

CHAPTER - II

NATURE OF VARIOUS INCENTIVES

UNDER THE INCOME TAX ACT, 1961.

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2.1 Brief Background :

As discussed earlier, the incentives are supposed to attain certain specific objectives. The tax is levied on the income of a person received by him during the previous year at the rates prevailing in the assessment year. While calculating the tax liability, the specific deductions in the form of incentives under the statute. Therefore, while computing the income, the deductions are required to be made on account of these incentives and ultimately, the resultant income is concerned for the purpose of levy of tax on such income. Therefore, an attempt is made to examine these statutory deductions as they are contained in the statute and their objectives and the various amendments made to each individual section from time to time.

2.2 Statutory Provisions under the Income Tax Act, 1961.

The deductions under each sub-division of Chapter VI.A are discussed as under :

80 CC : Deduction in respect of Investment in
Certain New Shares

1. Where an assessee, being :-

(a) an Individual or

(b) a Hindu undivided family, or

(c) an association of persons or a body of individuals

consisting (in either case) only of husband and wife

governed by the system of community of property in force

in the union territories of Dadra and Nagar Haveli and Goa,

Daman and Diu.

has acquired in the previous year (being a previous year relevant to the Assessment year, commencing on the 1-4-1979 or any subsequent Assessment year) out of his Income, chargeable to tax equity shares forming part of any eligible issue of capital (or units of any mutual fund specified under clause (23 D) of (Section 10 or unit issued under any scheme of Unit Trust of India sub scribes only to eligible issue of capital). He shall in accordance with and subject to the provisions of this section, be allowed a deduction in the computation of his total income of an Amount equal to fifty percent of cost of such shares to him.

Explanation :-

~~Where~~
Where in any previous year the assessee has acquired any shares referred to in this sub section and has, within a period of six months from the end of that previous year paid the whole or part of the amount, if any, remaining unpaid on such shares, the amount so paid shall be deemed to have been paid by

the assessee towards the cost of such share in that previous year.

2. Where the aggregate cost of the assessee of the shares referred to in sub-section (i) which are acquired by him in the previous year exceeds (twenty) thousand rupees, the deduction under that sub-section shall be allowed only with reference to such of those shares (twenty thousand rupees) as are specified by him in this behalf.

3. For the purposes of this section "eligible issue of capital" means an issue of equity shares - Which satisfies the following conditions, namely -

(a) The issue is made by a public co. formed and registered in India (and the issue is wholly and exclusively for the purposes) of carrying on the business of -

i) Construction, manufacture or production of any article or thing, not being an article or thing specified in the list in the Eleventh schedule; or

ii) Providing long-term finance for construction or purchase of houses in India for residential purposes.

iii) a hospital; or

iii) a hotel approved by the prescribed authority or;

iv) operation of ships.

(b) The issue is an issue of capital made by the company for the first time.

(c) The shares forming part of the issue are offered for subscription to the public (and such offer for subscription is made by the company before the 1st day of April 1990).

(d) Such other conditions as may be prescribed :

Provided that in the case of a company which had originally been incorporated as a Private company but has become a Public company wh under the provisions of the companies Act, 1956 (1 of 1956), an issue of equity shares made by it for the first time after it has become a Public Company shall not be regared as an eligible issue of capital, if -

- (i) Such company hade declared, distributed or paid any dividend when it was a Private Company; or
- (ii) any of the shares forming part of such issue is offered for subscription at a Premium.

4. The deduction under Sub-Sec. (1) shall not be allowed unless the assessee has -

- (i) subscribed to the shares in pursuance of an offer for subscription to the public made by the public company or in pursuance of a reservation or an option in his favour by reason of his being a promoter of the company; or
- (ii) Purchased the shares from a person who is specified as an underwriter in the respect of the issue of such shares in pursuance of clause 11 of Part I of Schedule II to the companies Act, 1956 (1 of 1956), and who has acquired such shares by virtue of his obligation a such underwriter.

