

Section - 9, Income-tax Act, 1961 - 2015**Income deemed to accrue or arise in India.**

⁴ **9.** ⁵(1) The following incomes shall be deemed⁶ to accrue or arise in India :—

⁷(i) all income accruing or arising, whether directly or indirectly⁸, through or from any business connection⁸ in India, or through or from any property⁸ in India, or through or from any asset or source of income in India, ⁹[* * *] or through the transfer of a capital asset situate in India.

¹⁰[*Explanation 1*].—For the purposes of this clause—

(a) in the case of a business of which all the operations¹¹ are not carried out in India, the income of the business deemed under this clause to accrue or arise in India shall be only such part of the income as is reasonably attributable to the operations¹¹ carried out in India ;

(b) in the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export ;

¹²[* * *]

¹³[(c) in the case of a non-resident, being a person engaged in the business of running a news agency or of publishing newspapers, magazines or journals, no income shall be deemed to accrue or arise in India to him through or from activities which are confined to the collection of news and views in India for transmission out of India ;]

¹⁴[(d) in the case of a non-resident, being—

(1) an individual who is not a citizen of India ; or

(2) a firm which does not have any partner who is a citizen of India or who is resident in India ; or

(3) a company which does not have any shareholder who is a citizen of India or who is resident in India,

no income shall be deemed to accrue or arise in India to such individual, firm or company through or from operations¹⁵ which are confined to the shooting of any cinematograph film in India.]

¹⁶[*Explanation 2*.—For the removal of doubts, it is hereby declared that "business connection" shall include any business activity carried out through a person who, acting on behalf of the non-resident,—

(a) has and habitually exercises in India, an authority to conclude contracts on behalf of the non-resident, unless his activities are limited to the purchase of goods or merchandise for the non-resident; or

(b) has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident; or

- (c) habitually secures orders in India, mainly or wholly for the non-resident or for that non-resident and other non-residents controlling, controlled by, or subject to the same common control, as that non-resident:

Provided that such business connection shall not include any business activity carried out through a broker, general commission agent or any other agent having an independent status, if such broker, general commission agent or any other agent having an independent status is acting in the ordinary course of his business :

Provided further that where such broker, general commission agent or any other agent works mainly or wholly on behalf of a non-resident (hereafter in this proviso referred to as the principal non-resident) or on behalf of such non-resident and other non-residents which are controlled by the principal non-resident or have a controlling interest in the principal non-resident or are subject to the same common control as the principal non-resident, he shall not be deemed to be a broker, general commission agent or an agent of an independent status

Explanation 3.—Where a business is carried on in India through a person referred to in clause (a) or clause (b) or clause (c) of *Explanation 2*, only so much of income as is attributable to the operations carried out in India shall be deemed to accrue or arise in India.]

¹⁷[*Explanation 4.*—For the removal of doubts, it is hereby clarified that the expression "through" shall mean and include and shall be deemed to have always meant and included "by means of", "in consequence of" or "by reason of".

^{17a} *Explanation 5.*—For the removal of doubts, it is hereby clarified that an asset or a capital asset being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its value substantially from the assets located in India;]

Following Explanations 6 and 7 shall be inserted after Explanation 5 in clause (i) of sub-section (1) of section 9 by the Finance Act, 2015, w.e.f. 1-4-2016 :

Explanation 6.—*For the purposes of this clause, it is hereby declared that—*

- (a) *the share or interest, referred to in Explanation 5, shall be deemed to derive its value substantially from the assets (whether tangible or intangible) located in India, if, on the specified date, the value of such assets—*
- (i) *exceeds the amount of ten crore rupees; and*
 - (ii) *represents at least fifty per cent of the value of all the assets owned by the company or entity, as the case may be;*
- (b) *the value of an asset shall be the fair market value as on the specified date, of such asset without reduction of liabilities, if any, in respect of the asset, determined in such manner as may be prescribed;*
- (c) *"accounting period" means each period of twelve months ending with the 31st day of March:*
- (d) *"specified date" means the—*
- (i) *date on which the accounting period of the company or, as the case may be, the entity ends preceding the date of transfer of a share or an interest; or*
 - (ii) *date of transfer, if the book value of the assets of the company or, as the case may be, the entity on the date of transfer exceeds the book value of the assets as on the date referred to in sub-clause (i), by fifteen per cent :*

***Provided** that where a company or an entity, referred to in *Explanation 5*, regularly adopts a period of twelve months ending on a day other than the 31st day of March for the purpose of—

