FINANCE ACT, 1968 - CIRCULAR NO. 6-P, DATED 6-7-1968

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Rate Structure

FINANCE ACT, 1968-I

Rates of income-tax for the assessment year 1968-69

2. The rates of income-tax for the assessment year 1968-69 in the case of all categories of taxpayers (corporate as well as non-corporate) are specified in Part I of the First Schedule to the Finance Act, 1968. These rates (summarised in Annexure I to this Circular) are the same as those specified in Part III of the First Schedule to the Finance (No. 2) Act, 1967, for the purpose of deduction of tax at source during the financial year 1967-68 from �salaries�, and for computation of �advance tax� payable during that financial year. Accordingly, where the total income of a taxpayer consists only of income under the head �Salaries� from which tax has been correctly deducted at source during the financial year 1967-68 (and there is no variation in the taxable income on assessment), it will not be necessary to raise any additional demand or to grant any refund on completion of assessment for the assessment year 1968-69.

FINANCE ACT, 1968-I

Rates for deduction of tax at source from �salaries�, and for computation of �advance tax�, during the financial year 1968-69

3. The Finance Act, 1968 follows the principle adopted in the Finance(No. 2) Act, 1967, that, in prescribing the rates of tax and in making new provisions in the taxation laws, measures which have the effect of bringing about a change in the tax liability or which provide a tax incentive or disincentive in any sphere should apply prospectively to current incomes due for assessment in the succeeding assessment year, and not retrospectively to incomes earned in the past, except where there are special circumstances justifying the retrospective operation of any particular provision. In conformity with this principle, changes in the rate schedule of tax which were considered necessary or desirable have been made operative prospectively in relation to incomes falling due for assessment in the succeeding assessment year 1969-70. The rate schedule of tax incorporating these changes is set forth in Part III of the First Schedule to the Finance Act, 1968 and is summarised in Annexure II to this Circular. These rates apply for the purpose of deduction of tax at source from �salaries� and retirement annuities payable to partners of registered firms engaged in specified professions, during that financial year 1968-69 ; computation of advance tax payable during the financial year ; and the charge or calculation of income-tax in special cases. These special cases are : section 132(5), first proviso [calculating income-tax on undisclosed income represented by seized assets in certain cases]; section 172(4) [levy of tax on provisional basis on the income of non-residents from shipping of cargo or passengers from Indian ports] ; section 174(2) [assessment of persons leaving India] ; section 175 [assessment of persons likely to transfer property to avoid tax] ; and section 176(2) [assessment of profits of a discontinued business].

The points of difference between the rate structure of tax specified in Part III of the First Schedule (for the financial year 1968-69), on the one hand, and that specified in Part I of the First Schedule (for the assessment year 1968-69) on the other, are explained in the following paragraphs 4 to 14.

FINANCE ACT, 1968-I

4. *Individuals, Hindu undivided families, associations of persons, etc. - Discontinuance of the levy of separate surcharges on earned and unearned incomes, and stepping up of the rates of basic income-tax on incomes in the slab over Rs. 1 lakh* - The rate structure of tax in the case of individuals, Hindu undivided families, unregistered firms, associations of persons, etc., during the past several years, has included provisions for the levy of separate surcharges on the income-tax in relation to their unearned and earned incomes in excess of specified limits. The income-tax calculated on the total income is increased by the amounts of these surcharges and a special surcharge calculated at 10 per cent of the aggregate of the basic income-tax and the unearned and earned income surcharges has also been leviable since the assessment year 1966-67.

FINANCE ACT, 1968-I

5. For the assessment year 1968-69, unearned income (mainly income from investments in house property, company shares, bank deposits, etc.) up to Rs. 30,000 is free from the unearned income surcharge. On unearned income in the slab Rs. 30,001 - Rs. 50,000, a surcharge is leviable at 20 per cent of the basic income-tax on such income and on unearned income in the slab over Rs. 50,000, at the rate of 25 per cent of the basic income-tax thereon. Earned income up to Rs. 1,00,000 is free from the earned income surcharge. On earned income in the slab Rs. 1,00,001 - Rs. 2,00,000, a surcharge is leviable at 5 per cent of the basic income-tax on such income; on earned income in the slab Rs. 2,00,001 - Rs. 3,00,000, at the rate of 10 per cent of the basic income-tax thereon ; and on earned income over Rs. 3,00,000, at 15 per cent of the basic income-tax thereon.

FINANCE ACT, 1968-I

6. As observed by the Deputy Prime Minister and Minister of Finance in his Budget Speech for 1968-69, under our integrated scheme of direct taxation, which comprises, besides income-tax, an annual tax on wealth and taxes on gifts and inheritance, there is no need or justification for differentiating between unearned and earned incomes through the levy of surcharges on the income-tax. As a measure of rationalisation and in order to simplify tax calculations, the levy of separate surcharges on unearned and earned incomes has been discontinued. Simultaneously, in order to maintain the progression in the incidence of income-tax at higher levels of income, the rates of basic income-tax on income over Rs. 1,00,000, have been increased. On incomes in the slabs up to Rs. 1,00,000, the rates of basic income-tax remain unchanged at the present levels [5 per cent on income in the slab Re. 1 - Rs. 5,000, increasing progressively to 65 per cent on income in the slab Rs. 70,001 - Rs. 1,00,000]. On income in the slab Rs. 1,00,001 - Rs. 2,50,000, the rate of basic income-tax has been stepped up from 65 per cent to 70 per cent, and on income in the slab over Rs. 2,50,000 from 65 per cent to 75 per cent.

FINANCE ACT, 1968-I

7. Provision has been made for the levy of a surcharge - corresponding to the existing special surcharge - at the rate of 10 per cent of the basic income-tax at all levels of income. Under the rate schedule in Part III of the First Schedule, the highest marginal rate of the income-tax (including the element of surcharge), in the case of individuals, Hindu undivided families, unregistered firms, associations of persons, etc., will be 82.5 per cent on income over Rs. 2,50,000, as compared to the existing highest marginal rate of tax (including all surcharges) of 89.375 per cent on unearned incomes in the slab over Rs. 70,000 and 82.225 per cent on earned income in the slab over Rs. 3 lakhs.

FINANCE ACT, 1968-I

8. *Spouse allowance in the case of resident married individuals* - A resident married individual is currently entitled to a tax relief of Rs. 75, which is calculated at the rate of 5 per cent on a spouse allowance of Rs. 1,500. This relief is, at present, available even where the spouse of the individual has an independent taxable income. Where both the spouses have taxable incomes, both are entitled to the benefit of the tax relief on account of spouse allowance. This double benefit has been withdrawn under the provision in Part III of the First Schedule, which stipulates that a married individual will not be entitled to tax relief on account of the spouse allowance where the spouse of the individual has a total income exceeding Rs. 4,000 during the relevant year. Thus, where both the spouses have independent taxable incomes, neither of them will be entitled to tax relief on account of spouse allowance.

FINANCE ACT, 1968-I

9. *Co-operative societies* - Under the rate schedule of tax in the case of co-operative societies for the assessment year 1968-69, the maximum marginal rate of basic income-tax on their income in the slab over Rs. 25,000 is 41 per cent and a surcharge is also leviable at 6� per cent of the basic income-tax on income in that slab. In the context of the discontinuance of the levy of unearned and earned income surcharges in the case of individuals, Hindu undivided families, etc., the ordinary surcharge leviable in the case of co-operative societies, at 6� per cent of the basic income-tax on their income in the slab over Rs. 25,000, has been discontinued. Further, the rate of basic income-tax on the income of co-operative societies in the slab over Rs. 25,000 has been reduced from 41 per cent to the round figure of 40 per cent. A surcharge - corresponding to the existing special surcharge - at the rate of 10 per cent of the basic income-tax is also leviable.

FINANCE ACT, 1968-I

10. *Registered firms* - For the assessment year 1968-69, a registered firm is chargeable to income-tax on its income in the slab over Rs. 25,000 at graded rates rising from 6 per cent on income in the slab Rs. 25,001 - Rs. 50,000 to 12 per cent on income in the slab over Rs. 1,00,000. The tax borne by the registered firm itself on its income is not allowable as a deduction in computing the individual shares of the partners in the income of the firm. However, the partners are entitled, in their personal assessments, to a rebate of tax at the average rate of tax on the proportionate amount of the tax borne by the registered firm. As a measure for simplifying tax calculations in cases of partners of registered firms, provision has been made with effect from the assessment year 1969-70 [by amendment of section 67 *vide* para 32 of this circular] to secure that the tax borne by the registered firm on its income is allowed as a deduction in determining the shares of its partners in the income of the firm. This will obviate the need for granting a rebate of tax to the partners of the firm on the proportionate amount of tax borne by the firm.

FINANCE ACT, 1968-I

11. In the context of the new provision in section 67 as stated above, the rates of basic income-tax on the incomes of registered firms in the slabs over Rs. 50,000 have been increased so as to secure that the overall incidence of tax on a registered firm and its partners taken together remains, virtually, at the same level as at present. The rate of basic income-tax on the income of a registered firm in the slab Rs. 25,001 - Rs. 50,000 remains the same as at present, namely 6 per cent. The rate in the slab Rs. 50,001-Rs. 1,00,000 has been increased from 8 per cent to 12 per cent, and that on income in the slab over Rs. 1,00,000, from 12 per cent to 20 per cent. The rates of ordinary and special surcharges in the case of registered firms remain unchanged. These are as follows :

- Ordinary surcharge at the rate of�

(*i*) 10 per cent of the basic income-tax in the case of a registered firm deriving the major part of its income from a profession carried on by it ;

(*ii*) 20 per cent of the basic income-tax in the case of any other registered firm.

- Special surcharge at 10 per cent of the aggregate of the basic income-tax and the ordinary surcharge.

FINANCE ACT, 1968-I

12. *Local authorities* - In the case of local authorities, the existing ordinary surcharge of 10 per cent of the income-tax has been merged with the rate of basic income-tax of 45 per cent, and the new rate of basic income-tax (for the purpose of �advance tax� payable during 1968-69) has been specified in the round figure of 50 per cent. A surcharge - corresponding to the existing special surcharge - at the rate of 10 per cent of the basic income-tax is also leviable.