5. If any equity shares, with reference to the cost of which a deduction is allowed under sub section (1), are sold or otherwise transferred by the assessee to any person at any time within a period (3) year from the date of their acquisition, an amount equal to fifty percent (50%) of the cost to the assessee

of the shares so sold or otherwise transferred shall be deemed to be the income of the assessee of the previous year in which the shares are so sold or transferred and shall be chargeable to tax accordingly.

Explanation :- A person shall be treated as having acquired any shares on the date on which his name is entered in relation to those shares in the register of members of the company.

6. Where a deduction is claimed and allowed under sub-section (1) with reference to the cost of any equity shares, the cost of such shares shall not be taken into account for the purposes of section 54 E.]

80 CCA :- Deduction in respect of deposits under
National Savings Scheme or Payment to a
deferred annuity Plan

- 1) Where an assessee, being -
- (a) an individual, or
 - (b) a Hindu undivided family, or
 - (c) an association of Person or a body of individuals consisting, in either case only of husband and wife governed by the system of community of property in force in the state of Goa and the Union Territories of Dadra, Nager Haveli and Deman and Diu.
- has in the previous year -
- i) Deposited any amount in accordance with such scheme as the central Government may by notification in the Official Gazettee, specify in this behalf (here after in this section referred to as the National Savings Scheme), or
 - ii) paid any amount to effect or to keep in force a contract for such annuity plain of the life Insurance Company as the Central Govt. may by notification in the Official Gazette, specify.

Out of his income chargeable to tax, he shall in accordance with, and subject to the provisions of this section, be allowed a deduction in the computation of his total income of the whole of the amount deposited or paid as does not exceed the amount of 20,000 rupees in previous year.

Provided that in relation to the assessment year commencing on the 1st day of April, 1989 & subsequent assessment years. This sub section shall have effect as if for the words "twenty thousand rupees" (20,000,) the words "thirty thousand rupees" (30,000) had been substituted.

- 2) Where any amount -
- a) Standing to the credit of the assessee under the National Savings Scheme in respect of which a deduction has been allowed under sub section (1) together with the interest accrued on such amount is withdrawn in whole or ⁱⁿ part in any previous year, or,
 - b) Is received on account of the surrender of the policy or as annuity or bonus in accordance with the annuity plan of the Life Insurance Corporation in any previous year.

An amount equal to the whole of the amount referred to in clause (a) or clause (b) shall be deemed to be the income of the assessee of that previous year in which such withdrawal is made or, as the case may be amount is received, and shall accordingly be chargeable to tax as the income of that previous year.

The following sub sec. (3) shall be inserted by the finance Act, 1990 w.e.f. 1-4-1991 -

- 3) No with standing anything contained in any other provision of this Act, where a partition has taken place among the members of Hindu undivided family or where an association of persons has been dissolved after a deduction has been allowed under

Sub Sec. (1), the provisions of Sub Sec. (2) shall apply as if the person in respect of income referred to therein is the assessee.

Explanation :-

For the removal of doubts. It is hereby declared that interest on the deposits made under the National Savings Scheme shall not be chargeable to tax except in the manner and to the extent specified in the Sub-Sec. (2).

80 G G :- Deduction in respect of Rents Paid

In computing the total income of an assessee not being an assessee having any income falling within clause (13 A) of Sec. 10 there shall be deducted any expenditure incurred by him in excess of 10% of his total income towards payment of rent (by what ever name called) in respect of any furnished or unfurnished accommodation occupied by him for the purposes of his own residence. (to the extent to which such excess expenditure does not exceed one thousand rupees per month or twenty five percent of his total income for the year. Which ever is less) and subject to such other conditions or limitations as may be prescribed having regard to the area or place in which such accommodation is situated and other relevant considerations.

