

**IN THE INCOME TAX APPELLATE TRIBUNAL**  
**“B” BENCH, CHANDIGARH**

**PHYSICAL HEARING**

**BEFORE HON'BLE SHRI LALIET KUMAR, JM**  
**AND**  
**HON'BLE SHRI MANOJ KUMAR AGGARWAL, AM**

**1. ITA No.1310/CHANDI/2025**  
**(निर्धारणवर्ष / Assessment Year: 2020-21)**  
**&**  
**2. Stay Application No.47/Chandi/2025**  
**(In ITA No.1310/CHANDI/2025)**  
**(निर्धारणवर्ष / Assessment Year: 2020-21)**

<b>Mrs. Kusum Chauhan</b> House No. 861, Buria Gate, Jagadhari Haryana 135003	<b>बनाम/</b> Vs.	<b>ITO Ward 3</b> Aaykar Karyalaya, Sector-17 Huda Jagadhari Yamuna Nagar Haryana – 135003
स्थायीलेखासं./जीआइआरसं./PAN/GIR No. <b>APPPK-0098-A</b>		
(अपीलार्थी/ <b>Appellant</b> )	:	(प्रत्यर्थी / <b>Respondent</b> )

अपीलार्थीकीओरसे/ <b>Appellant by</b>	:	Sh. Akshat Dalal (Advocate) – Ld. AR
प्रत्यर्थीकीओरसे/ <b>Respondent by</b>	:	Sh. Vivek Vardhan (Addl. CIT) – Ld. Sr. DR

सुनवाईकीतारीख/ <b>Date of Hearing</b>	:	24-12-2025
घोषणाकीतारीख / <b>Date of Pronouncement</b>	:	06-01-2026

**आदेश / O R D E R**

**Manoj Kumar Aggarwal (Accountant Member)**

1. Aforesaid appeal by assessee for Assessment Year (AY) 2020-21 arises out of an order of Ld. Commissioner of Income Tax (Appeals), NFAC, [CIT(A)] dated 14-08-2025 in the matter of an

assessment framed by Ld. AO u/s 147 read with Section 144B of the Act on 26-12-2024. Though the assessee has raised multiple grounds of appeal, the sole grievance of the assessee is the fact that certain interest income of Rs.15,13,626/- has been brought to tax by Ld. AO.

2. The Ld. AR advanced arguments supporting the case of the assessee and referred to various judicial decisions favoring the assessee on the issue of taxability of interest component on motor accident compensation claim. The Ld. AR pointed out that the interest income has not been received, at all, by the assessee during this year and the claim continues to be in the court custody as per the directions of the court. The Ld. Sr. DR also advanced argument in support of assessment order. Having heard rival submissions upon perusal of case records, our adjudication would be as under

3. The assessee declared income of Rs.1,76,800/-. Pursuant to receipt of information that the assessee received impugned interest income of Rs.15,13,626/- which was not offered in the return of income, the case was reopened and a notice u/s 148 was issued on 26-03-2024. It transpired that the interest income represents accrued interest on delayed motor accident insurance claim in compliance of judgement from the lower court. However, the assessee did not have access to the funds since the insurance company had appealed the lower court's order before the Hon'ble High Court. As per court's directions, the insurance company had deposited principal amount and accrued interest in Fixed Deposits. The same was confirmed by the Oriental Insurance Company Ltd. The Ld. AO opined that though

the principal amount on motor insurance claim was construed as capital receipt but the interest on delayed payment was not a capital receipt. The same would be taxable as 'income from other sources' u/s 56(2) though the assessee was following receipt basis of accounting. Finally, considering potential loss of revenue, Ld. AO added the interest income on protective basis in the hands of the assessee and finalized the assessment.

4. During first appeal, the assessee cited the decision of Hon'ble Punjab & Haryana High Court in the case of **Nirmal Devi @ Nirmal Verma (CWP No.20290 of 2020 dated 10-08-2023)**; the decision of Hon'ble Himachal Pradesh High Court in the case of **Own motion vs. HP State Co-op. Bank Ltd.**; the decision of Hon'ble Bombay High Court in the case of **Rupesh Rashmikan Shah** holding that MACT interest would be compensatory in nature and form part of an award and not income. In the decision of Hon'ble Supreme Court in the case of **Hindustan Housing & Land Development Trust** as well as in **Shoorji Vallabhdas & Co. (CA No.419 of 1961 dated 27-03-1962)**, it was held that no income accrues where the award is under appeal and the amount is withheld. The tax applies only to real income and not to hypothetical accrual.

5. However, Ld. CIT(A) distinguished the decision of Hon'ble Punjab & Haryana High Court in the case of **Nirmal Devi (supra)** on the ground that it was in the context of refund of TDS. The decision in the case of **Hindustan Housing & Land Development Trust** was in the context of Land Compensation. In the present case, the right to

receive compensation was established but actual payment was deferred due to pending litigation. Given that the interest was computed and credited to FDs in the assessee's name under judicial custody, the AO safe-guarded the interest of the revenue until the matter attains finality. Accordingly, the action of Ld. AO was upheld against which the assessee is in further appeal before us.