FINANCE ACT, 1968-I

13. *Companies* - For the assessment year 1968-69, domestic companies (other than companies which are under an obligation under section 104 to distribute dividends up to the statutory percentage of their distributable income) are chargeable to an additional income-tax at the rate of 7.5 per cent with reference to the �relevant amount of distributions of dividends� made by them. The �relevant amount of distributions of dividends� comprises (*i*) distributions of equity dividends during the relevant previous year in excess of 10 per cent of the paid-up equity capital of the company as on the first day of the year ; and (*ii*) excess distributions of past years on which the tax at 7.5 per cent could not be charged due to insufficiency of the total income of the company for those years. As a measure of simplification and as a step towards improving the climate for equity investment, the levy of this additional income-tax has been discontinued. Accordingly, in computing the �advance tax� payable by companies during the financial year 1968-69, this additional income-tax is not payable.

FINANCE ACT, 1968-I

14. There is no other change in the rates of tax in the case of companies for the purpose of �advance tax� payable during the financial year 1968-69 from those applicable for the assessment year 1969-70.

FINANCE ACT, 1968-I

15. *General* - As already stated in paragraph 3 above, the changes in the rate structure of income-tax set forth in paragraphs 4 to 14 are operative only for the purpose of deduction of tax at source from �salaries� and retirement annuities payable to partners of registered firms engaged in specified professions, during the financial year 1968-69; computing �advance tax� payable during the said financial year and for charging or calculating income-tax in special cases.

FINANCE ACT, 1968-I

Rates for deduction of tax at source from incomes other than �salaries� and retirement annuities payable to partners of registered firms engaged in specified professions

16. Part II of the First Schedule to the Finance Act, 1968 specifies the rates at which tax is to be deducted at source from incomes other than �salaries� and retirement annuities payable to partners of registered firms engaged in specified professions. These rates are the same as those specified in Part II of the First Schedule to the Finance (No. 2) Act, 1967, except for a readjustment of the elements of income-tax and surcharge, on incomes payable to non-corporate persons, to secure that the element of surcharge amounts to 10 per cent of the basic income-tax. This readjustment has been made in the context of the discontinuance of the levy of unearned and earned income surcharges.

FINANCE ACT, 1968-I

Annuity deposits

17. Section 3 of the Finance Act, 1968, read with the Second Schedule thereto, prescribes the rates of annuity deposits under Chapter XXIIA in respect of incomes liable to tax for the assessment year 1968-69. These rates are the same as those specified in Part II of the Second Schedule to the Finance (No. 2) Act, 1967, as amended by the Taxation Laws (Amendment) Act, 1967 for the purpose of making annuity deposits during the financial year 1967-68 in relation to incomes assessable for the assessment year 1968-69.

FINANCE ACT, 1968-I

18. The Finance Act, 1968 has made certain amendments to the provisions of the Income-tax Act for securing the discontinuance of the requirement of making annuity deposits on incomes liable to tax for the assessment year 1969-70 and subsequent years. (These amendments are explained in detail in paragraph 116 of this circular.) Accordingly, no annuity deposit is required to be made during the financial year 1968-69 in relation to incomes falling due for assessment in the succeeding assessment year 1969-70.

Amendments to Income-tax Act

FINANCE ACT, 1968-I

Objectives

19. The objectives underlying the amendments made by the Finance Act, 1968, to the Income-tax Act, 1961, are mainly the following :

1. Rationalisation and simplification of its provisions.

2. Providing tax incentives for encouraging savings and investment.

3. Promotion of exports.

4. Improving the productivity of our agriculture and increasing our supplementary food resources.

5. Curbing wasteful or lavish expenditure in businesses and professions.

6. Countering tax evasion.

7. Expediting completion of assessments and grant of refunds.

The specific provisions for achieving these objectives are explained in the following paragraphs.

PROVISIONS FOR RATIONALISATION AND SIMPLIFICATION

FINANCE ACT, 1968-I

Computation of income from �salaries�- Standard deduction for maintenance expenditure and wear and tear of conveyance used for the employment

20. Under section 16(*iv*), as it stood up to 31-3-1968, a salaried taxpayer owning a conveyance and using it for the purpose of his employment was entitled to a deduction, in the computation of his taxable salary income, for the expenditure incurred by him on the maintenance of the conveyance and for its wear and tear, attributable to the use of the conveyance for the purpose of the employment. This deduction was allowable on the estimate of the Income-tax Officer at the time of the regular assessment. The deduction could not, therefore, be taken into account in calculating the tax to be deducted at source from the salary income. This resulted in excess deduction of tax at source from the salary, followed by claims for refund of the excess amount in the subsequent year.

FINANCE ACT, 1968-I

21. With a view to simplifying the computation of salary income in such cases and to obviate the inconvenience to salaried taxpayers in having to claim refund of tax deducted in excess from the salary, the provision in clause (*iv*) of section 16 has been amended by the Finance Act, 1968, with effect from 1-4-1968. Under the new clause (*iv*), a salaried taxpayer owning a conveyance and using it for the purpose of his employment (and not receiving a conveyance allowance) is entitled to a standard deduction from his salary of a specified amount, which covers the maintenance expenditure and also the wear and tear of the conveyance in relation to its use for the employment. The amounts of the standard deduction for various categories of conveyance are as follows:

Category of Conveyance	Amount of standard deduction for every month or part of the month during which the conveyance has been used for the purpose of employment
1. Motor cars :	Rs.
a. where the amount of the gross salary income of the taxpayer during the year does not exceed Rs. 15,000	150
b. where the gross salary income is between Rs. 15,001-Rs. 25,000	200
c. where the gross salary income exceeds Rs. 25,000	250
2. Motor cycles, scooters or other modes	50
3. Bicycles	5
[In respect of a conveyance other than those specified above, no standard deduction has been specified. The allowance for expenditure on the maintenance of any such conveyance and for its wear and tear will be determined by the Income-tax Officer on the facts of each case at the time of assessment.]	

�Salary�, for this purpose, will have the same meaning as in section 17.

FINANCE ACT, 1968-I

22. It is to be kept in view that the amount of the standard deduction as set forth above is allowable in respect of �every month or part of the month� for which the conveyance has been used for the purpose of the employment during the previous year. Hence, even where the conveyance has been used for only a few days during any month, the standard deduction at the full rate is admissible for that month. To illustrate, in the case of a salaried taxpayer who acquired a motor car for the first time on, say, July 20 of the relevant year, and used it for his employment for the remainder of the financial year, the amount of the standard deduction will be available at the appropriate rate, according to the range of his salary income, for a total period of 9 months, *i.e.,* from July to March. Again, where an employee sells his motor car, say, in the first week of August and purchases another car, say, in the last week of October and uses it for his employment for the rest of the financial year, he will be entitled to the standard deduction at the appropriate rate for 11 months, *i.e.,* April to August (5 months) and October to March (6 months).

FINANCE ACT, 1968-I

23. As the standard deduction is related to �every month or part of the month� during which the conveyance has been used for the purpose of the employment, an employee who is on leave for the whole of a particular month will not be entitled to the standard deduction for that month. However, if the leave commences in the course of a month and comes to an end in the course of the following month, the standard deduction will be admissible with reference to both the months.

FINANCE ACT, 1968-I

24. The deduction under clause (*iv*) of section 16 will not be available in the case of a salaried taxpayer who is in receipt of a conveyance allowance, as under the present law.

FINANCE ACT, 1968-I

25. The provision for standard deduction as explained above is operative for the assessment year 1968-69 and subsequent years. For salary incomes earned during the current financial year 1968-69, the standard deduction can be taken into account in calculating the tax to be deducted at source from the salary. The same will be the position for future years.

FINANCE ACT, 1968-I

26. As regards salary income earned during the financial year 1967-68 and liable to assessment in 1968-69, tax would already have been deducted at source without making any allowance for maintenance expenditure and wear and tear of conveyance. Salaried taxpayers can claim the standard deduction and obtain refund of the excess tax deducted from their salary at the time of the regular assessment for 1968-69. For this purpose, they will have to furnish, in their returns of income for 1968-69 (Form No. 2 or Form No. 3), information as to the type of conveyance used (motor car, motor cycle, etc.) and the number of months or part of months for which the conveyance has been owned by them and used for the purpose of the employment during the previous year. Particulars of the actual expenditure incurred on the maintenance of the conveyance and calculations of the depreciation will not be relevant, and need not be given.

[Section 30 of the Finance Act, read with item 3 of the Third Schedule]

FINANCE ACT, 1968-I

Computation of income from house property

27. Under the existing provisions in section 23, in computing the annual value of let-out house property, the whole of the amount of taxes levied by a local authority in respect of the property is allowable as a deduction only in a case where the property has been constructed prior to 1-4-1950. In the case of house property constructed after 31-3-1950, only one-half of the amount of local taxes is allowable as a deduction. Sub-section (1) of section 23 has been amended with effect from 1-4-1969 to secure that the whole of the taxes levied by a local authority in respect of the house property, insofar as these are borne by the owner, will be allowed as a deduction in determining the annual value of let-out house property in all cases, regardless of the date on which the construction of the property was completed. This amendment takes effect, prospectively, from the assessment year 1969-70.

[Section 30 of the Finance Act, read with item 4, of the Third Schedule]

FINANCE ACT, 1968-I

28. Under section 24(1)(*iii*), in computing the taxable income from house property which is subject to a mortgage or other capital charge, deduction is allowable for the amount of any interest on such mortgage or charge. Under section 24(1)(*vi*), where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital, the amount of any interest payable on such capital is allowable as a deduction. Thus, a deduction is available for interest on borrowed capital secured by a mortgage or other capital charge on the property even where the funds are utilised for extraneous purposes, such as personal expenditure, expenditure on marriages, education, etc. Section 24(1)(*iii*) has, therefore, been omitted with effect from 1-4-1969. The result will be that, for the assessment year 1969-70 and later years, interest on borrowed capital will be allowable as a deduction in computing the taxable income from house property only where the funds have been used for acquiring, constructing, repairing or renovating the property, as provided in section 24(1)(*vi*).