(Provided that nothing in this section shall apply to an assessee in any case where any residential accommodation is,-

- i) owned by the assessee or by his spouse or minor child or where such assessee is a member of Hindu undivided family by such family at the place, where he ordinarily resides or performs duties of his office or employment or carried on his business or profession.
- ii) Owned by the assessee at any other place, being accommodation in the occupation of the assessee the value of which is to be determined (under sub clause (1) of clause (a) or as the case may be clause (b), of Sub Sec. (2) of Sec. 23).

Explanation :-

In this Sec. the expressions "ten percent of his total income and (twenty five percent)" of his total income" shall mean 10% or 25% as the case may be of the assessee total income before allowing deduction for any expenditure under this section.)

80 HHC :- Deduction in respect of Profits
retained for Export Business

1) Where an assessee, being an Indian Company or a person (other than a Company) resident in India, is engaged in the business of export out of India of any goods or merchandise to which this section applies. There shall, in accordance with and subject to the provisions of this section be allowed, in computing the total income of the assessee a deduction of the (profits) derived by the assessee from the export of such goods or merchandise.

Provided that if the assessee being a holder of an export house certificate or a Trading House Certificate (here after in this section referred to as an export House or a Trading House as the case may be) issues a Certificate referred to in clause (b) of Sub Sec. (4A), that in respect of the amount of the Export turnover specified therein the deduction under this sub sec. is to be allowed to a supporting manufacturer, then the amount of deduction in the case of the assessee shall be reduced by the amount which bears to the total profits of the export business of the assessee the same proportion as the amount of export turnover specified in the said certificate bears to the total export turnover of the assessee.

(1A) Where the assessee being a supporting manufacturer, has during the previous year sold goods or merchandise to any export house or Trading House in respect of which the Export House or Trading House has issued a certificate under

the proviso the sub Sec. (1), There shall, in accordance with and subject to the provisions of this section, be allowed in computing the total income of the assessee. A deduction of the (profits) derived by the assessee from the sale of goods or merchandise to the Export House or Trading House in respect of which the certificate has been issued by the Export House or Trading House).

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

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

- 1) Mineral Oil; and
- 2) Minerals and ores

3. For the purposes of sub.Sec. (1) Profits derived from the export of goods or merchandise out of India shall be

(a) in a case where the business carried on by the assessee consists exclusively of the export out of India of the goods or merchandise to which this section applies, the profits of the business as computed under the head "Profits and Gains of business or Profession".

(b) in a case where the business carried on by the assessee does not consist exclusively of the export out of India of the goods or merchandise to which this section applies, the amount which bears to the profits of the business the same proportion as the export turnover

bears to the total turnover of the business carried on by the assessee.

The following new sub Sec. (3) shall be substituted for the existing sub Sec. (3) by the Finance Act 1990 w.e.f. 1-4-1991.

3. For the purposes of sub-Sec.(1) profit derived from the export of goods or merchandise out of India shall be the amount which bears to the Profits of the Business (as computed under the head "Profit and gains of business or profession") the same proportion as the export turnover bears to the total turnover of the business carried on by the assessee.

3.A. For the purposes of sub section (1A) Profits derived by a supporting manufacturer from the sale of goods or merchandise shall be,-

- (a) in a case where the business carried on by the supporting manufacturer consists exclusively of sale of goods or merchandise to one or more Export House or Trading House the profits of the business as computed under the head "Profits and gains of business or profession".
- (b) in a case where the business carried on by the supporting manufacturer does not consist exclusively of sale of goods or merchandise to one or more Export House or Trading House the amount which bears to the profits of the business (as computed under the head "Profits and Gains of Business or Profession") the same proportion as the turnover in respect of sale of the respective Export House or Trading

House bears to the total turnover of the business carried
by the assessee.

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(4. The deduction under sub Sec. (1) shall not be admissible unless the assessee furnishes in the prescribed form, along with the return of income the report of an accountant, as defined in the Explanation below Sub Sec (2) of section 288 certifying that the deduction has been correctly claimed on the basis of the amount of export turnover.