### **Our findings and Adjudication**

6. Before us, the Ld. AR has tabulated the chronology of the events and relevant dates as under: -

<b>Date</b>	<b>Event / Description</b>
04.08.2015	Date of Accident: The unfortunate demise of the Appellant's son, Varun Pratap, occurred in a motor vehicle accident.
2016	Claim Petition Filed: The Appellant filed Claim Petition No. 89 of 2016 (CIS No. 193 of 2016) before the MACT, Yamunanagar at Jagadhari.
13.07.2018	MACT Award: The MACT passed an award granting compensation of Rs.69,34,400/- along with interest @ 7.5% per annum from the date of filing the petition.
2018	High Court Appeal: Aggrieved by the award, the Oriental Insurance Company Ltd. filed an appeal before the Hon'ble Punjab & Haryana High court, registered as FAO-6969-2018 (O&M)
20.02.2019	Interim Stay Order: The Hon'ble High Court stayed the release of funds to the claimants but directed the Insurance company to deposit the award amount.
19.03.2019	Modified Stay Order: The Hon'ble High Court modified the earlier order, directing the Insurance Company to deposit the entire compensation amount with the Executing Court within two weeks. The Executing Court was directed to place this amount in a fixed Deposit for one year under strict lien.
30.04.2019	TDS Transaction Date: The Oriental Insurance Company deducted TDS of Rs.1,51,363/- on the interest component of Rs.15,13,626.
FY 2019-20	Deposit of Amount: In compliance with the High Court order, the compensation and interest were deposited with the Court / Bank under lien. The Appellant did not receive this money.
09.01.2021	Return of Income: The Appellant filed her ITR for A.Y. 2020-21 declaring a total income of Rs.1,76,800/- (derived from rent and agriculture). She did

	not offer the MACT interest to tax as it was a capital receipt and not received by her.
26.03.2024	Reopening Notice: Notice u/s 148 of the Income Tax Act was issued to the Appellant after obtaining approval from PCIT, Panchkula.
26.12.2024	Assessment Order: The Assessing Officer (AO) passed an order u/s 147 r.w.s. 144B making a "Proactive Addition" of Rs.15,13,626/-, treating the interest as revenue receipt. The total income was assessed at Rs.16,90,436/-.
10.01.2025	Appeal of CIT(A): The Appellant filed an appeal against the Assessment Order.
14.08.2025	CIT(A) Order: The Ld. CIT(A), NFAC, dismissed the appeal (DIN: ITBA/NFAC/S/250/2025-26/1079620770(1)), confirming the addition of Rs.15,13,626/- and raising a demand of Rs. 6,33,815/-.
13.10.2025	Vakalatnama: Signed in favour of Counsel Akshat Dalal for filing the present appeal.
14.10.2025	Appeal Fee: Appeal Fee of Rs. 10,000/- deposited vide Challan No. 31080 (BSR 002271).

From above tabulation, it could be seen that due to unfortunate demise of the assessee's son on 04-08-2015, the assessee preferred claim under MACT during the year 2016. As per MACT award dated 13-07-2018, the assessee was awarded compensation of Rs.69.34 Lacs along with interest of 7.5% per annum from the date of filing of the petition. The Oriental Insurance Company preferred further appeal to Hon'ble High Court wherein the release of funds has been stayed by Hon'ble High Court. The insurance company was directed to deposit the entire compensation amount with the Executing Court. The compensation was kept under FDRs under lien. The insurance company deducted TDS on interest component. Later on, in compliance with the order of Hon'ble High Court, the compensation and interest were deposited with the court / bank under lien. The assessee thus never received the interest component under the award.

7. The facts of the case, in our considered opinion, are squarely covered by the decision of Hon'ble Punjab & Haryana High Court in the case of **Nirmal Devi (supra)**. In the said decision, Hon'ble Court has held that the interest awarded on compensation under Motor Vehicles Act would be part and parcel of the compensation itself. Since the principal component is a capital receipt (aimed at mitigating the loss of life / limb), and not a revenue receipt, the interest awarded would also retain the character of capital receipt. In this decision, Hon'ble Court, referring to various case laws holding the field, held as under: -

