



Tax deduction needs to be made in the hands of the legal heir in case of deceased depositor

Background

There has been ambiguity in relation to credit for tax deducted at source (TDS) on interest earned on deposits made under the Capital Gains Accounts Scheme, 1988 (the Scheme) wherein the depositor is deceased. This was seen to be leading to mismatch in tax credits of the deceased depositor and the legal heir. Therefore, the Central Board of Direct Taxes (CBDT) has now issued a clarification¹ regarding TDS on interest income earned in case of deceased depositors, under the Scheme.

the legal heir of the deceased depositor to declare and pay taxes on the interest income earned from such deposits for the period after death of the depositor. This is however a clarification covering one aspect. Due consideration may be accorded to clarify other similar issues.

Details of the notification

- The CBDT has provided² the following clarification with respect to cases wherein the depositor is deceased:
 - TDS on the income accrued for and up to the period of death of the depositor is required to be deducted against the Permanent Account Number (PAN) of the depositor; and
 - TDS on income accrued for the period after the death of the depositor is required to be deducted against the PAN of the legal heir.
- However, the above would not apply in cases where a declaration³ is specifically filed for credit of TDS on such interest income in the name of another person.

Our comments

By way of this notification, the CBDT has provided clarity on the withholding tax compliance with respect to interest income earned on deposits under the Scheme, where the depositor is deceased. This notification makes it clear for



¹ Notification No.8/2017 dated 13 September 2017

² Sub-rule(5) of Rule 31A of the Income-tax Rules, 1962

³ Sub-Rule(2) of Rule 37BA of the Income-tax Rules, 1962

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