

September 19, 2007

Bhadra 28, 1929 (S)

The General Manager
State Bank of India & 17 Nationalised Banks
ICICI Bank Ltd., IDBI Bank Ltd. HDFC Bank Ltd.
AXIS Bank Ltd & SHCIL

Dear Sir

8% Savings (Taxable) Bonds, 2003 - Income Tax Act. 1961 - TDS

In continuation of our Circular DGBA.CDD.No.H-17134/13.01.299/2006-07 dated May 31, 2007 on the captioned subject, we are appending below the clarifications given by Government of India on certain issues relating to tax deduction at source on the interest payable on the bonds issued under captioned scheme.

| Sl No | Issue | Comments |
|--------------|--|---|
| (i) | Whether tax will be deducted on existing bond holders or only those who invest after 1.4.2007? | TDS on 8% Savings (Taxable) Bonds, 2003 is effective from 1.6.2007. Any interest credited or paid on 8% Savings (Taxable) Bonds, 2003 on or after 1.6.2007 would attract TDS if the amount of interest exceeds Rs. 10,000 for the financial year. Therefore, date of investment is not a relevant factor. TDS would, thus, apply to existing bond holders also. |

| SI No | Issue | Comments |
|-------|---|--|
| (ii) | If tax is to be deducted on interest payable from 1.7.2007 (relating to the period 1.1.2007 to 30.6.2007), will the depositor who has opted for cumulative interest will be issued Form 16A with details of interest accrued and tax deducted thereon for the period 1.1.2007 to 30.6.2007? | Yes. Wherever TDS on interest has been made, Form 16A has to be issued to the depositor. Tax is to be deducted on interest payable from 1.6.2007 and not from 1.7.2007 as stated in the question. |
| (iii) | If tax is to be deducted only on maturity for those who have opted for cumulative scheme, what is the position of those who are adopting mercantile system of accounting and offered interest on accrual basis in the past years? | Tax deduction does not have to wait until maturity but is to be made, whenever the interest is credited or paid, whichever is earlier provided the amount of interest credited or paid during the financial year exceeds the threshold limit of Rs. 10,000/- |

2. You may issue suitable instructions to designated branches operating the scheme.

3. Please acknowledge the receipt.

Yours faithfully

(Balu K)
Deputy General Manager