- (i) *complying with the provisions of the tax laws of the territory, of which it is a resident, for tax purposes; or*
- (ii) *reporting to persons holding the share or interest,*

then, the period of twelve months ending with the other day shall be the accounting period of the company or, as the case may be, the entity:

Provided further *that the first accounting period of the company or, as the case may be, the entity shall begin from the date of its registration or incorporation and end with the 31st day of March or such other day, as the case may be, following the date of such registration or incorporation, and the later accounting period shall be the successive periods of twelve months:*

Provided also *that if the company or the entity ceases to exist before the end of accounting period, as aforesaid, then, the accounting period shall end immediately before the company or, as the case may be, the entity, ceases to exist;*

Explanation 7.— *For the purposes of this clause,—*

- (a) *no income shall be deemed to accrue or arise to a non-resident from transfer, outside India, of any share of, or interest in, a company or an entity, registered or incorporated outside India, referred to in the Explanation 5,—*
 - (i) *if such company or entity directly owns the assets situated in India and the transferor (whether individually or along with its associated enterprises), at any time in the twelve months preceding the date of transfer, neither holds the right of management or control in relation to such company or entity, nor holds voting power or share capital or interest exceeding five per cent of the total voting power or total share capital or total interest, as the case may be, of such company or entity; or*
 - (ii) *if such company or entity indirectly owns the assets situated in India and the transferor (whether individually or along with its associated enterprises), at any time in the twelve months preceding the date of transfer, neither holds the right of management or control in relation to such company or entity, nor holds any right in, or in relation to, such company or entity which would entitle him to the right of management or control in the company or entity that directly owns the assets situated in India, nor holds such percentage of voting power or share capital or interest in such company or entity which results in holding of (either individually or along with associated enterprises) a voting power or share capital or interest exceeding five per cent of the total voting power or total share capital or total interest, as the case may be, of the company or entity that directly owns the assets situated in India;*
 - (b) *in a case where all the assets owned, directly or indirectly, by a company or, as the case may be, an entity referred to in the Explanation 5, are not located in India, the income of the non-resident transferor, from transfer outside India of a share of, or interest in, such company or entity, deemed to accrue or arise in India under this clause, shall be only such part of the income as is reasonably attributable to assets located in India and determined in such manner as may be prescribed;*
 - (c) *"associated enterprise" shall have the meaning assigned to it in section 92A;*
- (ii) *income which falls under the head "Salaries", if it is earned¹⁸ in India.*

¹⁹[*Explanation.—For the removal of doubts, it is hereby declared that the income of the nature referred to in this clause payable for—*

- (a) service rendered in India; and
- (b) the rest period or leave period which is preceded and succeeded by services rendered in India and forms part of the service contract of employment,

shall be regarded as income earned in India ;]

- (iii) income chargeable under the head "Salaries" payable by the Government¹⁸ to a citizen of India for service outside India ;
- (iv) a dividend paid by an Indian company outside India ;
- ²⁰[(v) income by way of interest payable by—
 - (a) the Government ; or
 - (b) a person who is a resident, except where the interest is payable in respect of any debt incurred, or moneys borrowed and used, for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India ; or
 - (c) a person who is a non-resident, where the interest is payable in respect of any debt incurred, or moneys borrowed and used, for the purposes of a business or profession carried on by such person in India ;

Following Explanation shall be inserted after sub-clause (c) of clause (v) of sub-section (1) of section 9 by the Finance Act, 2015, w.e.f. 1-4-2016 :

Explanation.—*For the purposes of this clause,—*

- (a) *it is hereby declared that in the case of a non-resident, being a person engaged in the business of banking, any interest payable by the permanent establishment in India of such non-resident to the head office or any permanent establishment or any other part of such non-resident outside India shall be deemed to accrue or arise in India and shall be chargeable to tax in addition to any income attributable to the permanent establishment in India and the permanent establishment in India shall be deemed to be a person separate and independent of the non-resident person of which it is a permanent establishment and the provisions of the Act relating to computation of total income, determination of tax and collection and recovery shall apply accordingly;*
- (b) *"permanent establishment" shall have the meaning assigned to it in clause (iiiia) of section 92F.*
- (vi) income by way of royalty²¹ payable by—
 - (a) the Government ; or
 - (b) a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India ; or
 - (c) a person who is a non-resident, where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India :

Provided that nothing contained in this clause shall apply in relation to so much of the income by way of royalty 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, if such income is payable in pursuance of an agreement made before the

1st day of April, 1976, and the agreement is approved by the Central Government :

²²[**Provided further** that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum payment made by a person, who is a resident, for the transfer of all or any rights (including the granting of a licence) in respect of computer software supplied by a non-resident manufacturer along with a computer or computer-based equipment under any scheme approved under the Policy on Computer Software Export, Software Development and Training, 1986 of the Government of India.]