(4.A. The deduction under sub sec. (1A) shall not be admissible unless the supporting manufacturer furnishes in the prescribed form along with his return of income.

(a) The report of an accountant, as defined in the explanation below sub Sec (2) of sec. 288, certifying that the deduction has been correctly claimed on the basis of the income (profit) of the supporting manufacturer in respect of his sale of goods or merchandise to the Export House or Trading House, and

(b) a certificate from the Export House or Trading House containing such particulars as may be prescribed that in respect of the export turnover mentioned in the certificate, the Export House or Trading House has not claimed the deduction under this section.

Provided that the certificate specified in clause (b) shall be duly certified by the auditor auditing the accounts of the Export House or Trading House under the provisions of this Act or under any other Law.)

Explanation :-

for the purposes of this section

- (a) "convertible foreign exchange" means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purposes of the foreign Exchange Regulation Act, 1973 (46 of 1973) and any rules made thereunder.
- (b) "Export turnover" - means the sale proceeds (receivable) by the assessee in convertible foreign exchange (in accordance with clause (a) of sub Sec. (2)) of any goods or merchandise to which this sec. applies and which are exported out of India, but does not include freight or insurance attributable to the transport of the goods or merchandise beyond the "customs station as defined in the customs Act, 1962 (52 of 1962)

The following clause (bb) shall be inserted by the finance Act, 1990, w.e.f. 1-4-1991.

- (bb) " Total Turnover" - shall not include any sum referred to in clauses (iia) (iib) & (iic) of Sec. 28;

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- (c) "Export House Certificate" or "Trading House Certificate" means a valid export House Certificate to Trading House Certificate, as the case may be, issued by the Chief Controller of Imports and Exports, Govt. of India;
- [(d) "Supporting manufacturer" means a person being an Indian Company or a person (other than a company) resident in India, (manufacturing goods) or merchandise and selling such goods or merchandise to an Export House or a Trading House for the purposes of Export.]

80 J :- "Deduction in respect of Profits and Gains from newly established Industrial Undertaking or Ships or Hotel Business in Certain cases "

1. Where the gross total income of an assessee includes any profits and gains derived from an Industrial undertaking or a Ship or the business of a Hotel, to which this section applies, these shall in accordance with and subject to the provisions of this section, be allowed in, computing the total income of the assessee a deduction from such Profits & gains (reduced by the deduction if any admissible to the assessee under section 80 HH or Sec. 80 HHA) of so much of the amount there of as does not exceed the amount calculated at the rate of six percent per annum on the capital employed in the industrial undertaking or ship or business of the hotel as the case may be (Computed in the manner specified in sub sec (1A)) in respect of the previous year relevant to the assessment year (The amount calculated as ^{aforsaid} being here after in this section, referred to as the relevant amount of the capital employed during the previous year)

(Provided that in relation to the profits & gains derived by an assessee, being a company, from an industrial undertaking which begins to manufacture or produce articles or to operate its cold storage plant or plants after the 31st March 1976, or from a ship which is first brought into use after that date, or from the business of a hotel which starts functioning after that date, the provisions of this sub-section

shall have effect as if for the words "6% the words 7½% had been substituted.)

1.A. i) For the purpose of this sec. the capital employed in an industrial undertaking or the business of a hotel shall, except as otherwise expressly provided in this section be computed in accordance with clauses (1) to (iv) and the capital employed in a ship shall be computed in accordance with clause (v).

ii) The aggregate of this section, the capital employed in an industrial undertaking or the business of a hotel shall, except as otherwise expressly provided in this section applies shall first be ascertained in the following manner :-

- (a) in the case of assets entitled to depreciation, their written down value
- (b) in the case of assets acquired by purchase and not entitled to depreciation, their actual cost to the assessee.
- (c) in the case of assets acquired otherwise than by purchase and not entitled to depreciation, the value of the assets when they become assets of the business.
- (d) in the case of assets, being debts due to the person carrying on the business, the nominal amount of those debts
- (e) in the case of assets, being cash in hand or bank, the amount thereof

Explanation :-

In this clause, "actual cost" has the same meaning as in clause (1) of Section 43.

iii) From the aggregate of the amounts as ascertained under

clause (II) shall be deducted the aggregate of the amounts as on the first day of the computation period, of borrowed moneys and debts owed by the assessee (including amounts due towards any liability in respect of tax).

