

THE FINANCE BILL, 1985

(No. 49 OF 1985)

[As introduced in Lok Sabha on 16th March, 1985.]

A Bill to give effect to the financial proposals of the Central Government for the financial year 1985-86.

BE it enacted by Parliament in the Thirty-sixth Year of the Republic of India as follows :—

CHAPTER I

PRELIMINARY

1. **Short title and commencement.**—(1) This Act may be called the Finance Act, 1985.

(2) Save as otherwise provided in this Act, sections 2 to 41 (except sections 32, 34, 35 and 38) shall be deemed to have come into force on the 1st day of April, 1985.

CHAPTER II

RATES OF INCOME-TAX

2. **Income-tax.**—Subject to the provisions of sub-sections (2) and (3), for the assessment year commencing on the 1st day of April, 1985, income-tax shall be charged at the rates specified in Part I of the First Schedule and shall be increased,—

(a) in the cases to which Paragraphs A, B, C and D of that Part apply, by a surcharge for purposes of the Union ; and

(b) in the cases to which Paragraph E of that Part applies, by a surcharge, calculated in each case in the manner provided therein :

Provided that where an assessee, being a company, has made, during the financial year commencing on the 1st day of April, 1984, any deposit with the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1964), under the Companies Deposits (Surcharge on Income-tax) Scheme, 1984, then, the surcharge on income-tax payable by the company,—

(a) in a case where the amount of the deposit so made is equal to, or exceeds, the amount of surcharge on income-tax payable by it, shall be *nil* ; and

(b) in a case where the amount of the deposit so made falls short of the amount of surcharge on income-tax payable by it, shall be reduced by the amount of the deposit.

(2) In the cases to which Sub-Paragraph I or Sub-Paragraph II of Paragraph A of Part I of the First Schedule applies, where the assessee has, in the previous year, any net agricultural income exceeding six hundred rupees, in addition to total income, and the total income exceeds,—

(i) in a case to which the said Sub-Paragraph I applies, fifteen thousand rupees, and

(ii) in a case to which the said Sub-Paragraph II applies, twelve thousand rupees,
then,—

(a) the net agricultural income shall be taken into account, in the manner provided in clause (b) [that is to say, as if the net agricultural income were comprised in the total income after,—

(i) in a case to which the said Sub-Paragraph I applies, the first fifteen thousand rupees, and

(ii) in a case to which the said Sub-Paragraph II applies, the first eight thousand rupees,

of the total income but without being liable to tax], only for the purpose of charging income-tax in respect of the total income ; and

(b) the income-tax chargeable shall be calculated as follows :—

(i) the total income and the net agricultural income shall be aggregated and the amount of income-tax shall be determined in respect of the aggregate income at the rates specified in Sub-Paragraph I or, as the case may be, Sub-Paragraph II of the said Paragraph A, as if such aggregate income were the total income :

Provided that in a case referred to in the said Sub-Paragraph II, for the purpose of determining the amount of income-tax in accordance with this sub-clause, the provisions of clause (ii) of the proviso below Sub-Paragraph II and the provisions relating to surcharge on income-tax in the said Sub-Paragraph II shall not apply ;

(ii) the net agricultural income shall be increased,—

(A) in a case to which the said Sub-Paragraph I applies, by a sum of fifteen thousand rupees ; and

(B) in a case to which the said Sub-Paragraph II applies, by a sum of eight thousand rupees,

and the amount of income-tax shall be determined in respect of the net agricultural income as so increased at the rates specified in Sub-Paragraph I or, as the case may be, Sub-Paragraph II of the said Paragraph A, as if the net agricultural income as so increased were the total income :

Provided that in a case referred to in the said Sub-Paragraph II, for the purposes of determining the amount of income-tax in accordance with this sub-clause, the provisions of clause (ii) of the proviso below the said Sub-Paragraph II and the provisions relating to surcharge on income-tax in the said Sub-Paragraph II shall not apply ;

(iii) the amount of income-tax determined in accordance with sub-clause (i) shall be reduced by the amount of income-tax determined in accordance with sub-clause (ii) :

Provided that in a case referred to in the said Sub-Paragraph II, where the sum so arrived at exceeds sixty per cent. of the amount by which the total income exceeds twelve thousand rupees, the excess shall be disregarded ;

(iv) the amount of income-tax determined in accordance with sub-clause (iii) shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax and the sum so arrived at shall be the income-tax in respect of the total income.

(3) In cases to which the provisions of Chapter XII or Chapter XIIA or sub-section (1A) of section 161 or section 164 or section 164A or section 167A of the Income-tax Act, 1961 (43 of 1961) (hereinafter referred to as the Income-tax Act), apply, the tax chargeable shall be determined as provided in that Chapter or that section, and with reference to the rates imposed by sub-section (1) or the rates as specified in that Chapter or section, as the case may be.

(4) In cases in which tax has to be deducted under sections 193, 194, 194A, 194B, 194BB, 194D and 195 of the Income-tax Act at the rates in force, the deduction shall be made at the rates specified in Part II of the First Schedule.

(5) Subject to the provisions of sub-section (6), in cases in which income-tax has to be calculated under the first proviso to sub-section (5) of section 132 of the Income-tax Act or charged under sub-section (4) of section 172 or sub-section (2) of section 174 or section 175 or sub-section (2) of section 176 of the said Act or deducted under section 192 of the said Act from income chargeable under the head "Salaries" or deducted under sub-section (9) of section 80E of the said Act from any payment referred to in the said sub-section (9) or in which the "advance tax" payable under Chapter XVII-C of the said Act has to be computed, at the rate or rates in

force, such income-tax or, as the case may be, "advance tax" shall be so calculated, charged, deducted or computed at the rate or rates specified in Part III of the First Schedule :

Provided that in cases to which the provisions of Chapter XII or Chapter XIIA or sub-section (1A) of section 161 or section 164 or section 164A or section 167A of the Income-tax Act apply, "advance tax" shall be computed with reference to the rates imposed by this sub-section or the rates as specified in that Chapter or section, as the case may be :

Provided further that an assessee, being a company, may, in lieu of payment of the amount of surcharge on income-tax at the rate specified in Paragraph E of Part III of the First Schedule, make a deposit under the scheme framed under sub-section (7) before the last instalment of "advance tax" is due in its case, and where it does so, the surcharge on income-tax payable by the company,—

(i) in a case where the amount of the deposit so made is equal to or exceeds the amount of surcharge on income-tax payable by it, shall be *nil* ; and

(ii) in a case where the amount of the deposit so made falls short of the amount of surcharge on income-tax payable by it, shall be reduced by the amount of the deposit.

(6) In the cases to which Sub-Paragraph I or Sub-Paragraph II of Paragraph A of Part III of the First Schedule applies, where the assessee has, in the previous year or, if by virtue of any provision of the Income-tax Act, income-tax is to be charged in respect of the income of a period other than the previous year, in such other period, any net agricultural income exceeding six hundred rupees, in addition to total income and the total income exceeds,—

(i) in a case to which the said Sub-Paragraph I applies, eighteen thousand rupees, and

(ii) in a case to which the said Sub-Paragraph II applies, twelve thousand rupees,

then, in calculating income-tax under the first proviso to sub-section (5) of section 132 of the Income-tax Act or in charging income-tax under sub-section (2) of section 174 or section 175 or sub-section (2) of section 176 of the said Act or in computing the "advance tax" payable under Chapter XVII-C of the said Act, at the rate or rates in force,—

(a) the net agricultural income shall be taken into account, in the manner provided in clause (b) [that is to say, as if the net agricultural income were comprised in the total income after,—

(i) in a case to which the said Sub-Paragraph I applies, the first eighteen thousand rupees, and

(ii) in a case to which the said Sub-Paragraph II applies, the first twelve thousand rupees,

of the total income but without being liable to tax], only for the purpose of calculating, charging or computing such income-tax or, as the case may be, "advance tax" in respect of the total income ; and

(b) such income-tax or, as the case may be, "advance tax" shall be so calculated, charged or computed as follows:—

(i) the total income and the net agricultural income shall be aggregated and the amount of income-tax or "advance tax" shall be determined in respect of the aggregate income at the rates specified in Sub-Paragraph I or, as the case may be, Sub-Paragraph II of the said Paragraph A, as if such aggregate income were the total income;

(ii) the net agricultural income shall be increased,—

(A) in a case to which the said Sub-Paragraph I applies, by a sum of eighteen thousand rupees; and

(B) in a case to which the said Sub-Paragraph II applies, by a sum of twelve thousand rupees,

and the amount of income-tax or "advance tax" shall be determined in respect of the net agricultural income as so increased at the rates specified in the said Sub-Paragraph I or, as the case may be, the said Sub-Paragraph II, as if the net agricultural income as so increased were the total income;

(iii) the amount of income-tax or "advance tax" determined in accordance with sub-clause (i) shall be reduced by the amount of income-tax or, as the case may be, "advance tax" determined in accordance with sub-clause (ii) and the sum so arrived at shall be the income-tax or, as the case may be, "advance tax" in respect of the total income.