FINANCE ACT, 1968-I

29. Under section 24(1)(*iv*), deduction is admissible for an annual charge on house property even where the charge has been created by the taxpayer himself in favour of another person voluntarily and without legal compulsion. As this is an unmerited benefit, for which there is no justification, section 24(1)(*iv*) has been amended with effect from 1-4-1969 to secure that the amount of an annual charge on house property will not be allowed as a deduction in computing the income from that property where such charge has been created by the taxpayer himself voluntarily.

FINANCE ACT, 1968-I

30. Under section 24(1)(*vii*), any sums paid on account of land revenue in respect of house property are allowable as deduction in computing the taxable income from such property. Some State Governments (for example, Governments of Madras and Madhya Pradesh) have enacted legislation for the levy of an urban land tax on land (whether built or unbuilt) in urban areas. The urban land tax levied under the Madras Urban Land Tax Act, 1966, is in lieu of, *inter alia,* the land revenue, ground rent or quit rent, levied on urban land under earlier enactments. Section 24(1)(*vii*) has accordingly been amended with effect from 1-4-1969 to secure that in computing the taxable income from house property, deduction will be allowed for any sums paid on account of land revenue or any other tax levied by the State Government in respect of the property.

FINANCE ACT, 1968-I

31. The amendments to section 24 explained in paragraphs 28-30 above will be effective for the assessment year 1969-70 and later assessment years.

[Section 30 of the Finance Act, read with item 5 of the Third Schedule]

FINANCE ACT, 1968-I

Computation of income of partners of registered firms

32. Under the law as applicable to assessments up to the assessment year 1968-69, the share of a partner in the income of a registered firm is computed without making any deduction for the tax borne by the firm on its income. However, under section 86(*iv*), the partner is entitled to a rebate of tax, calculated at the average rate of tax, on the proportionate amount of tax borne by the registered firm. In order to simplify the calculation of tax in the case of partners of registered firms, section 67 (method of computing a partner�s share in the income of the firm) has been amended with effect from 1-4-1969. Under the amended provision [section 67(1)(*a*)], the income-tax, if any, payable by the registered firm in respect of its total income for the relevant year will be deducted from such total income and the balance apportioned among the partners. As a result of this provision each partner will secure a tax benefit on the basis that the proportionate amount of the tax borne by the firm is, in effect, deducted from the top most bracket of the partner�s income. Such tax benefit will, obviously, be higher than the rebate of tax available at present to the partner under section 86(*iv*). However, as stated in paragraph 11 of this circular, the rates of basic income-tax on the income of registered firms in the slabs over Rs. 50,000 have been increased so as to secure that the overall incidence of tax on a registered firm and all its partners taken together remains, virtually, at the same level as at present.

FINANCE ACT, 1968-I

33. In view of the change in the method of granting tax relief to partners in respect of the tax borne by the registered firm, section 86(*iv*) has been omitted.

FINANCE ACT, 1968-I

34. The amendment of section 67(1)(*a*) and the omission of clause (*iv*) of section 86 are effective for and from the assessment year 1969-70.

[Section 30 of the Finance Act, read with items 9 and 21 of the Third Schedule]

FINANCE ACT, 1968-I

Amendments consequential to the discontinuance of levy of separate surcharges with reference to unearned income and earned income in the case of non-corporate taxpayers

35. As explained in paragraph 4, the Finance Act, 1968 has discontinued the levy of surcharges with reference to the unearned income and earned income in the case of non-corporate taxpayers, as a measure of rationalisation and simplification. Certain consequential amendments have been made in the Income-tax Act by way of omission of references to �unearned income� and �earned income� for various purposes.

FINANCE ACT, 1968-I

36. These amendments take effect for and from the assessment year 1969-70.

[Section 30 of the Finance Act, read with items 11(*a*), 12(*b*), 13, 14, 15, 16, 22 and 24 of the Third Schedule]

Tax incentives for savings and investments

FINANCE ACT, 1968-I

Public provident fund

37. Government have instituted a public provident fund under the Public Provident Fund Act, 1968 (23 of 1968) in order to mobilise personal savings and provide a medium for long-term savings to all sections of the community, particularly self-employed persons. Under the provisions of the Public Provident Fund Act, 1968 and the Public Provident Fund Scheme, 1968 [Notification No. GSR 1136, dated 15-6-1968, published in the Gazette of India, Extraordinary, of the same date], membership of the fund is open to every individual. An individual may subscribe to the fund on his own behalf and also on behalf of a minor of whom he is guardian. Subscriptions during a year may range from a minimum of Rs. 100 to a maximum of Rs. 15,000 and may be made in multiples of Rs. 5 in as many instalments as the subscriber chooses. However, only one instalment may be paid in any calendar month. Subscriptions will be received at all the offices and branches of the State Bank of India and its subsidiaries from 1-7-1968. These accounts offices will maintain the accounts of the subscribers and also grant a certificate to each subscriber in respect of the subscriptions made by him under the scheme during a year. The balance in the fund will carry interest at the rate to be notified by Government from time to time. For the financial year 1968-69 the rate of interest will be 4.8 per cent per annum. Interest at this rate (calculated for each calendar month on the lowest balance at credit between the 5th and the last day of that month) will be credited to the account of each subscriber at the end of each year. Withdrawals from the fund will be permitted after the expiry of five financial years from the end of the financial year in which the initial subscription was made. The amount of withdrawal in a financial year may not exceed 50 per cent of the amount to the credit of the subscriber in the fund as on the last day of the sixth year immediately preceding the year of withdrawal. Limited facilities are allowed for taking loans from the fund during the initial period of five years when no withdrawal is permissible. The amounts standing to the credit of a subscriber in the fund together with interest credited from time to time may be withdrawn in full at any time on completion of 15 years after the end of the year in which the account was opened. A subscriber to the fund is permitted to nominate any other person or persons who will be entitled to receive the moneys standing to his credit in the event of his death.

FINANCE ACT, 1968-I

38. Individuals participating in the public provident fund will be eligible for the same tax concessions as are available to participants in Government provident funds. Thus, contributions made to the public provident fund will qualify for tax relief along with savings through other specified media, namely, life insurance policies, Government and recognised provident funds, approved superannuation funds and 10-year and 15-year accounts under the Post Office Savings Banks (Cumulative Time Deposits) Rules, subject to the existing overall qualifying limits. Any amounts received from the fund will also be exempt from Income-tax in the hands of the recipient in the same manner as in the case of amounts received from Government provident funds. The specific amendments to the Income-tax Act to secure these purposes are the following :

1. Clause (*11*) of section 10 has been amended to provide that, besides payments from a provident fund to which the Provident Fund Act, 1925 applies, any payment from any other provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette shall not be included in computing the total income of the recipient.

The Central Government have issued a notification No. SO 2430, dated 2-7-1968, in the Gazette of India, Extraordinary, dated 2-7-1968, specifying the Public Provident Fund for the purpose of this provision.

2. Section 80C(2)(*a*) has been amended by adding a new sub-clause (*iv*) thereto. Under new sub-clause (*iv*) of clause (*a*) of section 80C(2), contributions by an individual to any provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette will also qualify for the deduction under section 80C(1). Such contributions, together with savings in other approved media, namely, life insurance, provident funds to which the Provident Fund Act, 1925 applies, recognised provident funds and approved superannuation funds, and deposits in 10-year or 15-year cumulative time deposit accounts, will qualify for deduction under section 80C(1) subject to the limits specified in section 80C(4). The Central Government have issued a Notification No. SO 2431, dated 2-7-1968, in the Gazette of India, Extraordinary, dated 2-7-1968 specifying the Public Provident Fund for the purpose of this provision.

[Section 30 of the Finance Act, read with item 2(*b*) and item 12(*a*) of the Third Schedule]

FINANCE ACT, 1968-I

5-year fixed deposits with Government

39. Government have recently instituted two schemes for 5-year fixed deposits with Government, one relating to fixed deposits in post offices and the other such deposits on Government account in the State Bank of India and its subsidiaries. The deposits bear simple interest at 5 per cent per annum. Under these schemes, an individual can make fixed deposits up to the maximum of Rs. 25,000 and two individuals jointly up to Rs. 50,000. In computing these limits, fixed deposits by an individual in the post office as also those made by him in the State Bank of India and its subsidiaries have to be aggregated. The interest on these deposits will be exempt from income-tax. In order to secure this result, clause (*15*) of section 10 has been amended by the addition of a new sub-clause (*iia*), under which interest on fixed deposits under any scheme framed by the Central Government and notified by it in this behalf in the Official Gazette shall not be included in the total income of the depositor to the extent to which the amounts of such deposits do not exceed in each case the maximum amount which is permitted to be deposited therein. The Central Government have accordingly issued a Notification No. SO 2063, dated 4-6-1968, published in the issue dated 5-6-1968 of the Gazette of India, Extraordinary, specifying the above-mentioned schemes of 5-year fixed deposits with Government for the purpose of this provision.

[Section 30 of the Finance Act, read with item 2(*c*) of the Third Schedule]

FINANCE ACT, 1968-I

Exemption from tax of the first Rs. 500 of Indian company dividends in all cases

40. In order to encourage investment in shares in Indian companies, provision was made in section 80L by the Finance (No. 2) Act, 1967, under which Indian company dividends are exempt from tax for the assessment year 1968-69 where the total dividend income of the taxpayer during the year is not more than Rs. 500. Where the total dividend income is more than Rs. 500 the exemption is not available. As a further measure to encourage investments in shares of Indian companies by taxpayers in all income brackets, section 80L has been amended by the Finance Act, 1968 with effect from 1-4-1969 to secure that the first Rs. 500 of Indian company dividends will be exempt from tax in all cases, even where the total dividend income of the taxpayer during the year is more than Rs. 500.

[Section 30 of the Finance Act, read with item 17, of the Third Schedule]

FINANCE ACT, 1968-I

41. The provisions explained in paragraphs 37 to 40 above take effect from 1-4-1969 and will, accordingly, be operative for the assessment year 1969-70 and later years.