- iv) The resultant sum as determined under clause (III) shall be diminished by the value as ascertained under clause (II) of the any investments the income from which is not taken into account in computing the Profits of the business and any moneys not required for the purpose of the business, in so far as the aggregate of such investments or moneys exceed the amount of the borrowed money's which under clause (III) are required to be deducted in computing the capital.
- v) The capital employed in a ship shall be taken to the written down value of the ship as reduced by the aggregate of the amounts owed by the assessee as on the computation date on account of moneys borrowed or debts incurred in acquiring that ship.

2. The deduction specified in Sub-Sec. (I) shall be allowed in computing the total income in respect of the assessment year relevant to the previous year in which the industrial undertakings ~~begin~~ begins to manufacture or produce articles or to operate its cold storage plant or plants or the ship is first brought into use or the business of the hotel starts functioning (such assessment year being hereafter, in this section, referred to as the initial assessment year)

and each of the four assessment year immediately succeeding the initial assessment year. Provided that in the case of an assessee, being a Co-operative Society, the provisions of this sub-sec. shall have effect as if for the words "four assessment years" the words "six assessment years" had been substituted.

3. Where the amount of the profits and gains derived from the industrial undertaking or ship or business of the hotel as the case may be, included in the total income (as computed without applying the provisions of section 64 and before making any deduction under chapter VIA in respect of the previous year relevant to an assessment year commencing on or after the 1st day of April, 1967 falls short of the relevant amount of capital employed during the previous years the amount of such short fall, or where there are no such profit and gains an amount equal to the relevant amount of capital employed during the previous year (such amount in either case, being hereafter, in this section, referred to as deficiency) shall be carried forward and set off against the profits and gains referred to in sub section (1) as computed after allowing the deduction, if any, admissible under Sec. 80 HH (or under section 80 HHA) and the said sub Sec. (1) in respect of the previous year relevant to the next following assessment year and, if there are no such profits and gains for that assessment year, or where the deficiency exceeds such profits and gains, the whole or balance of the deficiency, as the case may be, shall be set off against such profits and gains for the next following assessment year and if so far as such deficiency can not be

wholly so set off, it shall be set off against such profit and gains assessable for the next following assessment year and so on :-

Provided that -

- i) in no case shall the deficiency or any part thereof be carried forward beyond the seventh assessment year as reckoned from the end of the initial assessment year.
- ii) where there is more than one deficiency and each such deficiency relates to a different assessment year, the deficiency which relates to an earlier assessment year shall be set off under this sub-section before setting off the deficiency in relation to a latter assessment year.

4. This section applies to any industrial undertaking which fulfils all the following conditions, namely -

- i) it is not formed by the splitting up, or the reconstruction of a business already in existence.
- ii) It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.
- iii) it manufactures or produces articles, or operates one or more old storage plant or plants, in any part of India and has begun or begins to manufacture or produce articles to operate such plant, or plants, at any time within the period of (thirty three) year next following the 1st day of April 1948 or such further period as - the Central Govt. may by notification in the official Gazette, specify with reference to any particular industrial undertakings.

- iv) in a case where the industrial undertaking manufactures or produces articles the undertaking employes ten or more workers in a manufacturing process carried on with the aid of power, or employs twenty or more workers in a manufacturing process carried on without the aid of power.