(7) Where an assessee, being a company, makes, during the financial year commencing on the 1st day of April, 1985, any deposit with the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1964), under any such scheme as the Central Government may, by notification in the Official Gazette, frame in this behalf, then the surcharge on income-tax payable by the company for the assessment year commencing on the 1st day of April, 1986,—

(i) in a case where the amount of the deposit so made is equal to or exceeds the amount of surcharge on income-tax payable by it, shall be *nil*; and

(ii) in a case where the amount of the deposit so made falls short of the amount of surcharge on income-tax payable by it, shall be reduced by the amount of the deposit.

(8) For the purposes of this section and the First Schedule,—

(a) "company in which the public are substantially interested" means a company which is such a company as is referred to in section 108 of the Income-tax Act;

(b) "domestic company" means an Indian company, or any other company which, in respect of its income liable to income-tax under the Income-tax Act for the assessment year commencing on the 1st day of April, 1985, has made the prescribed arrangements for the declaration and payment within India of the dividends (including dividends on preference shares) payable out of such income in accordance with the provisions of section 194 of that Act;

(c) "industrial company" means a company which is mainly engaged in the business of generation or distribution of electricity or any other form of power or in the carriage, by road or inland waterways, of passengers or goods or in the construction of ships or in the execution of projects or in the manufacture or processing of goods or in mining.

Explanation.—For the purposes of this clause,—

(i) a company shall be deemed to be mainly engaged in the business of generation or distribution of electricity or any other form of power or in the carriage, by road or inland waterways, of passengers or goods or in the construction of ships or in the execution of projects or in the manufacture or processing of goods or in mining, if the income attributable to any one or more of the aforesaid activities included in its total income of the previous year (as computed before making any deduction under Chapter VI-A of the Income-tax Act) is not less than fifty-one per cent. of such total income ;

(ii) "project" means a project for the construction of a building, road, dam, bridge or other structure or assembly or installation of any machinery or plant ;

(d) "insurance commission" means any remuneration or reward, whether by way of commission or otherwise, for soliciting or procuring insurance business (including business relating to the continuance, renewal or revival of policies of insurance) ;

(e) "investment company" means a company whose gross total income (as defined in section 80B of the Income-tax Act) consists mainly of income which is chargeable under the heads "Interest on securities", "Income from house property", "Capital gains" and "Income from other sources" ;

(f) "net agricultural income", in relation to a person, means the total amount of agricultural income, from whatever source derived, of that person computed in accordance with the rules contained in Part IV of the First Schedule ;

(g) "tax-free security" means any security of the Central Government issued or declared to be income-tax free, or any security of a State Government issued income-tax free, the income-tax whereon is payable by the State Government ;

(h) "trading company" means a company whose business consists mainly in dealing in goods or merchandise manufactured, produced or processed by a person other than that company and whose income attributable to such business included in its gross total income (as defined in section 80B of the Income-tax Act) is not less than fifty-one per cent. of the amount of such gross total income ;

(i) all other words and expressions used in this section or in the First Schedule but not defined in this sub-section and defined in the Income-tax Act shall have the meanings respectively assigned to them in that Act.

CHAPTER III

DIRECT TAXES

Income-tax

3. **Amendment of section 2.**—In section 2 of the Income-tax Act, in clause (18), after sub-clause (ab), the following sub-clause shall be inserted with effect from the 1st day of April, 1984, namely :—

“(ac) if it is a mutual benefit finance company, that is to say, a company which carries on, as its principal business, the business of acceptance of deposits from its members and which is declared by the Central Government under section 620A of the Companies Act, 1956 (1 of 1956), to be a *Nidhi* or Mutual Benefit Society ; or ”.

4. **Amendment of section 10.**—In section 10 of the Income-tax Act,—

(a) in clause (10B), for the portion beginning with the words “ at the time of his retrenchment ”, and ending with the words “ whichever is less. ”, the following shall be substituted with effect from the 1st day of April, 1986, namely :—

“ at the time of his retrenchment :

Provided that the amount exempt under this clause shall not exceed—

(i) an amount calculated in accordance with the provisions of clause (b) of section 25F of the Industrial Disputes Act, 1947 (14 of 1947); or

(ii) fifty thousand rupees,
whichever is less :

Provided further that the preceding proviso shall not apply in respect of any compensation received by a workman in accordance with any scheme which the Central Government may, having regard to the need for extending special protection to the workmen in the undertaking to which such scheme applies and other relevant circumstances, approve in this behalf. ” ;

(b) in clause (15), after sub-clause (iii), the following sub-clause shall be inserted, namely :—

“(iiiia) interest payable to any bank incorporated in a country outside India and authorised to perform central banking functions in that country on any deposits made by it, with the approval of the Reserve Bank of India, with any scheduled bank.

Explanation.—For the purposes of this sub-clause, “ scheduled bank ” shall have the meaning assigned to it in the *Explanation* to clause (iii) of sub-section (5) of section 11 ; ’ ;

(c) in clause (26A), for the figures, letters and words “ 1st day of April, 1986 ”, the figures, letters and words “ 1st day of April, 1989 ” shall be substituted.

5. **Amendment of section 16.**—In section 16 of the Income-tax Act, in clause (i), with effect from the 1st day of April, 1986—

(a) the *Explanation* shall be numbered as *Explanation 1* ;

(b) after *Explanation 1* as so numbered, the following *Explanation* shall be inserted, namely :—

“ *Explanation 2.*—For the purposes of the proviso to this clause, the use of any vehicle referred to therein for journey by the assessee from his residence to his office or other place of work, or from such office or place to his residence, shall not be regarded as the use of such vehicle otherwise than wholly and exclusively in the performance of his duties ;”.

6. Amendment of section 17.—In section 17 of the Income-tax Act,—

(a) in clause (2), in item (c) of sub-clause (iii), for the portion beginning with the words ‘under the head “Salaries”’, and ending with the words “eighteen thousand rupees ;”, the following shall be substituted with effect from the 1st day of April, 1986, namely :—

‘under the head “Salaries” (whether due from, or paid or allowed by, one or more employers) exclusive of the value of all benefits or amenities not provided for by way of monetary payment, exceeds twenty-four thousand rupees ;’ ;

(b) in clause (2) [as amended by clause (ii) of section 7 of the Taxation Laws (Amendment) Act, 1984 (67 of 1984)],—

(a) in sub-clause (iv), the word “and” shall be inserted at the end ;

(b) in sub-clause (v), the word “and” occurring at the end shall be omitted ;

(c) sub-clause (vi) shall be omitted.

7. Insertion of new section 33AB.—After s. 33A of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 1986, namely :—

‘**33AB. Tea development account.**—(1) Where the business of an assessee, being a company, consists exclusively or almost exclusively of growing and manufacturing tea in India and the assessee has, during the previous year, deposited with the National Bank any amount or amounts in an account (hereafter in this section referred to as the special account) maintained by it with that Bank in accordance with a scheme (hereafter in this section referred to as the scheme) approved in this behalf by the Tea Board, the assessee shall, subject to the provisions of this section, be allowed a deduction of—

(a) a sum equal to the amount or the aggregate of the amounts so deposited during the previous year, or

(b) a sum equal to twenty per cent. of its profits (computed under the head “Profits and gains of business or profession” before making any deduction under this section),

whichever is less.

