

Compensation Received on Compulsory Acquisition of Land Pursuant to a Mediation Agreement Is Not Liable to TDS Under the Income-tax Act

Key Issue:

Whether tax must be deducted at source (TDS) under Section 194LA of the Income-tax Act, 1961 (or Section 393 of the Income-tax Act, 2025) on compensation amounts awarded for the compulsory acquisition of land when the payment terms are governed by a formal Mediation Agreement.

Key Facts of the case:

- The government acquired land from people for an irrigation project. The landowners were entitled to compensation for their land.
- There was a long delay in paying compensation, and disputes kept pending in courts. In order to resolve the dispute amicably, the parties entered into a formal and binding



- Mediation Agreement. The agreement specified the terms, timelines, and manner in which the land acquisition compensation was to be distributed among the respective claimants.
- Subsequently, the tax authorities/paying authority proposed to deduct tax at source (TDS) on the compensation amounts disbursed pursuant to the settlement agreement.
- The assessee contested the proposed deduction, contending that compensation received on compulsory acquisition of land is not liable to TDS under the provisions of the Income-tax Act.



Judgement:

The Hon'ble High Court of Karnataka disposed of the petition by approving the mediation agreement and held that no TDS is deductible on land acquisition compensation. The Court, in its earlier order in *Defense Estate Officer v. Ira Omna Naik* W.P.No.102884/2025, dated 20-8-2025] has categorically held that compensation awarded on account of compulsory acquisition of land is not subject to deduction of tax at source under the applicable provisions of the Income Tax Act. Accordingly, it is directed that all payments made pursuant to the Mediation Agreement, whether to joint accounts or individual accounts, shall be effected without any deduction of tax at source.

Source : HC Karnataka (WRIT PETITION NO. 200042 OF 2022) in the case of Karnataka Neeravari Nigam, Vs Mayappa, dated 27-04-2026

Contact Details

3rd Floor, MJ Tower,
55, Rajpur Road,
Dehradun - 248001

T: +91.135.2743283, +91.135.2747084

E: info@vkalra.com

W: www.vkalra.com



Follow us on



Become a VKC Insight subscriber by mailing us at kmt@vkalra.com

© 2026 Verendra Kalra & Co LLP. All rights reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not a substitute for detailed research or the exercise of professional judgment. Neither VKC nor any member can accept any responsibility for loss occasioned to any person acting or refraining from actions as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.