendment will take effect from the 1st day of April, 2026

[Clause 72]

10.2.It is evident that this Court's earlier decision in C.M.A.(MD).No. 555 of 2019, 609 of 2024 and 925 of 2021 rendered by applying the principle of purposive interpretation to the provisions of the Income Tax law as they stood prior to the amendment for the assessment year 2026–2027, stands legislatively affirmed.

10.3.The compensation awarded under the Motor Vehicles Act, 1988 in motor accident claims is made to the legal heirs of the deceased or to the injured claimant, as the case may be, to recompense the loss of life, limb, or livelihood caused by the wrongful act of the tortfeasor,otherwise it is stated that Motor Accident Compensation is awarded to recompense for death caused due to the act of tortfeasor. The compensation is thus remedial in nature and therefore the Such compensation cannot be treated as "income" or "receipt" in the nature of profit or gain, as it does not arise from any earning activity and cannot be equated with taxable income in the strict sense so as to warrant automatic deduction of income tax and should not be subjected to tax deduction at source

10.4.The Hon'ble Supreme Court, in Haryana Urban Development Authority v. Dev Dutt Gandhi, while dealing with compensation under land acquisition, held that the amount of compensation, including enhanced compensation and interest thereon, cannot be treated as income so as to attract deduction of income tax at source. Similarly, in Ghaziabad Development Authority v. Dr. N.K. Gupta, it was held that damages awarded for death cannot be equated with income and are not subject to taxation.

10.5.The Motor Vehicles Act, being a **beneficial and social welfare legislation**, has undergone significant transformation with the objective of ameliorating the sufferings of victims of road accidents. The legislative intent is to ensure that victims and their families receive timely and adequate compensation so as to protect them from destitution and to facilitate their rehabilitation.

10.6.In this context, any deduction of income tax from the compensation awarded would defeat the very purpose of the legislation and result in deprivation of the full measure of relief intended to be granted. Such an approach would be contrary to the principles of social justice enshrined in the Constitution of India.

10.7.Proceedings under the Motor Vehicles Act, 1988 are not in the nature of tax assessments, and the determination of income therein is only for the purpose of quantifying just compensation. Therefore, Viewed from another perspective, it is a well-settled principle that, for the purpose of calculating the monthly income of an accident victim, the gross salary or gross income must be taken into consideration. The gross income should be computed without deducting income tax.

10.8.The legislative intent is to ensure that victims and their families receive timely and adequate compensation so as to protect them from destitution and to facilitate their rehabilitation. In this context, any deduction of income tax from the compensation awarded would defeat the very purpose of the legislation and result in deprivation of the full measure of relief intended to be granted. Such an approach would be contrary to the principles of social justice enshrined in the Constitution of India. In view of the aforesaid discussion, it is evident that compensation awarded under the Motor Vehicles Act, whether on account of death, injury, or pain and suffering, is **not income** and Compensation under the Motor Vehicles Act is **primarily capital in nature** and generally **not taxable** therefore **not liable to income tax**, including any deduction at source. The same is a measure of restitution and social welfare, and must reach the claimants in full, without diminution. The deduction of income tax while computing loss of dependency introduces an element of speculation and artificial reduction, which is inconsistent with the principle laid down in Ramachandra D. Datar v. State of Mysore that compensation must reflect the real and practical loss suffered. Income tax, being contingent, variable, and dependent on multiple future factors, cannot be treated as a definite diminution of income so as to warrant its deduction. As further emphasized in Ramachandra D. Datar v. State of Mysore, compensation must reflect the real and practical loss suffered, and not be reduced by hypothetical or technical considerations. Accordingly, the exclusion of income tax from the computation would better align with the principle of restitution and the beneficial object of the legislation. The deduction of income tax in computing loss of dependency is neither conceptually necessary nor practically justified in all cases. Income tax is not a measure of personal consumption but a statutory obligation to the State, and its deduction—followed by ***further deduction towards personal expenses(I.e. 1/2, 1/3, 1/4 etc.......)***—results in an artificial and excessive reduction of compensation. In light of the principle laid down in Ramachandra D. Datar v. State of Mysore that compensation must reflect real and not speculative loss, such deductions should not be applied mechanically.In determining compensation under the Motor Vehicles Act, 1988, the guiding principle is restitutio in integrum, and any ambiguity in computation must be resolved in favour of the claimant rather than the tortfeasor. A tortfeasor cannot be permitted to derive advantage from technical or notional deductions as such reduction would undermine the beneficial object of the statute and result in unintended enrichment of the wrongdoer. Wrongdoer should not benefit from ambiguity created by their own act . In case of interpretational doubt, courts should not adopt a method that benefits the tortfeasor/insurer at the cost of the claimant.

10.9.It is also pertinent to note that the Central Government, in exercise of its powers under Section 194A of the Income-tax Act, 1961, has withdrawn the earlier notification mandating deduction of tax at source on interest accruing on compensation awarded by Motor Accident Claims Tribunals. This step has been taken with a view to promote “ease of living” and to ensure that victims receive the compensation awarded to them without any impediment.

10.10.In view of the above, the process of deducting income tax while computing the gross income of an injured or deceased motor accident victim is impermissible. Consequently, the plea of the insurance company to deduct 10% or 30% from the determined gross income for the purpose of assessing fair compensation is liable to be rejected.

10.11.In view of detailed exposition of law, the contention that income tax ought to have been deducted while computing compensation is liable to be rejected.

11.**Conclusion:**

In view of the above, while the award is modified to the extent of recalculation of compensation on account of correction in future prospects, the objection relating to deduction of income tax stands rejected.

11.1.For the foregoing reasons, the compensation awarded by the Tribunal to the claimants is re-determined as follows:

Heads	Amount awarded by the Tribunal	Re-quantified Amount by this Court	Status
Loss of dependency / income	1,04,93,640/-	89,94,600/-	Reduced
Loss of Consortium	1,32,000/-	40,000/-	Reduced
Loss of Estate	16,500/-	15,000/-	Reduced

Heads	Amount awarded by the Tribunal	Re-quantified Amount by this Court	Status
Funeral Expenses	16,500/-	15,000/-	Reduced
Loss of Love & Affection 40,000 X 3	---	1,20,000/-	awarded
Total	**1,06,58,640/-**	**91,84,460/-**	**Reduced**

12. In the result, the Civil Miscellaneous Appeal is partly allowed and the Compensation awarded in M.C.O.P.No.48 of 2018 on the file of the Motor Vehicle Accidents Claims Tribunal, Subordinate Judge, Kuzhithurai dated 08.02.2023 is hereby modified as **Rs.91,84,460/-** instead of **Rs.1,06,58,640/-.** The appellant/Insurance Company is directed to deposit the entire award amount within a period of six weeks from the date of receipt of a copy of this judgment and the claimant is permitted to withdraw the same. There shall be no order as to costs.

[N.A.V.,J.] & [K.K.R.K.,J.]
30.03.2026

sbn

To

1.The Motor Vehicles Accident Claims Tribunal,
Subordinate Judge, Kuzhithurai.

2. The Section Officer,
VR Section,
Madurai Bench of Madras High Court, Madurai.

N.ANAND VENKATESH,J.
and
K.K.RAMAKRISHNAN,J.

sbn

C.M.A.(MD).No.426 of 2026

Dated: 30.03.2026