Explanation.—In this section,—

(a) “National Bank” means the National Bank for Agriculture and Rural Development established under section 3 of the National Bank for Agriculture and Rural Development Act, 1981 (61 of 1981) ;

(b) "Tea Board" means the Tea Board established under section 4 of the Tea Act, 1953 (29 of 1953).

(2) Where the amount or the aggregate of the amounts deposited by the assessee in the special account during the previous year exceeds the sum allowable as deduction under sub-section (1), the excess shall be treated, for the purposes of that sub-section, as a deposit made by the assessee in the next following previous year.

(3) Where any amount standing to the credit of the assessee in the special account is utilised by the assessee for the purposes of its business in accordance with the scheme,—

(a) for acquiring any asset being building, machinery, plant or furniture, the actual cost of such asset as determined under clause (1) of section 43 shall, for the purposes of this Act, be reduced by the amount so utilised;

(b) for incurring any expenditure for the purposes of its business, such expenditure shall be reduced by the amount so utilised and the resultant sum, if any, shall be taken into account for the purposes of this Act.

(4) Where any amount, standing to the credit of the assessee in the special account, which is released during any previous year by the National Bank for being utilised by the assessee for the purposes of its business in accordance with the scheme is not so utilised, either wholly or in part, within that previous year, the whole of such amount or, as the case may be, part thereof which is not so utilised shall be deemed to be profits and gains of business and accordingly chargeable to income-tax as the income of that previous year.

(5) The provisions of this section shall apply in relation to the assessment year commencing on the 1st day of April, 1986, and the four assessment years next following that assessment year.

8. Insertion of new section 35AB.—After section 35A of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 1986, namely:—

'35AB. Expenditure on know-how.—(1) Subject to the provisions of sub-section (2), where the assessee has paid in any previous year any lump sum consideration for acquiring any know-how for use for the purposes of his business, one-sixth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance amount shall be deducted in equal instalments for each of the five immediately succeeding previous years.

(2) Where the know-how referred to in sub-section (1) is developed in a laboratory, University or institution referred to in sub-section (2B) of section 32A, one-third of the said lump sum consideration paid in the previous year by the assessee shall be deducted in computing the profits and gains of the business for that year, and the balance amount shall be deducted in equal instalments for each of the two immediately succeeding previous years.

Explanation.—For the purposes of this section, "know-how" means any industrial information or technique likely to assist in the manufacture

or processing of goods or in the working of a mine, oil well or other sources of mineral deposits (including the searching for, discovery or testing of deposits or the winning of access thereto).’.

9. Amendment of section 35CC.—In section 35CC of the Income-tax Act, in sub-section (1), after the second proviso, the following proviso shall be inserted and shall be deemed to have been inserted with effect from the 17th day of March, 1985, namely:—

“Provided also that no programme shall be approved under this section after the 16th day of March, 1985.”.

10. Amendment of section 36.—In section 36 of the Income-tax Act,—

(a) in sub-section (1),—

(i) to clause (vii), the following proviso shall be added, namely:—

“Provided that in the case of a bank to which clause (viiia) applies, the amount of the deduction relating to any such debt or part thereof shall be limited to the amount by which such debt or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under that clause;”;

(ii) in clause (viiia),—

(1) for the portion beginning with the words “in respect of any provision” and ending with the words “in the prescribed manner.”, the following shall be substituted, namely:—

“in respect of any provision for bad and doubtful debts made by a scheduled bank [not being a bank approved by the Central Government for the purposes of clause (viiia) or a bank incorporated by or under the laws of a country outside India] or a non-scheduled bank, an amount not exceeding ten per cent. of the total income (computed before making any deduction under this clause and Chapter VI-A) or an amount not exceeding two per cent. of the aggregate average advances made by the rural branches of such bank, computed in the prescribed manner, whichever is higher.”;

(2) in the *Explanation*, in clause (ii), for the words, brackets, letter and figure “at the end of clause (b) of sub-section (2)”, the words, brackets and figures “to clause (iii) of sub-section (5)” shall be substituted;

(iii) in clauses (viii) and (viiia), for the brackets, words, figures and letter “(computed before making any deduction under Chapter VI-A)”, the brackets, words, figures and letter “(computed before making any deduction under this clause and Chapter VI-A)” shall be substituted;

(b) in sub-section (2), after clause (iv), the following clause shall be inserted, namely:—

“(v) where such debt or part of debt relates to advances made by a bank to which clause (viiia) of sub-section (1) applies, the bank has debited the amount of such debt or part of debt in that previous year to the provision for bad and doubtful debts account made under that clause.”.

11. Amendment of section 37.—In section 37 of the Income-tax Act, with effect from the 1st day of April, 1986,—

(a) in sub-section (1), the words, figures and letters “and section 80VV” shall be omitted;

(b) sub-sections (3A), (3B), (3C) and (3D) shall be omitted.

12. Amendment of section 40A.—In section 40A of the Income-tax Act,—

(a) in sub-section (5), in clause (b) of *Explanation 2* [as amended by clause (c) of section 11 of the Taxation Laws (Amendment) Act, 1984 (67 of 1984)],—

(i) in sub-clause (iv), the word “and” shall be inserted at the end ;

(ii) in sub-clause (v), the word “and” occurring at the end shall be omitted ;

(iii) sub-clause (vi), shall be omitted ;

(b) sub-section (8) shall be omitted with effect from the 1st day of April, 1986 ;

(c) after sub-section (11), the following sub-section shall be inserted with effect from the 1st day of April, 1986, namely :—

“(12) No deduction shall be allowed in respect of any expenditure incurred by the assessee by way of fees or other remuneration paid to any person (other than an employee of the assessee),—

(a) for services in connection with any proceeding under this Act before any income-tax authority or the Commission constituted under section 245B or a competent authority within the meaning of clause (b) of section 269A or the Appellate Tribunal or any court ; or

(b) for services in connection with any other proceeding before any court, being a proceeding relating to tax, penalty, interest or any other matter under this Act.”.

13. Amendment of section 44AB.—In section 44AB (inserted by section 11 of the Finance Act, 1984 (21 of 1984), of the Income-tax Act, in the proviso, the words “by an accountant” shall be omitted.

14. Amendment of section 54.—In section 54 of the Income-tax Act, in sub-section (1), the words and figures “to which the provisions of section 53 are not applicable” shall be omitted.

15. Amendment of section 58.—In section 58 of the Income-tax Act, in clause (a) of sub-section (1), after sub-clause (i), the following sub-clause shall be inserted with effect from the 1st day of April, 1986, namely :—

“(ia) any expenditure of the nature referred to in sub-section (12) of section 40A.”.

16. Amendment of section 80CC.—In section 80CC of the Income-tax Act, in sub-section (3), in clause (a),—

(a) for the words “with the main object of carrying on the business of—”, the words “and the issue is wholly and exclusively for the purposes of carrying on the business of—” shall be substituted ;

(b) in the proviso, the words “formed and registered in India with the main object of” shall be omitted.

17. Omission of section 80F.—Section 80F of the Income-tax Act shall be omitted with effect from the 1st day of April, 1986.

18. Amendment of section 80G.—In section 80G of the Income-tax Act,—

(a) in sub-section (1), for clause (i), the following clause shall be substituted with effect from the 1st day of April, 1986, namely :—

(i) in a case where the aggregate of the sums specified in sub-section (2) includes any sum or sums of the nature specified in sub-clause (iiia) or in sub-clause (vii) of clause (a) thereof, an amount equal to the whole of the sum or, as the case may be, sums of such nature *plus* fifty per cent. of the balance of such aggregate ; and ” ;

(b) in sub-section (2), in clause (a), after sub-clause (iiib), the following sub-clause shall be inserted, namely :—

“ (iiic) the Indira Gandhi Memorial Trust, the deed of declaration in respect whereof was registered at New Delhi on the 21st day of February, 1985 ; or ”.