Explanation 1.—For the purposes of the ²³[first] proviso, an agreement made on or after the 1st day of April, 1976, shall be deemed to have been made before that date if the agreement is made in accordance with proposals approved by the Central Government before that date; so, however, that, where the recipient of the income by way of royalty is a foreign company, the agreement shall not be deemed to have been made before that date unless, before the expiry of the time allowed under sub-section (1) or sub-section (2) of section 139 (whether fixed originally or on extension) for furnishing the return of income for the assessment year commencing on the 1st day of April, 1977, or the assessment year in respect of which such income first becomes chargeable to tax under this Act, whichever assessment year is later, the company exercises an option by furnishing a declaration in writing to the ²⁴[Assessing] Officer (such option being final for that assessment year and for every subsequent assessment year) that the agreement may be regarded as an agreement made before the 1st day of April, 1976.

Explanation 2.—For the purposes of this clause, "royalty" means consideration (including any lump sum consideration but excluding any consideration which would be the income of the recipient chargeable under the head "Capital gains") for—

- (i) the transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property ;
- (ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property ;
- (iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property ;
- (iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill ;
- ²⁵[(iva) the use or right to use any industrial, commercial or scientific equipment²⁶ but not including the amounts referred to in section 44BB;]
- (v) the transfer of all or any rights (including the granting of a licence) in respect of²⁶ any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films ;
or
- (vi) the rendering of any services in connection with the activities referred to in sub-clauses (i) to ²⁵[(iv), (iva) and](v).

²⁷[*Explanation 3.*—For the purposes of this clause, "computer software" means any computer programme recorded on any disc, tape, perforated media or other information storage device and includes any such programme or any customized electronic data.]

²⁸[*Explanation 4.*—For the removal of doubts, it is hereby clarified that the transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

Explanation 5.—For the removal of doubts, it is hereby clarified that the royalty includes and has always included consideration in respect of any right, property or information, whether or not—

- (a) the possession or control of such right, property or information is with the payer;
- (b) such right, property or information is used directly by the payer;
- (c) the location of such right, property or information is in India.

Explanation 6.—For the removal of doubts, it is hereby clarified that the expression "process" includes and shall be deemed to have always included transmission by satellite (including up-linking, amplification, conversion for down-linking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret;]

(vii) income by way of fees for technical services²⁹ payable by—

- (a) the Government ; or
- (b) a person who is a resident, except where the fees are payable in respect of services utilised in a business or profession carried on by such person²⁹ outside India or for the purposes of making or earning any income from any source outside India²⁹ ; or
- (c) a person who is a non-resident, where the fees are payable in respect of services utilised in a business or profession carried on by such person in India³⁰ or for the purposes of making or earning any income from any source in India :

³¹[**Provided** that nothing contained in this clause shall apply in relation to any income by way of fees for technical services payable in pursuance of an agreement made before the 1st day of April, 1976, and approved by the Central Government.]

³¹[*Explanation 1.*—For the purposes of the foregoing proviso, an agreement made on or after the 1st day of April, 1976, shall be deemed to have been made before that date if the agreement is made in accordance with proposals approved by the Central Government before that date.]

Explanation ³¹[2].—For the purposes of this clause, "fees for technical services" means any consideration (including any lump sum consideration) for the rendering of any managerial, technical or consultancy services (including the provision of services of technical or other personnel) but does not include consideration for any construction³², assembly, mining or like project undertaken by the recipient³² or consideration which would be income of the recipient chargeable under the head "Salaries".]

(2) Notwithstanding anything contained in sub-section (1), any pension payable outside India to a person residing permanently outside India shall not be deemed to accrue or arise in India, if the pension is payable to a person referred to in article 314 of the Constitution or to a person who, having been appointed before the 15th day of August, 1947, to be a Judge of the Federal Court or of a High Court within the meaning of the Government of India Act, 1935, continues to serve on or after the commencement of the Constitution as a Judge in India.

³³[*Explanation.*—For the removal of doubts, it is hereby declared that for the purposes of this section, income of a non-resident shall be deemed to accrue or arise in India under clause (v) or clause (vi) or clause (vii) of sub-section (1) and shall be included in the total income of the non-resident, whether or not,—

- (i) the non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.]