Export incentives

FINANCE ACT, 1968-I

Export markets development allowance

42. The Finance Act, 1968 has introduced a new section 35B, with effect from 1-4-1968. Under new section 35B, domestic companies and also non-corporate taxpayers resident in India, who incur any expenditure under specified heads to promote the sale outside India of any goods, services or facilities dealt in or provided by them in the course of their business, will be allowed an export markets development allowance. The allowance consists of a weighted deduction in an amount equal to 11/3 times the amount of the qualifying expenditure. The expenditure qualifying for this weighted deduction is that incurred by the taxpayer during the previous year wholly and exclusively on the following activities :

1. Advertisement of publicity outside India in respect of the goods, services or facilities dealt in or provided by the taxpayer in the course of his business.

2. Obtaining information regarding markets outside India for such goods, services or facilities.

3. Distribution, supply or provision outside India of such goods, services or facilities.

4. Maintenance outside India of a branch, office or agency for the promotion of the sale outside India of such goods, services or facilities.

5. Preparation and submission of tenders for the supply or provision outside India of such goods, services or facilities and activities incidental thereto.

6. Furnishing to a person outside India samples or technical information for the promotion of the sale of such goods, services or facilities.

7. Travelling outside India for the promotion of the sale outside India of such goods, services or facilities, including travelling outward from, and return to, India.

8. Performance of services outside India in connection with or incidental to the execution of any contract for the supply outside India of such goods, services or facilities.

9. Such other activities for the promotion of the sale outside India of such goods, services or facilities, as may be prescribed.

FINANCE ACT, 1968-I

43. It may be noted that the expenditure which qualifies for the weighted deduction is that incurred on activities exercised outside India for the development of export markets for Indian goods on a long-term basis. This provision is not intended to cover expenditure which the taxpayer incurs on activities inside India for his export business except where these are incidental to the activities outside India, such as that on preparation and submission of tenders referred to in item (*5*) above or furnishing of samples or technical information referred to in item (*6*) above. Under item (*9*) above, it is open to the Board to notify in the Income-tax Rules any other activities for the promotion of the sale outside India of such goods, services or facilities for the purpose of this provision and on such notification, expenditure on such activities will also qualify for the weighted deduction. The need for notifying any other activities in this behalf, and what these activities should be, are under consideration.

FINANCE ACT, 1968-I

44. The weighted deduction is admissible with reference to qualifying expenditure incurred by the taxpayer after 29-2-1968. Expenditure of a capital nature and personal expenses of the taxpayer do not qualify for the weighted deduction. Besides expenditure incurred by the taxpayer directly, expenditure incurred by him through participation in joint export promotion arrangements with others will also qualify for the weighted deduction.

FINANCE ACT, 1968-I

45. Expenditure on some of the activities specified for the purpose of section 35B may already be admissible as a deduction in computing the profits of the business while expenditure on other activities may not so qualify under the tests laid down in section 37(3). However, this consideration is not relevant for the purpose of computing the expenditure which qualifies for the weighted deduction under section 35B. Thus, the limits over the deductible amount of expenditure on advertisement maintenance of guest houses and travelling, in section 37(3) and rules 6A, 6B, 6C and 6D of the Income-tax Rules, will not apply for the purpose of computing the expenditure which qualifies for the weighted deduction under section 35B. This is because the deduction under this section is not of the expenditure as such, but in an *ad hoc* amount computed with reference to the qualifying expenditure. To avoid a double benefit, it has been provided that once an item of expenditure has been included as qualifying expenditure for the purpose of section 35B, no deduction will be admissible in respect of such expenditure under any other provision of the Act for the same or any other assessment year [section 35B(2)].

FINANCE ACT, 1968-I

46. There may be cases in which a foreign branch of an Indian business looks after the export business as also purchase of raw materials, etc., abroad or inspection of goods or equipment before they are shipped to India.

Similarly, travel abroad may be undertaken by the director or executives of a company partly for export promotion and partly for other purposes. In such cases, the amount of expenditure qualifying for the weighted deduction will have to be determined by apportioning the total expenditure among the various activities of the branch, or the various purposes for which the travel is undertaken, according to circumstances.

[Section 5 of the Finance Act]

FINANCE ACT, 1968-I

Higher development rebate on new equipment installed for processing fish and fish products

47. With a view to facilitating the development and modernisation of our fish processing industry, which is an important export industry, the Finance Act, 1968 has made a provision for the grant of development rebate at the �priority� rate of 35 per cent in respect of new machinery or plant installed in the industry. This has been secured by the inclusion in the Fifth Schedule of a new item 30 : �Processed (including frozen) fish and fish products�. This provision takes effect form 1-4-1969 and, accordingly, it will be applicable for the assessment year 1969-70 and later years.

FINANCE ACT, 1968-I

48. It may be mentioned in this connection that under section 33(1)(*b*)(*B*)(*i*), machinery or plant installed for the purposes of business of manufacture or production of any one or more of the articles or things specified in the list in the Fifth Schedule, qualifies for development rebate at the rate of 35 per cent of the actual cost of such machinery or plant to the assessee, where it is installed before 1-4-1970, and 25 per cent of such cost, where it is installed after 31-3-1970. The effect of inclusion of �Processed (including frozen) fish and fish products� in the Fifth Schedule is that new equipment (including refrigeration equipment in shore installations) for production of these articles will qualify for development rebate at the rate of 35 per cent of the actual cost where this is installed before 1-4-1970, and 25 per cent where it is installed after 31-3-1970. Trawlers used for deep-sea fishing already qualify for development rebate at the rate of 40 per cent, applicable in the case of ships.

FINANCE ACT, 1968-I

49. It may be noted that the industry of processing fish and fish products will not qualify for the other �priority industry� concessions, namely, deduction in the case of domestic companies of 8 per cent of the profits from priority industries in the computation of their taxable income, and the deduction in the case of a foreign company receiving dividends from a closely-held Indian company mainly engaged in a priority industry, of 80 per cent of such dividends in computing the taxable income of the foreign company. This is because the list of articles and things in the Fifth Schedule will, hereafter, be relevant only for the purposes of development rebate at the higher rate of 35 per cent. Industries qualifying for the other two �priority industry� concessions stated above are listed in a new Sixth Schedule introduced by the Finance Act, 1968. The industry of processing fish and fish products is not included in the Sixth Schedule.

[Section 30 of the Finance Act, read with item 25, of the Third Schedule]

FINANCE ACT, 1968-I

Exemption of Indian companies on income by way of dividends, royalties, fees, etc., received from foreign companies in certain cases

50. Under section 80N, an Indian company receiving dividends on shares in a foreign company allotted to it in consideration for the supply of technical �know-how� or technical services to the foreign company under an approved agreement, is entitled to a deduction of 60 per cent of the amount of such dividends in the computation of its taxable income. Under section 80-O, a similar deduction of 60 per cent is admissible to an Indian company in respect of royalties, commission, fees, etc., received by it from a foreign company in consideration for the supply of technical �know-how� or technical services under an approved agreement.

FINANCE ACT, 1968-I

51. Indian companies have now been exempted from tax on the whole of such dividends, royalties, technical fees, etc., in order to encourage them to develop and export technical �know-how� and expertise. For this purpose, sections 80N and 80-O have been amended by the Finance Act, 1968, to secure that the whole of the amount of dividends, royalties, commission, fees, etc., referred to above will be deducted in computing the total income of the Indian company.

FINANCE ACT, 1968-I

52. The amendments to sections 80N and 80-O take effect from 1-4-1969, and will be operative for the assessment year 1969-70 and later years.

[Section 30 of the Finance Act, read with items 18 and 19 of the Third Schedule]

FINANCE ACT, 1968-I

General

53. The Finance Act, 1968 has made certain provisions in the Income-tax Act with a view to encouraging industry to incur expenditure on providing inputs and extension services for improvement of agricultural productivity, scientific research in the spheres of agriculture, animal husbandry and fisheries, and developing and producing improved high yielding and disease-resistant strains of seeds, concentrates for cattle and poultry feed and also vegetable oils and oilcakes by the solvent extraction process. These provisions are explained in the following paragraphs.

FINANCE ACT, 1968-I

Agricultural development allowance

54. The Finance Act, 1968 has introduced a new section 35C under which companies engaged in agro-based industries will be eligible for a weighted deduction in the computation of their business income, with reference to expenditure incurred by them in providing agricultural inputs and extension services to independent cultivators, growers or producers of the products of agriculture, animal husbandry or dairy or poultry farming. The weighted deduction will be in an amount equal to 1-1/5th times the amount of the qualifying expenditure. The companies which are eligible for the weighted deduction are those which use the products of agriculture, animal husbandry or dairy or poultry farming as raw material for their industry or process such products. The expenditure which will qualify for the weighted deduction is that incurred by the company after 29-2-1968, in the provision of the goods, services or facilities specified hereunder :

1. Fertilisers, seeds, pesticides, concentrates for cattle and poultry feed, tools or implements, for use by the cultivator, grower or producer of the products of agriculture, animal husbandry or dairy or poultry farming.

2. Dissemination of information on, or demonstration of, modern techniques or methods of agriculture, animal husbandry or dairy or poultry farming or advice on such techniques or methods.

3. Such other goods, services or facilities as may be prescribed.

FINANCE ACT, 1968-I

55. It may be noted that expenditure on the provision of the goods, services or facilities, as stated above, will qualify for the weighted deduction only where these are provided to independent cultivators, growers or producers in India. Expenditure in the form of cash assistance to cultivators, growers or producers does not qualify for the weighted deduction. Where the company receives any consideration or compensation for the goods, services or facilities provided, whether from the cultivator, grower or producer or from any other source, the expenditure qualifying for the weighted deduction will be computed after excluding such consideration or compensation. Expenditure on providing inputs and extension services to related persons or associate concerns referred to in new section 40A (*vide* paragraphs 72 to 74 of this circular) will not qualify for the weighted deduction.