19. Substitution of new section for section 80HHC.—In the Income-tax Act, for section 80HHC, the following section shall be substituted with effect from the 1st day of April, 1986, namely :—

‘ **80HHC. Deduction in respect of profits retained for export business.**—

(1) Where an assessee, being an Indian company or a person (other than a company) resident in India, is engaged in the business of export out of India of any goods or merchandise to which this section applies, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount, not exceeding fifty per cent. of the profits derived by the assessee from the export of such goods or merchandise :

Provided that an amount equal to the amount of the deduction claimed under this sub-section is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account to be utilised for the purposes of the business of the assessee.

(2) (a) This section applies to all goods or merchandise, other than those specified in clause (b), if the sale proceeds of such goods or merchandise exported out of India are receivable by the assessee in convertible foreign exchange.

(b) This section does not apply to the following goods or merchandise, namely :—

(i) mineral oil ; and

(ii) minerals and ores.

(3) For the purposes of sub-section (1), profits derived from the export of goods or merchandise out of India shall be,—

(a) in a case where the business carried on by the assessee consists exclusively of the export out of India of the goods or merchandise to which this section applies, the profits of the business as computed under the head “ Profits and gains of business or profession ” ;

(b) in a case where the business carried on by the assessee does not consist exclusively of the export out of India of the goods or merchandise

to which this section applies, the amount which bears to the profits of the business (as computed under the head "Profits and gains of business or profession") the same proportion as the export turnover bears to the total turnover of the business carried on by the assessee.

Explanation.—For the purposes of this section,—

(a) "convertible foreign exchange" means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purposes of the Foreign Exchange Regulation Act, 1973 (46 of 1973), and any rules made thereunder ;

(b) "export turnover" means the sale proceeds receivable by the assessee in convertible foreign exchange of any goods or merchandise to which this section applies and which are exported out of India, but does not include freight or insurance attributable to the transport of the goods or merchandise beyond the customs station as defined in the Customs Act, 1962 (52 of 1962).'

20. Amendment of section 80-I.—In section 80-I of the Income-tax Act,—

(a) in sub-section (2), in clause (iii), for the words "four years", the words "nine years" shall be substituted ;

(b) in sub-section (3), in clause (iii), for the words "four years", the words "nine years" shall be substituted ;

(c) in sub-section (4), in clause (iv), for the words, figures and letters "before the 1st day of April, 1985", the words, figures and letters "before the 1st day of April, 1990" shall be substituted.

21. Omission of section 80JJ.—Section 80JJ of the Income-tax Act shall be omitted with effect from the 1st day of April, 1986.

22. Omission of section 80N.—Section 80N of the Income-tax Act shall be omitted with effect from the 1st day of April, 1986.

23. Amendment of section 80QQA.—In section 80QQA of the Income-tax Act, in sub-section (1), for the words "four assessment years", the words "nine assessment years" shall be substituted.

24. Omission of section 80V.—Section 80V of the Income-tax Act shall be omitted with effect from the 1st day of April, 1986.

25. Omission of section 80VV.—Section 80VV of the Income-tax Act shall be omitted with effect from the 1st day of April, 1986.

26. Amendment of section 115.—In section 115 of the Income-tax Act, in clause (i) for sub-clause (a), the following sub-clause shall be substituted with effect from the 1st day of April, 1986, namely :—

"(a) on so much of the amount of such long-term capital gains as relate to buildings or lands or any rights in buildings or lands, at the rate of fifty per cent. ; and".

27. Amendment of section 115E.—In section 115E of the Income-tax Act, with effect from the 1st day of April, 1986,—

(a) in sub-section (1), the words "as increased by a surcharge for purposes of the Union at the rate of twelve and a half per cent. of such income-tax" shall be omitted;

(b) in sub-section (2), in clause (i), for the words "the aggregate of the income-tax and surcharge", the words "the income-tax" shall be substituted.

28. Amendment of section 136.—In section 136 of the Income-tax Act, the words and figures "and every income-tax authority shall be deemed to be a Civil Court for the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973 (2 of 1974)", shall be inserted and shall be deemed to have been inserted at the end with effect from the 1st day of April, 1974.

29. Amendment of section 139.—In section 139 of the Income-tax Act,—

(a) in sub-section (1A), in clause (b) [as substituted by sub-clause (i) of clause (a) of section 25 of the Taxation Laws (Amendment) Act, 1984 (67 of 1984)], for the words "eighteen thousand rupees", the words "twenty-four thousand rupees" shall be substituted with effect from the 1st day of April, 1986;

(b) in sub-section (9), in the *Explanation* in clause (e), for the words "auditor's report", the words, figures and letter "the auditor's report and, where an audit of cost accounts of the assessee has been conducted under section 233B of the Companies Act, 1956 (1 of 1956), also the report under that section" shall be substituted.

30. Substitution of new section for section 167A.—In the Income-tax Act, for section 167A, the following section shall be substituted, namely:—

'167A. Charge of tax where shares of members unknown.—Where the individual shares of the members of an association of persons (other than a company or co-operative society in the whole or any part of the income of such association are indeterminate or unknown, tax shall be charged on the total income of the association at the maximum marginal rate.

Explanation.—For the purposes of this section,—

(a) "maximum marginal rate" shall have the meaning assigned to it in *Explanation 2* below sub-section (3) of section 164;

(b) the individual shares of the members of an association of persons in the whole or any part of the income of such association shall be deemed to be indeterminate or unknown if such shares (in relation to the whole or any part of such income) are indeterminate or unknown on the date of formation of such association or at any time thereafter.'

31. Insertion of new section 180A.—After section 180 of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 1986, namely:—

'180A. Consideration for know-how.—Where the time taken by an individual, who is resident in India, for developing any know-how is more than twelve months, he may elect that the gross amount of any lump sum consideration received or receivable by him during the previous year for

allowing use of such know-how shall be treated for the purposes of charging income-tax for that year and for each of the two immediately preceding previous years as if one-third thereof were included in his income chargeable to tax for each of those years respectively and if he so elects, notwithstanding anything contained in any other provision of this Act,—

(a) such gross amount shall be so treated, and

(b) the assessments for each of the two preceding previous years shall, if made, be accordingly rectified under section 154, the period of four years specified in sub-section (7) of that section being reckoned from the end of the financial year in which the assessment relating to the previous year in which the amount was received or receivable by such individual is made.

Explanation.—For the purposes of this section, the expression “know-how” has the meaning assigned to it in section 35AB.’

32. Amendment of section 208.—In section 208 of the Income-tax Act, in sub-section (2), in clauses (c) and (d), for the letters and figures “Rs. 15,000”, the letters and figures “Rs. 18,000” shall be substituted.

33. Amendment of section 245D.—In section 245D of the Income-tax Act, in sub-section (2A), after the words, brackets and figure “order under sub-section (1)”, the words “allowing the application to be proceeded with” shall be inserted and shall be deemed to have been inserted with effect from the 1st day of October, 1984.

34. Amendment of section 273A.—In section 273A of the Income-tax Act, *Explanation* 2 below sub-section (1) shall be omitted.

35. Amendment of section 278A.—In section 278A of the Income-tax Act, after the word, figures and letters “section 276CC”, the words, figures and letters “or section 276DD” shall be inserted.