8. In view of ratio of law as laid down in the above cited authorities, there is no hesitation to hold that the compensation awarded under MV Act by MACT or the interest on the said compensation amount cannot be termed as income. However, at this juncture, the contention as raised by the respondents that the interest received on compensation amount is liable to TDS under Section 194-A (3) (ix-a) of the Act, 1961 in view of provisions of Section 145-B (1) of the Act, 1961 is to be considered. A bare reading of Section 145-B (1) reveals that it says that the interest received by an assessee on any compensation or enhanced compensation, as the case may be, shall be deemed to be the income of the previous year in which it is received. However, in our opinion, this provision does not make the interest chargeable to tax without considering that whether such interest is income of the recipient or not? This section deals with the method of accounting and is not a charging provision. The only impact that Section 145-B has on the taxability of an income, is its timing of taxability. What is not taxable is not made taxable under this Section and it is only what is taxable under the mercantile method of accounting which is made taxable on cash basis of accounting by this provision. Meaning thereby that only when the receipt is in the nature of an income and receipt of interest is in nature of income at the hands of assessee, that such interest can be taxed as has been made out from the provisions of Section 56 (2) (viii) also. This question was also considered in The Oriental Insurance Company Limited's case (Supra) by High Court of Gujarat at Ahmedabad wherein it was observed that the interest awarded in motor accident claim cases from the date of claim petition till the passing of the award or in the case of Appeal, till the judgment of the High Court in such appeal, was not exigible to tax, not being an income. It was held that this position was not changed on account of Clause (b) of Section 145-A of the Act, 1961 as it stood amended by Finance Act, 2009 or on account of Sub Section (1) of Section 145-B of the present Act. It was held that Section 194-A of the Act, 1961 was only a Provision for deduction of tax at source and did not govern the taxability of the receipt and the question of deduction of tax at source would also arise only if the payment was in the

nature of income of the payee. It had also been observed that the interest was not made chargeable to tax even by Section 56 (2) (viii) of the Act, 1961 only that part of the interest component which deals with income from other sources. In view of this discussion, it emerges that the interest granted on compensation or enhanced compensation awarded by MACT or this Court from the date of filing of the claim petition till the date of passing of the award or judgment by High Court will not fall in the bracket of income and would not be exigible to tax. However, in view of provisions of Section 194-A (3) (ix-a) of the Act, 1961, only that part of the interest component which is treated as income and which when received exceeded Rs.50,000/- and did not form part of compensation would be exigible to tax.

9. The respondents in this case have already charged tax on the amount of interest which was received by the petitioner along with the amount of compensation granted by MACT and by this Court in FAO filed by the petitioner, by treating the same as income of the petitioner. Since the upshot of the discussion as made above is that no tax was exigible and could be deducted from the amount of interest awarded to the petitioner by MACT from the date of filing of claim petition till the date of passing of the award and interest awarded on enhanced amount of compensation by High Court in the appeal filed by the petitioner, till the judgment of the High Court, the same not being income, therefore, the tax on these amounts so deducted by the respondents is liable to be refunded to the petitioner. It is ordered accordingly. The writ petition stands allowed in these terms and the Respondents are directed to refund the amount so deducted as tax to the petitioner within one month from the date of receipt of certified copy of this order. There is no order as to costs.

It has explicitly been held by Hon'ble Court that the compensation awarded under Motor Vehicles Act by MACT or the interest on the said compensation amount cannot be termed as income. The Ld. CIT(A), in our opinion, erred in distinguishing the said case law. The other decisions as cited by the assessee during first appeal also support the case of the assessee. Similar is the decision of Hon'ble Himachal Pradesh High Court in the case of **Court on its own motion vs. The HP State Cooperative Bank Ltd. & ors. (CWPII Nos.9 of 2014 date 15-10-2014)** as well as the decision of Hon'ble Gujarat High Court in the case of **The Oriental Insurance Co. Ltd. vs. CCIT (SCA No.4800 of 2021 dated 05-04-2022)**.

Secondly, from the facts itself, it is clear that the assessee has not received the said interest component till date. The compensation and the interest amount are lying in a court-ordered Fixed Deposit under a strict lien because the Insurance Company has challenged the award. One cannot be taxed on income that is merely hypothetical and has not reached the hands of the assessee. The provisions of Sec.56(2)(viii), which has apparently been applied to the case of the assessee, seeks to bring to tax income by way of interest received on compensation or on enhanced compensation referred to in sub-section (1) of section 145B. The provisions of Sec.145B(1) provide that the interest received by an assessee on any compensation or on enhanced compensation, as the case may be, shall be deemed to be the income of the previous year in which it is received. Thus, no case of levy of tax on the accrued interest could be made out against the assessee for this year. Viewed from any angle, the assessment of interest income, whether protectively or substantively, could not be upheld in the eyes of law. Since the impugned interest amount is not taxable in the hands of the assessee as per the cited decision of Hon'ble High Court, the credit of TDS, as available to the assessee, shall be granted by Ld. AO. The Ld. AO is directed to re-compute the income of the assessee. We order so.



8. The appeal stand allowed. The connected stay application has been rendered infructuous and accordingly, dismissed.

*Order pronounced on 6<sup>th</sup> January, 2026.*

**-Sd-  
(LALIET KUMAR)  
JUDICIAL MEMBER**

**-Sd-  
(MANOJ KUMAR AGGARWAL)  
ACCOUNTANT MEMBER**

Dated: 06-01-2026

**आदेश की प्रतिलिपि अग्रेषित /Copy of the Order forwarded to :**

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकरआयुक्त/CIT
4. विभागीयप्रतिनिधि/DR
5. गार्डफाईल/GF

ASSISTANT REGISTRAR

ITAT CHANDIGARH