FINANCE ACT, 1968-I

56. The weighted deduction has been provided only in the case of companies engaged in agro-based industries, *i.e.,* those which use as raw material, or process, the products of agriculture, animal husbandry, dairy or poultry farming. Accordingly, companies which are engaged in agro-industries (as distinct from those engaged in agro-based industries) such as those manufacturing fertilisers, seeds, pesticides, tractors, implements, etc., are not eligible for the weighted deduction even though they may incur expenditure on supply of fertilisers, seeds, pesticides, tractors or other implements to the farmers or on demonstration of the use of these products for their benefit. This is because such expenditure would be incurred by these companies as part of their sales promotion effort and it is not the intention to allow a weighted deduction in relation to expenditure on such activities. The weighted deduction will also not be available where the company engaged in an agro-based industry owns its own farm and incurs expenditure on seeds, fertilisers, etc., used for cultivation of such farm.

FINANCE ACT, 1968-I

57. Expenditure under the qualifying heads may be incurred by the company either directly or through an association or body which has been approved for the purposes of this section by the prescribed authority.

FINANCE ACT, 1968-I

58. The question as to whether any further goods, services or facilities need to be included for the purpose of the weighted deduction and, if so, what these should be, is under consideration. The authority which is to grant approval to associations or bodies as stated in the preceding paragraph will also be notified in the Income-tax Rules.

FINANCE ACT, 1968-I

59. Some of the items of expenditure which qualify for the weighted deduction under section 35C may be allowable as a deduction in computing business profits under the existing law. However, where any such expenditure has been admitted as the base for computing the weighted deduction, no deduction shall be allowed in respect of such expenditure under any other provision of the Income-tax Act for the same or any other assessment year [Section 35C(2)].

[Section 5 of the Finance Act]

FINANCE ACT, 1968-I

Scientific research in the spheres of agriculture, animal husbandry and fisheries

60. At present, capital expenditure incurred by industry after 31-3-1967 on scientific research in related fields is allowable as a deduction in full in computing business profits of the year in which such expenditure is incurred. Revenue expenditure on scientific research in related fields is allowable as a deduction in computing business profits. Besides, contributions to approved scientific research associations as also to universities and other institutions for scientific research, are also allowable as a deduction. The expression �scientific research� has been defined in section 43(*4*)(*i*) to mean any activities in the fields of natural or applied science for the extention of knowledge. This provision has been amended by the Finance Act, 1968, so as to include specifically in the definition of the term �scientific research� any activities for the extension of knowledge in the spheres of agriculture, animal husbandry and fisheries. �Animal husbandry� includes dairy or poultry farming as well.

FINANCE ACT, 1968-I

61. The amendment to section 43(*4*)(*i*) takes effect from 1-4-1969 and is applicable for the assessment year 1969-70 and later years.

[Section 30 of the Finance Act, read with item 7 of the Third Schedule]

FINANCE ACT, 1968-I

�Priority industry� treatment to the seed processing industry

62. As a measure for encouraging the production of improved high-yielding and disease-resistant strains of seeds through modern methods, the Finance Act, 1968 has made a provision for according the �priority industry� treatment to the seed processing industry. This has been done by including �processed seeds� in the lists of articles and things in the Fifth Schedule and the new Sixth Schedule with effect from 1-4-1969. The effect of inclusion of processed seeds in the Fifth Schedule will be that new machinery or plant installed for the manufacture or production of processed seeds will be eligible for development rebate at the higher rate of 35 per cent of the cost thereof, where this is installed up to 31-3-1970, and 25 per cent after that date. As mentioned in paragraph 49 above, the new Sixth Schedule is relevant for the �priority industry� concessions of�

a. deduction of 8 per cent of the profits from the industries listed in that Schedule in computing the total income of domestic companies; and

b. deduction, in the case of a foreign company receiving dividends from a closely-held Indian company mainly engaged in a �priority industry�, of 80 per cent of such dividends in the computation of the total income of the foreign company.

The seed processing industry will, accordingly, be eligible for all the three tax concessions hitherto available to �priority industries�.

FINANCE ACT, 1968-I

63. This provision is effective for and from the assessment year 1969-70, that is to say, in relation to income derived during the financial year 1968-69 or any other corresponding accounting year which is the previous year for the assessment year 1969-70.

[Section 30 of the Finance Act, read with items 11(*b*), 25 and 26 of the Third Schedule]

FINANCE ACT, 1968-I

Higher development rebate on new equipment for production of processed concentrates for cattle or poultry feed, processed (including frozen) fish and fish products, and vegetable oils and oilcakes manufactured by the solvent extraction process

64. In order to encourage the production of processed concentrates for cattle and poultry feed, processed (including frozen) fish and fish products and vegetable oils and oilcakes manufactured by the solvent extraction process, these industries have been included in the Fifth Schedule with effect from 1-4-1969. New equipment installed in these industries will, accordingly, qualify for development rebate at the high rate of 35 per cent of the cost thereof where this is installed up to 31-3-1970, and 25 per cent after that date. As these articles are not included in the new Sixth Schedule, these industries will not qualify for the other two �priority industry� concessions referred to in the preceding paragraph. [The cottonseed oil industry is already included as item 25 in the Fifth Schedule and it has also been included as item 25 in the new Sixth Schedule. Hence this industry is excluded from the new entry �vegetable oils and oilcakes manufactured by the solvent extraction process� in item 31 of the Fifth Schedule.]

65. It may be mentioned here that the new Sixth Schedule contains all the 27 items in the existing Fifth Schedule together with item 28 �Processed seeds�. The list of articles and things in the Fifth Schedule will hereafter be relevant only for the purpose of development rebate on machinery and plant at the higher rate of 35 per cent or 25 per cent, as the case may be. The Fifth Schedule, as amended by the Finance Act, 1968, contains 4 new items, *viz.,* items 28, 29, 30 and 31, the last three of which do not appear in the new Sixth Schedule.

FINANCE ACT, 1968-I

66. The amendments to the Fifth Schedule as stated above are applicable for the assessment year 1969-70 and later years.

[Section 30 of the Finance Act, read with item 25 of the Third Schedule]

Measures designed to curb wasteful or lavish expenditure in businessES and professions

FINANCE ACT, 1968-I

Entertainment expenditure incurred through employees in businesses and professions

67. Under section 37(2A) [introduced by the Taxation Laws (Amendment) Act, 1967], the deduction in respect of entertainment expenditure incurred in businesses and professions is limited to certain percentages of the profit of the business or profession. The maximum amount of entertainment expenditure deductible under this provision is Rs. 30,000 in a case where the profits and gains of the business or profession amount to Rs. 1.70 crores or more during the year. These limits are in practice, circumvented by the grant of entertainment allowances to employees or by reimbursement to them of entertainment expenditure incurred by them for the purpose of the business. In order to make the limitation over the deductible amount of the entertainment expenditure really effective in curbing wasteful or lavish entertainment, the Finance Act, 1968 has inserted an *Explanation* to section 37(2A). Under this *Explanation,* entertainment expenditure incurred in a business or profession, through the grant of entertainment allowances to employees or other persons or through �expense accounts� operated by them, will be included in the �entertainment expenditure� of the taxpayer for the purpose of applying the limits specified in this behalf in section 37(2A). Even though this provision takes effect from 1-4-1968, it applies only to entertainment allowances paid to employees or other persons or entertainment expenditure incurred by an employee or any other person for the purpose of the business or profession of the taxpayer, after 29-2-1968.

[Section 6 of the Finance Act]

FINANCE ACT, 1968-I

Expenditure on providing perquisites, benefits or amenities to higher paid employees in businesses and professions

68. Under section 40(*c*)(*iii*), the deductible amount of expenditure incurred by companies in providing perquisites, benefits or amenities (subject to certain exceptions) to their higher paid employees is already limited to 20 per cent of the basic salary of each employee. With a view to making this provision more effective in achieving its purpose and to check extravagance on provision of perquisites and fringe benefits to employees in the non-corporate sector, the Finance Act, 1968 has introduced a new sub-clause (*v*) in clause (*a*) of section 40, with effect from 1-4-1969. Under the new sub-clause (*v*) which is applicable to all businesses and professions, whether carried on by a company or by a person other than a company, the deduction in respect of expenditure which results directly or indirectly in the provision of any benefit, amenity or perquisite to an employee will be limited to an amount equal to 1/5th of the salary paid to the employee during the relevant year or an amount calculated at the rate of Rs. 1,000 for each month or part of the month comprised in the period of his employment during the year, whichever is less. [�Salary� for this purpose has the same meaning as in rule 2(*h*) of Part A of the Fourth Schedule.] Further, any allowance admissible to the employer in respect of any assets provided by him to the employee free of charge or on a concessional basis is also brought within the purview of these limits. Thus, where an employer has provided residential accommodation or household equipment, such as refrigerator, air-conditioner, etc., owned by him to his employees free of charge, any expenditure incurred by the employer on the maintenance of these assets, and any depreciation allowance admissible to him in respect of such assets, will also be within the purview of the limit over the deductible amount of the expenditure in providing perquisites benefits or amenities to employees.

FINANCE ACT, 1968-I

69. As under the provisions of section 40(*c*)(*iii*), the limitation over the deductible amount of expenditure in new sub-clause (*v*) of section 40(*a*) will not apply to expenditure on providing perquisites, amenities, etc., to employees whose annual emoluments amount to Rs. 7,500 or less. The limitation will also not be applicable to expenditure incurred by the employer on provision of gratuities to the employees, travel concessions or passage moneys, tax paid by the employer on the salary of a foreign technician which is exempt from tax under section 10(*6*)(*vii*); employer�s contributions to the accounts of the employees in recognised provident funds or approved superannuation funds; compensation or other payments to employees, etc.

FINANCE ACT, 1968-I

70. As the new provision in section 40(*a*)(*v*) applies to all taxpayers, including companies, section 40(*c*)(*iii*) has been omitted with effect from 1-4-1969.

FINANCE ACT, 1968-I

71. The provision in new sub-clause (*v*) of section 40(*a*) is operative for the assessment year 1969-70 and later years. It is applicable also for the purpose of computation of �income from other sources�.