36. Consequential amendments.—The following amendments (being amendments of a consequential nature) shall be made in the Income-tax Act, with effect from the 1st day of April, 1986, namely:—

(a) in section 80A,—

(i) in sub-section (1), for the figures and letters “80VV”, the figures and letter “80U” shall be substituted;

(ii) in sub-section (3), the words, figures and letters “or section 80JJ” shall be omitted;

(b) in section 80-O, for the *Explanation*, the following *Explanation* shall be substituted, namely:—

‘*Explanation.*—For the purposes of this section,—

(i) “convertible foreign exchange” means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purposes of the law for the time being in force for regulating payments and dealings in foreign exchange;

(ii) any income used by the assessee outside India in the manner permitted by the Reserve Bank of India shall be deemed to have been brought into India in accordance with the law for the time being in force

for regulating payments and dealings in foreign exchange, on the date on which such permission is given.';

(c) in section 80P, in sub-section (3), the words, figures and letters "or section 80JJ" shall be omitted;

(d) in section 80VVA, in sub-section (2),—

(i) after clause (xiii), the following clause shall be inserted, namely :—

"(xiiia) section 33AB;";

(ii) clause (xxiii) shall be omitted;

(iii) clause (xxvi) shall be omitted;

(e) in section 155, sub-section (11) shall be omitted;

(f) in section 269SS, in the *Explanation*, for clause (i), the following clause shall be substituted, namely :—

'(i) "banking company" means a company to which the Banking Regulation Act, 1949 (10 of 1949), applies and includes any bank or banking institution referred to in section 51 of that Act;';

(g) in section 269T, in the *Explanation*, for clause (i), the following clause shall be substituted, namely :—

'(i) "banking company" shall have the meaning assigned to it in clause (i) of the *Explanation* to section 269SS;';

(h) the Tenth Schedule shall be omitted.

Wealth-tax

37. Amendment of section 5.—In section 5 of the Wealth-tax Act, 1957 (27 of 1957) (hereinafter referred to as the Wealth-tax Act),—

(a) in sub-section (1), with effect from the 1st day of April, 1986,—

(i) the following proviso shall be added to clause (i), namely :—

"Provided that nothing contained in this clause shall apply to any property forming part of any business, not being a business referred to in clause (a) or clause (b) of sub-section (4A) of section 11 of the Income-tax Act in respect of which separate books of account are maintained;";

(ii) in clause (iv), the proviso shall be omitted;

(b) in sub-section (1A), with effect from the 1st day of April, 1986,—

(i) for the word, brackets and figures "clauses (xv)", the word, brackets and figures "clauses (iv), (xv)" shall be substituted;

(ii) for the words "two hundred and sixty-five thousand rupees", at both the places where they occur, the words "five hundred thousand rupees" shall be substituted;

(iii) the second proviso [inserted by item (3) of sub-clause (ii) of clause (a) of section 34 of the Finance Act, 1984 (21 of 1984)], shall be omitted;

(iv) in the third proviso [inserted by item (3) of sub-clause (ii) of clause (a) of section 34 of the Finance Act, 1984 (21 of 1984)], for the words "Provided also", the words "Provided further" shall be substituted;

(c) in sub-section (3) [as amended by sub-clause (iii) of clause (a) of section 34 of the Finance Act, 1984 (21 of 1984)], the brackets, figures and letter “(xxva)” shall be omitted.

38. Amendment of section 18B.—In section 18B of the Wealth-tax Act, *Explanation 2* below sub-section (1) shall be omitted.

39. Amendment of section 22D.—In section 22D of the Wealth-tax Act, in sub-section (2A), after the words, brackets and figure “order under sub-section (1)”, the words “allowing the application to be proceeded with” shall be inserted and shall be deemed to have been inserted with effect from the 1st day of October, 1984.

40. Amendment of Schedule I.—In the Wealth-tax Act, for Part I of Schedule I, the following Part shall be substituted with effect from the 1st day of April, 1986, namely:—

PART I

(1) In the case of every individual or Hindu undivided family, not being a Hindu undivided family to which item (2) of this Part applies,—

Rate of tax

(a) where the net wealth does not exceed Rs. 2,50,000	<i>Nil</i> ;
(b) where the net wealth exceeds Rs. 2,50,000 but does not exceed Rs. 10,00,000	$\frac{1}{2}$ per cent. of the amount by which the net wealth exceeds Rs. 2,50,000;
(c) where the net wealth exceeds Rs. 10,00,000 but does not exceed Rs. 20,00,000	Rs. 3,750 <i>plus</i> 1 per cent. of the amount by which the net wealth exceeds Rs. 10,00,000;
(d) where the net wealth exceeds Rs. 20,00,000	Rs. 13,750 <i>plus</i> 2 per cent. of the amount by which the net wealth exceeds Rs. 20,00,000.

(2) In the case of every Hindu undivided family which has at least one member whose net wealth assessable for the assessment year exceeds Rs. 2,50,000,—

Rate of tax

(a) where the net wealth does not exceed Rs. 1,50,000	<i>Nil</i> ;
(b) where the net wealth exceeds Rs. 1,50,000 but does not exceed Rs. 5,00,000	1 per cent. of the amount by which the net wealth exceeds Rs. 1,50,000;
(c) where the net wealth exceeds Rs. 5,00,000 but does not exceed Rs. 10,00,000	Rs. 3,500 <i>plus</i> 2 per cent. of the amount by which the net wealth exceeds Rs. 5,00,000;
(d) where the net wealth exceeds Rs. 10,00,000	Rs. 13,500 <i>plus</i> 3 per cent. of the amount by which the net wealth exceeds Rs. 10,00,000.”

Interest-tax

41. Amendment of Act 45 of 1974.—In the Interest-tax Act, 1974, in section 6, in sub-section (2), after the words, figures and letters “ending with the 30th day of June, 1980”, the words, figures and letters “or after the 31st day of March, 1985” shall be inserted.

THE FIRST SCHEDULE

(See section 2)

PART I

INCOME-TAX AND SURCHARGE ON INCOME-TAX

Paragraph A

Sub-Paragraph I

In the case of every individual or Hindu undivided family or unregistered firm or other association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which Sub-Paragraph II of this Paragraph or any other Paragraph of this Part applies,—

Rates of income-tax

(1) where the total income does not exceed Rs. 15,000	<i>Nil</i> ;
(2) where the total income exceeds Rs. 15,000 but does not exceed Rs. 20,000	20 per cent. of the amount by which the total income exceeds Rs. 15,000 ;
(3) where the total income exceeds Rs. 20,000 but does not exceed Rs. 25,000	Rs. 1,000 <i>plus</i> 25 per cent. of the amount by which the total income exceeds Rs. 20,000 ;
(4) where the total income exceeds Rs. 25,000 but does not exceed Rs. 30,000	Rs. 2,250 <i>plus</i> 30 per cent. of the amount by which the total income exceeds Rs. 25,000 ;
(5) where the total income exceeds Rs. 30,000 but does not exceed Rs. 40,000	Rs. 3,750 <i>plus</i> 35 per cent. of the amount by which the total income exceeds Rs. 30,000 ;
(6) where the total income exceeds Rs. 40,000 but does not exceed Rs. 50,000	Rs. 7,250 <i>plus</i> 40 per cent. of the amount by which the total income exceeds Rs. 40,000 ;
(7) where the total income exceeds Rs. 50,000 but does not exceed Rs. 70,000	Rs. 11,250 <i>plus</i> 45 per cent. of the amount by which the total income exceeds Rs. 50,000 ;
(8) where the total income exceeds Rs. 70,000 but does not exceed Rs. 1,00,000	Rs. 20,250 <i>plus</i> 50 per cent. of the amount by which the total income exceeds Rs. 70,000 ;
(9) where the total income exceeds Rs. 1,00,000	Rs. 35,250 <i>plus</i> 55 per cent. of the amount by which the total income exceeds Rs. 1,00,000.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Sub-Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Sub-Paragraph II

In the case of every Hindu undivided family which at any time during the previous year has at least one member whose total income of the previous year relevant to the assessment year commencing on the 1st day of April, 1985, exceeds Rs. 15,000,—

Rates of income-tax

(1) where the total income does not exceed Rs. 8,000	<i>Nil</i> ;
(2) where the total income exceeds Rs. 8,000 but does not exceed Rs. 15,000	22 per cent. of the amount by which the total income exceeds Rs. 8,000 ;