Following section 9A shall be inserted after section 9 by the Finance Act, 2015, w.e.f. 1-4-2016 :

4. See also Circular No. 35(XXXIII-7) of 1956, dated 3-9-1956, Circular No. 4, dated 20-2-1969, Circular No. 382, dated 4-5-1984, Circular No. 5/2004, dated 28-9-2004, Circular No. 7/2009, dated 22-10-2009 (Withdrawing Circular No. 23, dated 23-7-1969, Circular No. 163, dated 29-5-1975 and Circular No. 786, dated 7-2-2000), Letter F. No. 500/111/12009-FTD-1(Pt.), dated 29-5-2012 and Circular No. 4/2015, dated 26-3-2015 [Clarification regarding *Explanation 5* to section 9(1)(i)]. For details, see Taxmann's Master Guide to Income-tax Act.
5. For relevant case laws, see Taxmann's Master Guide to Income-tax Act.
6. For the meaning of the term "deemed", see Taxmann's Direct Taxes Manual, Vol. 3.
7. See rule 10 for manner of computation of income of non-residents in certain cases.
8. For the meaning of the expressions "directly or indirectly", "business connection" and "property", see Taxmann's Direct Taxes Manual, Vol. 3.
9. Words "or through or from any money lent at interest and brought into India in cash or in kind" omitted by the Finance Act, 1976, w.e.f. 1-6-1976.
10. *Explanation* renumbered as *Explanation 1* by the Finance Act, 2003, w.e.f. 1-4-2004.
11. For the meaning of the term "operations", see Taxmann's Direct Taxes Manual, Vol. 3.
12. Proviso omitted by the Finance Act, 1964, w.e.f. 1-4-1964.
13. Inserted by the Finance Act, 1983, w.r.e.f. 1-4-1962.
14. Inserted by the Taxation Laws (Amendment) Act, 1984, w.r.e.f. 1-4-1982.
15. For the meaning of the term "operations", see Taxmann's Direct Taxes Manual, Vol. 3.
16. Inserted by the Finance Act, 2003, w.e.f. 1-4-2004.
17. Inserted by the Finance Act, 2012, w.r.e.f. 1-4-1962.
- 17a. See also Circular No. 4/2015, dated 26-3-2015 [Clarification on *Explanation 5*].
- *Provisos are wrongly shown after 'clause (d)'. They should appear after 'clause (c)'.
18. For the meaning of the terms "earned" and "Government", see Taxmann's Direct Taxes Manual, Vol. 3.
19. Substituted by the Finance Act, 1999, w.e.f. 1-4-2000. Prior to its substitution, *Explanation* was inserted by the Finance Act, 1983, w.r.e.f. 1-4-1979.
20. Clauses (v), (vi) and (vii) inserted by the Finance Act, 1976, w.e.f. 1-6-1976.
21. For the meaning of the term "royalty", see Taxmann's Direct Taxes Manual, Vol. 3.
22. Inserted by the Finance (No. 2) Act, 1991, w.e.f. 1-4-1991.
23. Substituted for "foregoing" by the Finance (No. 2) Act, 1991, w.e.f. 1-4-1991.
24. Substituted for "Income-tax" by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1988.
25. Inserted by the Finance Act, 2001, w.e.f. 1-4-2002.
26. For the meaning of the term/expression "equipment" and "in respect of", see Taxmann's Direct Taxes Manual, Vol. 3.
27. Substituted by the Finance Act, 2000, w.e.f. 1-4-2001. Prior to its substitution, *Explanation 3*, as inserted by the Finance (No. 2) Act, 1991, w.e.f. 1-4-1991, read as under :

'Explanation 3.—For the purposes of this clause, the expression "computer software" shall have the meaning assigned to it in clause (b) of the Explanation to section 80HHE;'
28. Inserted by the Finance Act, 2012, w.r.e.f. 1-6-1976.
29. For the meaning of the expressions "fees for technical services", "such person" and "any source outside India", see Taxmann's Direct Taxes Manual, Vol. 3.
30. For the meaning of the expression "fees ... such person in India", see Taxmann's Direct Taxes Manual, Vol. 3.
31. Inserted by the Finance (No. 2) Act, 1977, w.e.f. 1-4-1977.
32. For the meaning of the term/expression "construction" and "mining or like project undertaken by recipient", see Taxmann's Direct Taxes Manual, Vol. 3.
33. Substituted by the Finance Act, 2010, w.r.e.f. 1-6-1976. Prior to its substitution, *Explanation*, as inserted by the Finance Act, 2007, w.r.e.f. 1-6-1976, read as under :

"*Explanation.*—For the removal of doubts, it is hereby declared that for the purposes of this section, where income is deemed to accrue or arise in India under clauses (v), (vi) and (vii) of sub-section (1), such income shall be included in the total income of the non-resident, whether or not the non-resident has a residence or place of business or business connection in India."