[Section 30 of the Finance Act, read with items 6 and 8 of the Third Schedule]

Measures for countering tax evasion

FINANCE ACT, 1968-I

Expenditure incurred in businesses and professions involving payment to relatives and associate concerns

72. The Finance Act, 1968 has introduced a new section 40A, with effect from 1-4-1968. Under sub-section (2) of new section 40A, expenditure incurred in a business or profession for which payment has been or is to be made to the taxpayer�s relatives or associate concerns is liable to be disallowed in computing the profits of the business or profession to the extent the expenditure is considered to be excessive or unreasonable. The reasonableness of any expenditure is to be judged having regard to the fair market value of the goods, services or facilities for which the payment is made or the legitimate needs of the business or profession or the benefit derived by, or accruing to, the taxpayer from the expenditure. Such portion of the expenditure which, in the opinion of the Income-tax Officer, is excessive or unreasonable according to these criteria is to be disallowed in computing the profits of the business or profession.

FINANCE ACT, 1968-I

73. The categories of persons payments to whom fall within the purview of this provision comprise, *inter alia,*�

a. any relative of the taxpayer, or where the taxpayer is a company, firm, association of persons or Hindu undivided family, any director of the company, partner of the firm or member of the association or family, and also relatives of such director, partner or member;

b. persons who have a substantial interest in the business or profession of the taxpayer, and relatives of such persons; where such person is a company, firm, association of persons or Hindu undivided family, the directors, partners and members, and their relatives;

c. persons in whose business or profession the taxpayer has a substantial interest directly or indirectly.

The term �relative�, as defined in section 2(*41*) means, in relation to an individual, the husband, wife, brother or sister or any lineal ascendant or descendant of that individual. A person will be deemed to have a substantial interest in a business or profession if, in a case where the business or profession is carried on by a company, the person beneficially owns shares in the company (other than preference shares), carring not less than 20 per cent of the voting power and, in any other case, where the person is beneficially entitled to not less than 20 per cent of the profits of the business or profession.

FINANCE ACT, 1968-I

74. It may be noted that the new provision is applicable to all categories of expenditure incurred in businesses and professions, including expenditure on purchase of raw materials, stores or goods, salaries to employees and also other expenditure on professional services, or by way of brokerage, commission, interest, etc. Where payment for any expenditure is found to have been made to a relative or associate concern falling within the specified categories, it will be necessary for the Income-tax Officer to scrutinise the reasonableness of the expenditure with reference to the criteria mentioned in the section. The Income-tax Officer is expected to exercise his judgment in a reasonable and fair manner. It should be borne in mind that the provision is meant to check evasion of tax through excessive or unreasonable payments to relatives and associate concerns and should not be applied in a manner which will cause hardship in *bona fide* cases.

FINANCE ACT, 1968-I

75. The above-mentioned provision in section 40A(2) is not applicable in the case of a company in respect of any expenditure referred to in section 40(*c*)(*i*), *i.e.,* that relating to remuneration, benefits and amenities to directors of the company, persons substantially interested in the company or to relatives of such director or person. The provisions in section 40(*c*)(*i*) will continue to govern the admissibility of such expenditure. *In regard to the latter* *provisions, the Deputy Prime Minister and Minister of Finance observed in Lok Sabha (during the debates on the Finance Bill, 1968) that where the scale of remuneration of a director of a company had been approved by the Company Law Administration, there was no question of the disallowance of any part thereof in the income-tax assessment of the company on the ground that the remuneration was unreasonable or excessive.*

FINANCE ACT, 1968-I

Expenditure incurred in businesses and professions for which payment is made in an amount exceeding Rs. 2,500, otherwise than by a crossed cheque drawn on a bank or a crossed bank draft

76. Sub-section (3) of new section 40A makes a provision for the disallowance of expenditure incurred in businesses and professions for which payment is made in an amount exceeding Rs. 2,500, otherwise than by a crossed cheque drawn on a bank or a crossed bank draft. This provision will apply in respect of payments made after a date to be notified by Government, being a date not later than 31-3-1969. This provision is designed to counter evasion of tax through claims for expenditure shown to have been incurred in cash with a view to frustrating proper investigation by the Department as to the identity of the payee and the reasonableness of the payment.

FINANCE ACT, 1968-I

77. Though the word �cheque� occurring in new section 40A(3) is not defined in the Income-tax Act, it will have the same meaning as it has under the Negotiable Instruments Act, 1881. Section 6 of the latter Act defines a �cheque� as �a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand�. Under section 49A of the Banking Regulation Act, 1949, any person other than a banking company, the Reserve Bank, the State Bank or any other notified person is prohibited from accepting from the public deposits of money withdrawable by cheque. The word �bank� as used in section 40A(3) is wide enough to include any person carrying on the business of banking and, thus, would include a co-operative land mortgage bank or any other co-operative society carrying on the business of banking. The word �bank� is wide enough to include even indigenous money-lenders� banks, but as stated above, indigenous money-lenders� banks are prohibited from accepting, from the public, deposits of money withdrawable by cheque, except where specifically notified in this behalf.

FINANCE ACT, 1968-I

78. Section 40A(3) also includes a provision that where any liability for any expenditure is incurred during the accounting year relevant to the assessment year 1969-70 or any later assessment year, and during any subsequent accounting year any payment is made for such liability in a sum exceeding Rs. 2,500, otherwise than by a crossed cheque drawn on a bank or by a crossed bank draft, the allowance originally made for the expenditure will be withdrawn and the assessment revised suitably. Such revision may be made within a period of 4 years from the expiry of the assessment year next following the previous year in which the payment was so made.

FINANCE ACT, 1968-I

79. Powers have also been given to the Board to notify in the Income-tax Rules any exceptions to the provision in section 40A(3) if considered necessary having regard to the nature and extent of banking facilities available, considerations of business expediency and other relevant factors. This is designed to avoid hardship in cases where due to lack of banking facilities, the making of payments by crossed cheque on a bank or by crossed bank draft will cause undue inconvenience to the parties. The question of notifying such exceptions in the Income-tax Rules is under consideration. As announced by the Deputy Prime Minister and Minister of Finance in his speech moving the Finance Bill, 1968, for consideration in Lok Sabha, the draft rules in this behalf will be circulated for eliciting public opinion before they are finalised. The date from which the new provisions are to be made operative is also under consideration.

FINANCE ACT, 1968-I

80. The provisions in section 40A set out in paragraphs 72 to 79 above will apply also for the purposes of computation of �income from other sources�.

[Sections 7 and 8 of the Finance Act]

FINANCE ACT, 1968-I

Stepping up the scale of penalty for concealment of income

81. Prior to the amendment of the Income-tax Act, by the Finance Act, 1968, the penalty leviable for concealment of income was a minimum amount of 20 per cent of the tax sought to be avoided and a maximum of 150 per cent of such tax. With a view to making the penalty provisions really deterrent against tax evasion, the Finance Act, 1968 has amended section 271(1) with effect from 1-4-1968. Under section 271(1) as amended, the minimum penalty leviable on a person for concealment of income (*i.e.,* concealment of the particulars of his income or furnishing of inaccurate particulars of such income) will be a sum equal to the amount of the concealed income, and the maximum amount of such penalty will be twice the amount of the concealed income.

FINANCE ACT, 1968-I

82. Under the existing *Explanation* to section 271(1), the onus of proof in penalty proceedings for concealment of income shifts from the Revenue to the taxpayer where the total income returned by any person is less than 80 per cent of the total income as assessed (reduced by the expenditure incurred *bona fide* for the purpose of making or earning any income included in the total income but which has been disallowed as a deduction). The effect of this *Explanation* is that penalty will be leviable in such a case unless the person concerned proves that the failure to return the correct income (that is to say, the assessed income as reduced by the expenditure referred to above) did not arise from any fraud or any gross or wilful neglect on his part. These provisions remain unchanged and will be applicable for the purpose of levy of penalty on the increased scale.

FINANCE ACT, 1968-I

83. The amendment of section 271(1) takes effect from 1-4-1968. Accordingly, penalty on the increased scale will be leviable in cases where there is concealment of income arising out of returns of income furnished on or after 1-4-1968. In such cases, the new provisions will be applicable even where the return relates to an earlier assessment year and irrespective of whether the return has been furnished in original assessment proceedings or any proceedings for assessing or reassessing income escaping assessment. Where any proceedings for imposition of penalty are taken for any assessment year in respect of concealment of income through a return furnished prior to 1-4-1968, the provisions of section 271(1), prior to its amendment by the Finance Act, 1968, will be applicable.

FINANCE ACT, 1968-I

84. It will be noted that in view of the change in the basis for quantification of penalty from �tax which would have been avoided� to �income in respect of which particulars have been concealed or inaccurate particulars have been furnished�, penalty for concealment of income through returns filed on or after 1-4-1968, will be leviable even where the assessment results in a loss.

FINANCE ACT, 1968-I

85. Under section 274(2), where the minimum penalty imposable for concealment of income exceeds Rs. 1,000, the Income-tax Officer is required to refer the matter to the Inspecting Assistant Commissioner and a penalty can be imposed in such a case only by the latter and not by the Income-tax Officer. This provision remains unchanged and will continue to apply in cases where penalties for concealment of income are to be imposed under the new provision. As the minimum penalty in such cases under the new provision is equivalent to the amount of the concealed income, all cases where the concealed income is more than Rs. 1,000, will be referred to the Inspecting Assistant Commissioner and the penalty, if any, will be imposed by him.

[Section 19 of the Finance Act]

FINANCE ACT, 1968-I

Punishment of persons defaulting in their statutory obligation to deduct tax at source and pay it to the credit of the Government

86. Under the law as it stood upto 31-3-1968, a person who, without reasonable cause or excuse, defaulted in complying with the statutory obligation to deduct tax at source and pay it to the credit of the Central Government, was liable, on conviction before a court, to the imposition of fine up to Rs. 10 for every day during which the default continued. In order to provide an effective deterrent against such defaults, the Finance Act, 1968 has introduced a new section 276B, with effect from 1-4-1968. Under the new section 276B, the punishment for such defaults, on conviction before a court, will be rigorous imprisonment up to six months and also fine which will be not less than an amount of 15 per cent per annum of the tax in default.

FINANCE ACT, 1968-I

87. Under a consequential amendment to section 279, it has been provided that proceedings for prosecutions of persons defaulting in their obligation to deduct tax at source and credit it to the Government shall not be initiated except at the instance of the Commissioner of Income-tax.

FINANCE ACT, 1968-I

88. It may be mentioned in this connection that under section 292, prosecutions for offences under the Income-tax Act may be conducted only before a Presidency Magistrate, First Class Magistrate or higher court.