(3) where the total income exceeds Rs. 15,000 but does not exceed Rs. 20,000

(4) where the total income exceeds Rs. 20,000 but does not exceed Rs. 25,000

(5) where the total income exceeds Rs. 25,000 but does not exceed Rs. 30,000

(6) where the total income exceeds Rs. 30,000 but does not exceed Rs. 50,000

(7) where the total income exceeds Rs. 50,000

Rs. 1,540 *plus* 27 per cent. of the amount by which the total income exceeds Rs. 15,000 ;

Rs. 2,890 *plus* 35 per cent. of the amount by which the total income exceeds Rs. 20,000 ;

Rs. 4,640 *plus* 40 per cent. of the amount by which the total income exceeds Rs. 25,000 ;

Rs. 6,640 *plus* 50 per cent. of the amount by which the total income exceeds Rs. 30,000 ;

Rs. 16,640 *plus* 60 per cent. of the amount by which the total income exceeds Rs. 50,000 ;

Provided that for the purposes of this Sub-Paragraph,—

(i) no income-tax shall be payable on a total income not exceeding Rs. 12,000 ;

(ii) where the total income exceeds Rs. 12,000 but does not exceed Rs. 17,610, the income-tax payable thereon shall not exceed forty per cent. of the amount by which the total income exceeds Rs. 12,000.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Sub-Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Paragraph B

In the case of every co-operative society,—

Rates of income-tax

(1) where the total income does not exceed Rs. 10,000

15 per cent. of the total income ;

(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 20,000

Rs. 1,500 *plus* 25 per cent. of the amount by which the total income exceeds Rs. 10,000 ;

(3) where the total income exceeds Rs. 20,000

Rs. 4,000 *plus* 40 per cent. of the amount by which the total income exceeds Rs. 20,000.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Paragraph C

Sub-Paragraph I

In the case of every registered firm, not being a case to which Sub-Paragraph II of this Paragraph applies, —

Rates of income-tax

- | | |
|--|---|
| (1) where the total income does not exceed Rs. 10,000 | <i>Nil</i> ; |
| (2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 25,000 | 5 per cent. of the amount by which the total income exceeds Rs. 10,000 ; |
| (3) where the total income exceeds Rs. 25,000 but does not exceed Rs. 50,000 | Rs. 750 <i>plus</i> 7 per cent. of the amount by which the total income exceeds Rs. 25,000 ; |
| (4) where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000 | Rs. 2,500 <i>plus</i> 15 per cent. of the amount by which the total income exceeds Rs. 50,000 ; |
| (5) where the total income exceeds Rs. 1,00,000 | Rs. 10,000 <i>plus</i> 24 per cent. of the amount by which the total income exceeds Rs. 1,00,000. |

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Sub-Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Sub-Paragraph II

In the case of every registered firm whose total income includes income derived from a profession carried on by it and the income so included is not less than fifty-one per cent. of such total income, —

Rates of income-tax

- | | |
|--|--|
| (1) where the total income does not exceed Rs. 10,000 | <i>Nil</i> ; |
| (2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 25,000 | 4 per cent. of the amount by which the total income exceeds Rs. 10,000 ; |
| (3) where the total income exceeds Rs. 25,000 but does not exceed Rs. 50,000 | Rs. 600 <i>plus</i> 7 per cent. of the amount by which the total income exceeds Rs. 25,000 ; |
| (4) where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000 | Rs. 2,350 <i>plus</i> 13 per cent. of the amount by which the total income exceeds Rs. 50,000 ; |
| (5) where the total income exceeds Rs. 1,00,000 | Rs. 8,850 <i>plus</i> 22 per cent. of the amount by which the total income exceeds Rs. 1,00,000. |

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Sub-Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Explanation.—For the purposes of this Paragraph, “registered firm” includes an unregistered firm assessed as a registered firm under clause (b) of section 183 of the Income-tax Act.

Paragraph D

In the case of every local authority,—

Rate of income-tax

On the whole of the total income 50 per cent.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of twelve and a half per cent. of such income-tax.

Paragraph E

In the case of a company,—

Rates of income-tax

I. In the case of a domestic company—

(1) where the company is a 55 per cent. of the total income ;
company in which the public are
substantially interested

(2) where the company is not a
company in which the public are
substantially interested—

(i) in the case of an indus- 60 per cent. of the total income ;
trial company

(ii) in any other case 65 per cent. of the total income.

II. In the case of a company other than a domestic company,—

(i) on so much of the total
income as consists of—

(a) royalties received from
Government or an Indian concern
in pursuance of an agreement made
by it with the Government or the
Indian concern after the 31st day
of March, 1961, but before the 1st
day of April, 1976, or

(b) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964, but before the 1st day of April, 1976,

and where such agreement has, in either case, been approved by the Central Government

50 per cent. ;

(ii) on the balance, if any, of the total income

70 per cent.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph shall be increased by a surcharge calculated at the rate of five per cent. of such income-tax.

PART II

Rates for deduction of tax at source in certain cases

In every case in which under the provisions of sections 193, 194, 194A, 194B, 194BB, 194D and 195 of the Income-tax Act, tax is to be deducted at the rates in force, deduction shall be made from the income subject to deduction at the following rates :—

	Income-tax	
	Rate of income-tax	Rate of surcharge
1. In the case of a person other than a company—		
(a) where the person is resident in India—		
(i) on income by way of interest other than "Interest on securities"	10 per cent.	Nil ;
(ii) on income by way of winnings from lotteries and crossword puzzles	30 per cent.	Nil ;
(iii) on income by way of winnings from horse races	30 per cent.	Nil ;
(iv) on income by way of insurance commission	10 per cent.	Nil ;
(v) on income by way of interest payable on	10 per cent.	Nil ;

	Income-tax	
	Rate of income-tax	Rate of surcharge
(A) any security, other than a tax-free security, of the Central or a State Government ;		
(B) any debentures or other securities for money issued by or on behalf of any local authority or a corporation established by a Central, State or Provincial Act ;		
(C) any debentures issued by a company where such debentures are listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956), and any rules made thereunder		
(vi) on any other income (excluding interest payable on a tax-free security)	20 per cent.	<i>Nil</i> ;
(b) where the person is not resident in India—		
(i) in the case of a non-resident Indian—		
(A) on investment income and long-term capital gains	20 per cent.	<i>Nil</i> ;
(B) on income by way of interest payable on a tax-free security	15 per cent.	<i>Nil</i> ;
(C) on the whole of the other income	income-tax at 30 per cent. of the amount of the income, or income-tax in respect of the income at the rates prescribed in Sub-Paragraph I of Paragraph A of Part III of this Schedule, if such income had been the total income, whichever is higher ;	
(ii) in the case of any other person—		
(A) on the whole of the income (excluding interest payable on a tax-free security)	income-tax at 30 per cent. of the amount of the income,	

Income-tax		
	Rate of income-tax	Rate of surcharge
income-tax in respect of the income at the rates prescribed in Sub-Paragraph I of Paragraph A of Part III of this Schedule, if such income had been the total income, whichever is higher ;		
(B) on income by way of interest payable on a tax-free security	15 per cent.	Nil ;
2. In the case of a company—		
(a) where the company is a domestic company—		
(i) on income by way of interest other than “ Interest on securities ”	20 per cent.	1 per cent. ;
(ii) on any other income (excluding interest payable on a tax-free security)	21·5 per cent.	1·075 per cent. ;
(b) where the company is not a domestic company—		
(i) on income by way of dividends payable by any domestic company	25 per cent.	Nil ;
(ii) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency	25 per cent.	Nil :
(iii) on income by way of royalty payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1976, where such royalty is in consideration for the transfer of all or any rights (including the granting of a licence) in respect of copyright in any book on a subject referred to in the proviso to sub-section (1A) of section 115A of the Income-tax Act, to the Indian concern	40 per cent.	Nil :

	Income-tax	
	Rate of income-tax	Rate of surcharge
<i>(iv)</i> on income by way of royalty [not being royalty of the nature referred to in sub-item <i>(b)(iii)</i>] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and which has been approved by the Central Government,—		
(A) where the agreement is made after the 31st day of March, 1961, but before the 1st day of April, 1976	50 per cent.	2·5 per cent. ;
(B) where the agreement is made after the 31st day of March, 1976—		
(1) on so much of the amount of such income as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification, relating to any patent, invention, model, design, secret formula or process, or trade mark or similar property	20 per cent.	<i>Nil</i> ;
(2) on the balance, if any, of such income	40 per cent.	<i>Nil</i> ;
<i>(v)</i> on income by way of fees for technical services payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and which has been approved by the Central Government—		
(A) where the agreement is made after the 29th day of February, 1964, but before the 1st day of April, 1976	50 per cent.	2·5 per cent. ;
(B) where the agreement is made after the 31st day of March, 1976	40 per cent.	<i>Nil</i> ;
<i>(vi)</i> on income by way of interest payable on a tax-free security	44 per cent.	2·2 per cent. ;
<i>(vii)</i> on any other income	65 per cent.	3·25 per cent.

Explanation.—For the purposes of this Part, “investment income”, “long-term capital gains” and “non-resident Indian” shall have the meanings assigned to them in Chapter XII-A of the Income-tax Act.

PART III

Rates for calculating or charging income-tax in certain cases, deducting income-tax from income chargeable under the head “Salaries” or any payment referred to in sub-section (9) of section 80E and computing “advance tax”.

In cases in which income-tax has to be calculated under the first proviso to sub-section (5) of section 132 of the Income-tax Act or charged under sub-section (4) of section 172 or sub-section (2) of section 174 or section 175 or sub-section (2) of section 176 of the said Act or deducted under section 192 of the said Act from income chargeable under the head “Salaries” or deducted under sub-section (9) of section 80E of the said Act from any payment referred to in the said sub-section (9) or in which the “advance tax” payable under Chapter XVII-C of the said Act has to be computed, at the rate or rates in force, such income-tax or, as the case may be, “advance tax” [not being “advance tax” in respect of any income chargeable to tax under Chapter XII or Chapter XII-A or sub-section (1A) of section 161 or section 164 or section 164A or section 167A of the Income-tax Act at the rates as specified in that Chapter or section], shall be so calculated, charged, deducted or computed at the following rate or rates:—

Paragraph A

Sub-Paragraph I

In the case of every individual or Hindu undivided family or unregistered firm or other association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2 of the Income-tax Act, not being a case to which Sub-Paragraph II of this Paragraph or any other Paragraph of this Part applies,—

Rates of income-tax

(1) where the total income does not exceed Rs. 18,000	<i>Nil</i> ;
(2) where the total income exceeds Rs. 18,000 but does not exceed Rs. 25,000	25 per cent. of the amount by which the total income exceeds Rs. 18,000 ;
(3) where the total income exceeds Rs. 25,000 but does not exceed Rs. 50,000	Rs. 1,750 <i>plus</i> 30 per cent. of the amount by which the total income exceeds Rs. 25,000 ;
(4) where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000	Rs. 9,250 <i>plus</i> 40 per cent. of the amount by which the total income exceeds Rs. 50,000 ;
(5) where the total income exceeds Rs. 1,00,000	Rs. 29,250 <i>plus</i> 50 per cent. of the amount by which the total income exceeds Rs. 1,00,000.

Sub-Paragraph II

In the case of every Hindu undivided family which at any time during the previous year has at least one member whose total income of the previous year relevant to the assessment year commencing on the 1st day of April, 1986, exceeds Rs. 18,000.

Rates of income-tax

- | | |
|--|--|
| (1) where the total income does not exceed Rs. 12,000 | <i>Nil</i> ; |
| (2) where the total income exceeds Rs. 12,000 but does not exceed Rs. 20,000 | 25 per cent. of the amount by which the total income exceeds Rs. 12,000 ; |
| (3) where the total income exceeds Rs. 20,000 but does not exceed Rs. 40,000 | Rs. 2,000 <i>plus</i> 30 per cent. of the amount by which the total income exceeds Rs. 20,000 ; |
| (4) where the total income exceeds Rs. 40,000 but does not exceed Rs. 60,000 | Rs. 8,000 <i>plus</i> 40 per cent. of the amount by which the total income exceeds Rs. 40,000 ; |
| (5) where the total income exceeds Rs. 60,000 but does not exceed Rs. 1,00,000 | Rs. 16,000 <i>plus</i> 50 per cent. of the amount by which the total income exceeds Rs. 60,000 ; |
| (6) where the total income exceeds Rs. 1,00,000. | Rs. 36,000 <i>plus</i> 55 per cent. of the amount by which the total income exceeds Rs. 1,00,000 |

Paragraph B

In the case of every co-operative society,—

Rates of income-tax

- | | |
|--|---|
| (1) where the total income does not exceed Rs. 10,000 | 15 per cent. of the total income ; |
| (2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 20,000 | Rs. 1,500 <i>plus</i> 25 per cent. of the amount by which the total income exceeds Rs. 10,000 ; |
| (3) where the total income exceeds Rs. 20,000 | Rs. 4,000 <i>plus</i> 40 per cent. of the amount by which the total income exceeds Rs. 20,000. |

Paragraph C

Sub-Paragraph I

In the case of every registered firm, not being a case to which Sub-Paragraph II of this Paragraph applies,—

Rates of income-tax

- | | |
|---|--------------|
| (1) where the total income does not exceed Rs. 10,000 | <i>Nil</i> ; |
|---|--------------|

(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 25,000

(3) where the total income exceeds Rs. 25,000 but does not exceed Rs. 50,000

(4) where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000

(5) where the total income exceeds Rs. 1,00,000

5 per cent. of the amount by which the total income exceeds Rs. 10,000 ;

Rs. 750 *plus* 7 per cent. of the amount by which the total income exceeds Rs. 25,000 ;

Rs. 2,500 *plus* 15 per cent. of the amount by which the total income exceeds Rs. 50,000 ;

Rs. 10,000 *plus* 24 per cent. of the amount by which the total income exceeds Rs. 1,00,000.

Sub-Paragraph II

In the case of every registered firm whose total income includes income derived from a profession carried on by it and the income so included is not less than fifty-one per cent. of such total income,—

Rates of income-tax

(1) where the total income does not exceed Rs. 10,000

Nil ;

(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 25,000

4 per cent. of the amount by which the total income exceeds Rs. 10,000 ;

(3) where the total income exceeds Rs. 25,000 but does not exceed Rs. 50,000

Rs. 600 *plus* 7 per cent. of the amount by which the total income exceeds Rs. 25,000 ;

(4) where the total income exceeds Rs. 50,000 but does not exceed Rs. 1,00,000

Rs. 2,350 *plus* 13 per cent. of the amount by which the total income exceeds Rs. 50,000 ;

(5) where the total income exceeds Rs. 1,00,000

Rs. 8,850 *plus* 22 per cent. of the amount by which the total income exceeds Rs. 1,00,000.

Explanation.—For the purposes of this Paragraph, “registered firm” includes an unregistered firm assessed as a registered firm under clause (b) of section 183 of the Income-tax Act.

Paragraph D

In the case of every local authority,—

Rate of income-tax

On the whole of the total income

50 per cent.

Paragraph E

In the case of a company,—

Rates of income-tax

I. In the case of a domestic company,—

(1) where the company is a company in which the public are substantially interested 50 per cent. of the total income ;

(2) where the company is not a company in which the public are substantially interested—

(i) in the case of a trading company or an investment company 60 per cent. of the total income ;

(ii) in any other case 55 per cent. of the total income.

II. In the case of a company other than a domestic company,—

(i) on so much of the total income as consists of—

(a) royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961, but before the 1st day of April, 1976, or

(b) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964, but before the 1st day of April, 1976,

and where such agreement has, in either case, been approved by the Central Government 50 per cent.

(ii) on the balance, if any, of the total income 65 per cent.

Surcharge on income-tax

The amount of income-tax computed in accordance with the preceding provisions of this Paragraph shall be increased by a surcharge calculated at the rate of five per cent. of such income-tax.