[Sections 20, 21 and 22 of the Finance Act]

Measures for expediting assessments and refunds and eliminating inconvenience and hardship to taxpayers

FINANCE ACT, 1968-I

Provisional assessment for refund of tax paid in excess

89. The Income-tax Act provides (in section 141) for the making of a provisional assessment to determine the tax due from the taxpayer on the basis of the return of income and the accounts and documents, if any, accompanying it. There was no provision for making a provisional assessment to determine the amount of tax refundable to the taxpayer on the basis of his return of income. In a case where the tax deducted at source and the �advance tax� paid during a financial year exceeded the amount of tax due on the total income of the taxpayer for the next following assessment year, the excess was refundable to him only on completion of the regular assessment. In order to avoid inconvenience and hardship to taxpayers (due to delay in issue of refunds in cases where the completion of the regular assessment is likely to be delayed), the Finance Act, 1968 has introduced a new section 141A, enabling taxpayers to claim refund of tax deducted at source or paid in advance in excess of the tax due on the basis of the return of income and the accounts and documents accompanying it. Under this provision, the Income-tax Officer is authorised to make a provisional assessment of the sum refundable to the taxpayer on the basis of the return of income and the accounts and documents accompanying it, if he is of opinion that the regular assessment is likely to be delayed.

FINANCE ACT, 1968-I

90. The basis for making a provisional assessment under new section 141A is the same as that for a provisional assessment under section 141. In particular, due effect is to be given to any unabsorbed depreciation and any loss brought forward from earlier years.

FINANCE ACT, 1968-I

91. Any refund of tax on the provisional assessment will be deemed to have been granted in respect of the regular assessment when such assessment is completed. Where, on completion of the regular assessment, it is found that the refund, already granted on provisional assessment is in excess of the refund, if any, actually due, the excess amount, together with interest, if any paid thereon, is deemed to be tax payable by the taxpayer, and will be recoverable accordingly.

FINANCE ACT, 1968-I

92. During the debates on the Finance Bill, 1968 in Lok Sabha, the Deputy Prime Minister and Minister of Finance assured the House that where the regular assessment has been delayed for a period of six months from the date of receipt of the return, the Income-tax Officer will make a provisional assessment and grant the refund due to the taxpayer. This assurance should be noted by all Income-tax Officers for compliance.

FINANCE ACT, 1968-I

93. It may be noted that section 141A is a procedural provision. Accordingly, it applies not only to assessments for the year 1968-69 and later years but also to assessments for earlier years where returns are filed on or after 1-4-1968. It will also apply to assessments for earlier years for which returns have been filed before that date, provided the taxpayer makes a specific request to the Income-tax Officer for refund of the tax deducted or paid in excess by making a provisional assessment on the basis of the return and the accounts and documents accompanying it.

FINANCE ACT, 1968-I

94. Certain consequential amendments have also been made to sections 199, 214 and 219 in order to facilitate the operation of new section 141A. The amendment to section 199 makes it clear that credit for the tax deducted at source from the taxpayer�s income shall be given also in a provisional assessment under section 141A.

FINANCE ACT, 1968-I

95. The amendment to section 214 secures that where refund is granted, on a provisional assessment under section 141A, of the excess amount paid by way of �advance tax�, the interest on such excess shall be payable by the Central Government only up to the date of the provisional assessment.

FINANCE ACT, 1968-I

96. The amendment to section 219 secures that credit for the �advance tax� paid by, or recovered from, the taxpayer shall be given also in the provisional assessment made under section 141A.

[Sections 11, 15(*a*), 16 and 17 of the Finance Act]

FINANCE ACT, 1968-I

Reduction in the time limit for completion of income-tax assessments in original proceedings and for preferring claims for refund of tax

97. Under the relevant provisions of the Income-tax Act, prior to its amendment by the Finance Act, 1968, the time limit for completing income-tax assessments in original proceedings (*i.e.,* proceedings other than those where income has escaped assessment or has been under-assessed) was four years from the end of the assessment year in which the income was first assessable, except where the penal provisions of the Income-tax Act for concealment of income were attracted. The corresponding time limit for preferring claims for refund of tax was also four years from the last day of the assessment year in which the income in respect of which the claim was made was assessable.

FINANCE ACT, 1968-I

98. In order to expedite the disposal of income-tax assessments, the Finance Act, 1968 has amended the relevant provisions of the Income-tax Act effecting a phased reduction in the time limit from four years to two years. In this behalf, section 153(1) has been amended to provide that the time limit for completion of income-tax assessments in original proceedings will be as follows :

a. in respect of assessments for assessment years up to and inclusive of the assessment year 1967-68, four years from the end of the assessment year;

b. in respect of assessments for the assessment year 1968-69, three years from the end of that assessment year; and

c. in respect of assessments for the assessment year 1969-70 and later years, two years from the end of the relevant assessment year.

FINANCE ACT, 1968-I

99. As a corollary to the above, section 239 has also been amended by the Finance Act, 1968, to provide that the time limit for preferring claims for refund of tax will be as follows :

a. where the claim relates to income assessable for the assessment year 1967-68 or any earlier year, four years from the last day of the relevant assessment year;

b. where the claim is in respect of income assessable for the assessment year 1968-69, three years from the last day of that assessment year; and

c. where the claim is in respect of income assessable for the assessment year 1969-70 or any later year, two years from the last day of the relevant assessment year.

FINANCE ACT, 1968-I

100. A consequential amendment has also been made to section 139(4) which permitted the furnishing of belated returns of income before completion of the assessment, at any time before the expiry of four years from the end of the relevant assessment year. This provision has been amended to provide that a belated return may be furnished (before completion of the assessment) up to four years from the end of the assessment year where it relates to the assessment year 1967-68 or any earlier year; three years from the end of the assessment year where the return relates to 1968-69; and two years from the end of the assessment year where the return relates to the assessment year 1969-70 or any later year.

[Sections 12, 18 and 30 of the Finance Act, read with item 23 of the Third Schedule]

FINANCE ACT, 1968-I

Grant of credit in certain cases for the tax deducted at source from dividends on company shares to the beneficial owner of the shares even where the shares are registered in the name of any other person

101. Under the law as it stood up to 31-3-1968, credit for the tax deducted at source from dividends on company shares could be granted only to the �shareholder�, *i.e.,* the person in whose name the shares were registered in the books of the company. The dividend income has, however, been chargeable to tax only in the hands of the beneficial owner of the shares. Company shares owned by a person are often registered in the name of another person, *e.g.,* where the owner of the shares arranges with his bankers for collection of the dividends on the shares on the due dates for credit to his bank account, or pledges the shares with a bank or any other body as security for the fulfilment of certain obligations, etc. Shares owned by companies, firms and Hindu undivided families are also registered in the name of a director of the company, partner of the firm or member of the family. In order to avoid hardship and inconvenience to taxpayers owning company shares which are registered in the name of any other person, the Finance Act, 1968 has made provisions enabling the grant of credit for the tax deducted at source from dividends on company shares in specified circumstances to the beneficial owner of the shares. For this purpose, section 199 has been amended to provide that where the dividend on any share is assessable as the income of a person other than the registered shareholder, the tax deducted at source from the dividend and paid to the credit of the Central Government shall be deemed to have been paid on behalf of such other person and credit shall be given to him in his assessment in such circumstances as may be prescribed in the Income-tax Rules. Necessary amendments to the Income-tax Rules are being formulated and will be notified shortly.

[Section 15(*b*) of the Finance Act]

FINANCE ACT, 1968-I

Tax concessions in respect of dividends attributable to the �tax holiday� profits of the company and inter-corporate dividends to be allowed to beneficial owner of shares even where the shares are registered in the name of any other person

102. Dividends on company shares attributable to the �tax holiday� profits of the company are exempt from tax in the hands of the shareholder. Further, companies receiving dividends from any domestic company are chargeable to tax on such dividends on a concessional basis. Under the relevant provisions of the Income-tax Act prior to its amendment by the Finance Act, 1968, these tax concessions were available only where the shares were registered in the name of the beneficial owner. As company shares owned by a person are often registered in the name of another person, as stated in paragraph 101, the tax concessions in respect of dividends attributable to �tax holiday� profits and inter-corporate dividends are liable to be denied to the beneficial owner of the shares in such cases. In order to avoid hardship to beneficial owners of shares in such cases, the Finance Act, 1968 has made the following provisions :

1. Section 80K (relating to deduction in respect of dividends attributable to profits and gains from new industrial undertakings or ships or hotel business) has been amended to secure that the deduction under that section will be allowable only to the beneficial owner of the shares, as he is the person in whose hands the dividend income is assessable.

2. Section 80M (relating to deduction in respect of certain inter-corporate dividends) has been amended to secure that the deduction under that section will be allowed to the company which beneficially owns the shares and in whose total income the dividend income is includible.

3. In view of the circumstance that sections 80K and 80M referred to above have been introduced with effect from 1-4-1968, in replacement of the earlier provisions in sections 99(1)(*iv*), 85 and 85A, which provided similar tax concessions in respect of past years, an independent provision has been made in section 31 of the Finance Act, 1968, making corresponding amendments to those sections for the periods during which they were in operation.

FINANCE ACT, 1968-I

103. The amendments to sections 80K and 80M and the independent provision in section 31 of the Finance Act, 1968 amending the repealed sections 99(1)(*iv*), 85 and 85A secure, in effect, that the tax concessions in relation to dividends attributable to �tax holiday� profits of the company and in relation to inter-corporate dividends will be available to the beneficial owners of the shares with effect from the assessment year 1962-63.

[Sections 9, 10 and 31 of the Finance Act]

FINANCE ACT, 1968-I

Elimination of the waiting period of 12 months for refund of the amount due on tax credit certificates

104. The Income-tax Act provides for grant of tax credit certificates for various purposes. These tax credit certificates are granted in the following cases :

1. Individuals and Hindu undivided families making investments in eligible issues of equity capital of certain companies [section 280Z].