PART IV

[See section 2(8)(f)]

RULES FOR COMPUTATION OF NET AGRICULTURAL INCOME

Rule 1.—Agricultural income of the nature referred to in sub-clause (a) of clause (1) of section 2 of the Income-tax Act shall be computed as if it

were income chargeable to income-tax under that Act under the head "Income from other sources" and the provisions of sections 57 to 59 of that Act shall, so far as may be, apply accordingly :

Provided that sub-section (2) of section 58 shall apply subject to the modification that the reference to section 40A therein shall be construed as not including a reference to sub-sections (3) and (4) of section 40A.

Rule 2.—Agricultural income of the nature referred to in sub-clause (b) or sub-clause (c) of clause (1) of section 2 of the Income-tax Act [other than income derived from any building required as a dwelling house by the receiver of the rent or revenue or the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c)] shall be computed as if it were income chargeable to income-tax under that Act under the head "Profits and gains of business or profession" and the provisions of sections 30, 31, 32, 34, 36, 37, 38, 40, 40A [other than sub-sections (3) and (4) thereof], 41, 43 and 43A of the Income-tax Act shall, so far as may be, apply accordingly.

Rule 3.—Agricultural income of the nature referred to in sub-clause (c) of clause (1) of section 2 of the Income-tax Act, being income derived from any building required as a dwelling house by the receiver of the rent or revenue or the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c) shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from house property" and the provisions of sections 23 to 27 of that Act shall, so far as may be, apply accordingly :

Provided that sub-section (2) of the said section 23 shall apply subject to the modifications that the references to "total income" therein shall be construed as references to net agricultural income and that the words, figures and letter "and before making any deduction under Chapter VI-A" shall be omitted.

Rule 4.—Notwithstanding anything contained in any other provisions of these rules, in a case where the assessee derives income from sale of tea grown and manufactured by him in India, such income shall be computed in accordance with rule 8 of the Income-tax Rules, 1962, and sixty per cent. of such income shall be regarded as the agricultural income of the assessee.

Rule 5.—Where the assessee is a partner of a registered firm or an unregistered firm assessed as a registered firm under clause (b) of section 183 of the Income-tax Act, which in the previous year has any agricultural income, or is a partner of an unregistered firm which has not been assessed as a registered firm under clause (b) of the said section 183 and which in the previous year has either no income chargeable to tax under the Income-tax Act or has total income not exceeding the maximum amount not chargeable to tax in the case of an unregistered firm but has any agricultural income, then, the agricultural income or loss of the firm shall be computed in accordance with these rules and his share in the agricultural income or loss of the firm shall be computed in the manner laid down in sub-section (1), sub-section (2) and sub-section (3) of section 67 of the Income-tax

Act and the share so computed shall be regarded as the agricultural income or loss of the assessee.

Rule 6.—Where the assessee is a member of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) which in the previous year has either no income chargeable to tax under the Income-tax Act or has total income not exceeding the maximum amount not chargeable to tax in the case of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) but has any agricultural income, then, the agricultural income or loss of the association or body shall be computed in accordance with these rules and the share of the assessee in the agricultural income or loss so computed shall be regarded as the agricultural income or loss of the assessee.

Rule 7.—Where the result of the computation for the previous year in respect of any source of agricultural income is a loss, such loss shall be set off against the income of the assessee, if any, for that previous year from any other source of agricultural income :

Provided that where the assessee is a partner of an unregistered firm which has not been assessed as a registered firm under clause (b) of section 183 of the Income-tax Act or is a member of an association of persons or a body of individuals and the share of the assessee in the agricultural income of the firm, association or body, as the case may be, is a loss, such loss shall not be set off against any income of the assessee from any other source of agricultural income.

Rule 8.—Any sum payable by the assessee on account of any tax levied by the State Government on the agricultural income shall be deducted in computing the agricultural income.

Rule 9.—(1) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 1985, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous years relevant to the assessment years commencing on the 1st day of April, 1977, or the 1st day of April, 1978, or the 1st day of April, 1979, or the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, is a loss, then, for the purposes of sub-section (2) of section 2 of this Act,—

(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1977, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1978, or the 1st day of April, 1979, or the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984,

(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1978, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st

day of April, 1979, or the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984,

(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1979, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984,

(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1980, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984,

(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1981, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984,

(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1982, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1983, or the 1st day of April, 1984,

(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1983, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1984, and

(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1984,

shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 1985.

(2) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 1986, or, if by virtue of any provision of the Income-tax Act, income-tax is to be charged in respect of the income of a period other than that previous year, in such other period, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous years relevant to the assessment years commencing on the 1st day of April, 1978, or the 1st day of April, 1979, or the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985, is a loss, then, for the purposes of sub-section (6) of section 2 of this Act,—

(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1978, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1979, or the 1st day April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985,

(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1979, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1980, or the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985,

(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1980, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1981, or the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985,

(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1981, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1982, or the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985,

(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1982, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1983, or the 1st day of April, 1984, or the 1st day of April, 1985,

(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1983, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1984, or the 1st day of April, 1985,

(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1984, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1985, and

(viii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1985,

shall be set off against the agricultural income of the assessee for the previous year relevant to the assessment year commencing on the 1st day of April, 1986, or the period aforesaid.

(3) Where a change has occurred in the constitution of a firm, nothing in sub-rule (1) or sub-rule (2) shall entitle the firm to set off so much of

the loss proportionate to the share of a retired or deceased partner computed in the manner laid down in sub-section (1), sub-section (2) and sub-section (3) of section 67 of the Income-tax Act as exceeds his share of profits, if any, of the previous year in the firm, or entitle any partner to the benefit of any portion of the said loss (computed in the manner aforesaid) which is not apportionable to him.

(4) Where any person deriving any agricultural income from any source has been succeeded in such capacity by another person, otherwise than by inheritance, nothing in sub-rule (1) or sub-rule (2) shall entitle any person, other than the person incurring the loss, to have it set off under sub-rule (1) or, as the case may be, sub-rule (2).

(5) Notwithstanding anything contained in this rule, no loss which has not been determined by the Income-tax Officer under the provisions of these rules or the rules contained in Part IV of the First Schedule to the Finance (No. 2) Act, 1977 (29 of 1977), or of the Schedule to the Finance Act, 1978 (19 of 1978), or of the First Schedule to the Finance Act, 1979 (21 of 1979), or of the First Schedule to the Finance (No. 2) Act, 1980 (44 of 1980), or of the First Schedule to the Finance Act, 1981 (16 of 1981), or of the First Schedule to the Finance Act, 1982 (14 of 1982), or of the First Schedule to the Finance Act, 1983 (11 of 1983), or of the First Schedule to the Finance Act, 1984 (21 of 1984), shall be set off under sub-rule (1) or, as the case may be, sub-rule (2).

Rule 10.—Where the net result of the computation made in accordance with these rules is a loss, the loss so computed shall be ignored and the net agricultural income shall be deemed to be *nil*.

Rule 11.—The provisions of the Income-tax Act relating to procedure for assessment (including the provisions of section 288A relating to rounding off of income) shall, with the necessary modifications, apply in relation to the computation of the net agricultural income of the assessee as they apply in relation to the assessment of the total income.

Rule 12.—For the purposes of computing the net agricultural income of the assessee, the Income-tax Officer shall have the same powers as he has under the Income-tax Act for the purposes of assessment of the total income.

STATEMENT OF OBJECTS AND REASONS

The object of the Bill is to give effect to the financial proposals of the Central Government for the financial year 1985-86. The notes on clauses explain the various provisions contained in the Bill.

New Delhi ;

VISHWANATH PRATAP SINGH.

The 16th March, 1985.



PRESIDENT'S RECOMMENDATION UNDER ARTICLES 117(1) AND 274(1) OF THE CONSTITUTION OF INDIA

[Copy of letter No. F. 3(1)-B(D)/85, dated the 16th March, 1985, from Shri Vishwanath Pratap Singh, Minister of Finance, to the Secretary-General, Lok Sabha.]

The President, having been informed of the subject-matter of the proposed Bill, recommends under article 117(1), read with article 274(1), of the Constitution of India, the introduction of the Finance Bill, 1985, to the Lok Sabha.