2. Public companies shifting their industrial undertakings from congested urban areas to other areas [section 280ZA].

3. Companies manufacturing specified commodities and incurring, for any one or more of the five assessment years from 1966-67 to 1970-71, liability to corporation tax (income-tax and surtax) on their manufacturing profits in excess of such liability for the base year (ordinarily the assessment year 1965-66) [section 280ZB].

4. Exporters of specified commodities receiving the sale proceeds thereof in India in accordance with the Foreign Exchange Regulation Act, 1947, and the rules made thereunder [section 280ZC]. (The grant of tax credit certificates under this provision has been suspended with reference to exports after the date of devaluation of the rupee, *i.e.,* 6-6-1966.)

5. Producers of excisable commodities who, during any one or more of the five financial years from 1965-66 to 1969-70, effect clearance of specified excisable commodities in excess of the clearance of such commodities during the �base year� (ordinarily the financial year 1964-65) [section 280ZD].

FINANCE ACT, 1968-I

105. Under the relevant provisions of the Income-tax Act [excluding those at item (*4*) of para 104, relating to tax credit certificates for exports] prior to amendment thereof by the Finance Act, 1968, the amount due on these certificates was required to be adjusted in the first instance against any tax liability of the certificate-holder existing on the date on which the certificate was produced before the Income-tax Officer for such adjustment and any further tax liability which might arise during the period of 12 months next following that date. Whether the certificate-holder had no tax liability or where the amount due on the certificate exceeded such tax liability, the amount of the certificate or, as the case may be, the balance remaining after adjustment against the tax liability was refundable to him only after the expiry of the above-mentioned period of 12 months.

FINANCE ACT, 1968-I

106. In order to obviate inconvenience to holders of tax credit certificates referred to at items (*1*), (*2*), (*3*) and (*5*) of paragraph 104 above, the relevant provisions in sections 280Z, 280ZA, 280ZB and 280ZD have been amended by the Finance Act, 1968, to eliminate the waiting period of 12 months for the refund of the amount due on tax credit certificates. Under the provisions as amended, the amount due on the certificates will be adjusted against any tax liability of the certificate-holder existing on the date on which the certificate is presented to the Income-tax Officer for such adjustment and the balance amount, if any, will be refundable to him forthwith.

FINANCE ACT, 1968-I

107. The amendments to sections 280Z, 280ZA, 280ZB and 280ZD have become effective from 1-4-1968. As these are procedural provisions, these amendments will apply also to certificates already issued as also to those already presented before the Income-tax Officer prior to 1-4-1968. In all such cases, if there is any balance remaining unadjusted against the tax liabilities which have so far fallen due against the certificate-holder, such balance should be refunded to him forthwith.

[Sections 26, 27, 28 and 29 of the Finance Act]

FINANCE ACT, 1968-I

Liberalisation, in certain directions, of the provisions for deduction of tax at source from interest other than �interest on securities�

108. Under section 194A, any person (other than an individual or Hindu undivided family) who credits or pays income by way of interest other than �interest on securities�, to any person resident in India, in an amount exceeding Rs. 400 at a time, is required, subject to certain exceptions, to deduct income-tax at source therefrom at the rates prescribed in the annual Finance Act. The rates prescribed for this purpose in the Finance Act, 1968 are : 10 per cent, where such interest income is payable to resident non-corporate persons, and 20 per cent, where it is payable to a resident company. Under these provisions, where the person entitled to receive the income (excepting a company or a registered firm) furnishes to the payer an affidavit or, alternatively, a statement in writing declaring that his estimated total income liable to tax for the next following assessment year will be less than the minimum taxable amount, no tax will be deducted at source from the interest income. The statement in writing for this purpose is to be signed in the presence of, and attested by, a gazetted officer of the Central or a State Government, a tehsildar or a mamlatdar or any other officer performing functions similar to those of a tehsildar or mamlatdar. With a view to affording greater facilities to persons having no taxable income to receive their interest income without deduction of tax at source, the relevant provision in section 194A has been amended by the Finance Act, 1968. Under the amended provision, the statement in writing by a person declaring that his estimated total income will be less than the minimum taxable amount may be signed in the presence of, and attested by, a Member of Parliament or a State Legislature; a member of a District Council, Metropolitan Council, Municipal Corporation or Municipal Committee; or an officer of any banking company (including a co-operative bank) of the rank of sub-agent, agent or manager, besides gazetted officers, mamlatdars, etc., as under the existing law.

FINANCE ACT, 1968-I

109. Under section 194A(3)(*iii*), institutions such as banking companies, co-operative banks, financial corporations, etc., are entitled to receive their interest income without deduction of tax at source. Further the Central Government is authorised under sub-clause (*f*) of clause (*iii*) of section 194A(3) to notify any particular institution, association or body in the Official Gazette for the purpose of enabling such institution, association or body to receive its interest income without deduction of tax at source. This provision has been amended by the Finance Act, 1968, so as to enlarge its scope, by enabling the Central Government to notify for this purpose any class of institutions, associations or bodies. This will obviate the necessity of issuing separate notifications for institutions, associations or bodies forming a distinct class.

FINANCE ACT, 1968-I

110. Under the provisions of section 194A as they stood up to 31-3-1968, a partnership firm which credited interest to the accounts of its partners was required to deduct tax at source from such interest. Similarly, a co-operative society crediting or paying interest to another co-operative society was also required to deduct tax from such interest. The interest paid by a partnership firm to its partners is, virtually, a payment to self. Interest received by a co-operative society from another co-operative society is wholly excluded from the taxable income of the recipient society. With a view to avoiding inconvenience and eliminating infructuous work in such cases, section 194A has been amended by the Finance Act, 1968 to provide that tax will not be deductible at source from the interest in these types of cases.

FINANCE ACT, 1968-I

111. The amendments to section 194A referred to in paragraphs 108-110 are effective from 1-4-1968, and apply to interest credited or paid on or after that date.

[Section 14 of the Finance Act]

FINANCE ACT, 1968-I

Tax relief to totally blind individuals resident in India

112. The Finance Act, 1968 has introduced a new section 80U, with effect from 1-4-1969, for providing tax relief to totally blind individuals resident in India. This relief will be granted by allowing to such individuals a straight deduction of Rs. 2,000 in the computation of their taxable income. In order to qualify for this relief, the individual has to produce, in respect of the first assessment year, for which such relief is claimed, a certificate as to his total blindness from a registered medical practitioner who is an oculist. For subsequent assessment years in respect of which the relief is claimed, such a certificate will not be required.

FINANCE ACT, 1968-I

113. The relief under new section 80U is available for and from the assessment year 1969-70.

[Section 30 of the Finance Act, read with items 10 and 20 of the Third Schedule]

FINANCE ACT, 1968-I

Enlargement of the scope of �short-term� capital gains

114. Under the provisions of the Income-tax Act prior to its amendment by the Finance Act, 1968, gains arising from the sale or transfer of a capital asset held by the taxpayer for not more than 12 months prior to the date of the sale or transfer were treated as capital gains relating to �short-term� capital assets, and were chargeable to tax as ordinary income. Gains arising from the sale or transfer of capital assets held by the taxpayer for more than 12 months prior to the date of the sale or transfer were treated as �long-term� capital gains, and charged to tax on a concessional basis. The relevant provision in section 2(*42A*) has been amended by the Finance Act, 1968 to enlarge the scope of short-term capital gains by providing that gains arising from the sale or transfer of any capital asset held by the taxpayer for not more than 24 months prior to the date of the sale or transfer will be treated as capital gains relating to short-term capital assets. This amendment is effective for and from the assessment year 1969-70.

[Section 30 of the Finance Act, read with item 1 of the Third Schedule]

FINANCE ACT, 1968-I

Interest income of non-residents from non-resident accounts in a bank in India

115. Under the provisions in section 10(*4A*) prior to its amendment by the Finance Act, 1968, a non-resident was exempt from tax on his income by way of interest on money standing to his credit in a non-resident account in any bank in India in accordance with the Foreign Exchange Regulation Act, 1947 and any rules made thereunder. The intention underlying this provision has been to provide the exemption in respect of interest only on funds which are repatriable outside India. In order to bring out this intention, section 10(*4A*) has been amended by the Finance Act, 1968. Under the amended provision, the exemption will be available only in respect of interest on moneys standing to the credit of a non-resident in a �Non-resident (External) Account� in any bank in India in accordance with the Foreign Exchange Regulation Act, 1947, and any rules made thereunder. The Rules in this behalf will be made and notified by the Reserve Bank of India. This provision takes effect, prospectively, from the assessment year 1969-70.

[Section 30 of the Finance Act, read with item 2(*a*) of the Third Schedule]

FINANCE ACT, 1968-I

Discontinuance of the requirement of making annuity deposits by non-corporate taxpayers in respect of incomes assessable for the assessment year 1969-70 and later years

116. As mentioned in paragraph 18 of this circular, the Finance Act, 1968 has made certain amendments to the provisions of the Income-tax Act for securing the discontinuance of the requirement of making annuity deposits by non-corporate taxpayers on their incomes liable to tax for the assessment year 1969-70 and subsequent years. These amendments are as follows:

1. Amendment of section 280C [relating to requirement as to annuity deposit] to provide that the provisions of that section will apply only in respect of annuity deposits in relation to assessment years prior to the assessment year 1969-70.

2. Amendment of section 280-O [relating to annuity deposit being allowed as deduction in computing total income] to provide that the deduction under that section for annuity deposit, in computing the total income, shall be available only in respect of assessment years prior to the assessment year 1969-70.

3. Amendment of section 280X [relating to liability to pay additional income-tax in certain cases] to provide that the liability under that section to pay additional income-tax for failure to make annuity deposit or for making a short deposit shall be operative only in respect of assessment years prior to the assessment year 1969-70.

[Sections 23, 24 and 25 of the Finance Act]

Amendment to Companies (Profits) Surtax Act

FINANCE ACT, 1968-I

Rates

117. The Finance Act, 1968 has reduced the rate of surtax on the net chargeable profits of companies by 10 per cent, from 35 per cent to 25 per cent. For this purpose, the Third Schedule to the Surtax Act has been amended, with effect from 1-4-1969. Accordingly, the deduction in the rate of surtax from 35 per cent to 25 per cent will be effective for the assessment year 1969-70 and later years

[Section 33 of the Finance Act]