Provided that the condition in clause (i) shall not apply in respect of any industrial undertaking which is formed as a result of the re-establishment, reconstruction or revival by the assessee of the business of any such industrial undertaking as is referred to in sec. 33 B in the circumstances and within the period specified in that sec.

5. The section applies to any ship, where all the following conditions are fulfilled namely -

- i) It is owned by an Indian company and is wholly used for the purposes of the business carried on by it.
- ii) It was not, previous to the date of its acquisition by the Indian Company, owned and used in Indian territorial waters by a person resident in India, and
- iii) It is brought into use by the Indian company at any time with in a period of (33) years next following the 1st day of April 1948.

6. This section applies to the business of any hotel, where all the following conditions are fulfilled, namely -

- (a) the business of the hotel, is not formed by the splitting up, or the reconstruction of a business already in

existence or by the transfer to a new business of a building previously used as a hotel or of any machinery or plant previously used for any purpose :-

- (b) the business of the hotel is owned and carried on by a company registered in India with a paid-up of not less than five hundred thousand rupees;
- (c) (***) omitted.
- (d) the hotel is for the time being approved for the purposes of this sub-section by the central Govt.
- (e) the business of the hotel starts functioning on or after the 1st day of April, 1961, but before the 1st day of April 1981.

6.A. Where the assessee is a person other than a company or a co-operative society, the deduction under sub-sec. (1) from Profits and gains derived from an industrial undertaking shall not be admissible unless the accounts of the industrial undertaking for the previous year relevant to the assessment year for which the deduction is claimed have been audited by an accountant as defined in the explanation below. Sub-Sec. (2) Section 288 and the assessee furnishes, along with this return of income the report of such audit in the prescribed form duly signed and verified by such accountant.

6.B. Where any goods held for the purposes of the business of the industrial undertaking or the hotel or the operation of the ship are transferred to any other business carried on by the assessee, or where any goods held for the purposes of any other business carried on by the assessee are transferred

to the business of the industrial undertaking or the hotel or the operation of the ship does not correspond to the market value of such goods as on the date of the transfer, then for the purposes of the deduction under this section the profits and gains of the industrial undertaking or the business of the hotel or the operation of the ship shall be computed as if the transfer in either case had been made at the market value of such goods as on that date.

6.C. Where it appears to the (Assessing) officer that owing to the close connection between the assessee carrying on the business of the industrial under taking or the hotel or the operation of the ship to which this section applies and any other person or for any other reason, the course of business between them is so arranged that the business transacted between them produces to the assessee more than the ordinary profits which might be expected to arise in the business of the industrial undertaking or the hotel or the operation of the ship the (assessing) Officer shall in computing the Profit and gain of the industrial undertaking or the hotel or the ship for the purpose of the deduction under this section take the amount of profit as may be reasonably deemed to have been derived. there firm.

7. The Central Govt. may after making such inquiry as it may think fit direct by notification in the official Gazettee, that the exemption conferred by this Section shall not apply to any class of industrial undertakings with effect from such date as it may specify in the notification.

80 L :- Deductions in respect of Interest on certain securities dividends etc.

1. (Where the gross total income of an assessee, being -
- (a) an individual, or,
 - (b) a Hindu undivided family,
 - (c) an association of persons or a body of individuals consisting (in either case) only of husband and wife governed by the system of community of property in force in the Union Territories of Dadra, and Nagar Haveli, Diu, Goa, Daman.
- Includes any income by way of)
- i) Interest on any security of the Central Govt. or a State Govt.
 - ia) Interest on National Savings Certificate (VI issue) and National Saving Certificate (VII) issued under the Govt. savings certificate Act, 1959. (46 of 1959).
 - ii) Interest on such debenture issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage Bank or a co-operative land development Bank) as the Central Govt. may be notification in the official Gazette specify in this behalf.
 - iaa) Interest on deposits under such National Deposit Scheme as may be framed by the Central Govt. and notified by it in this behalf in the Official Gazette.
 - iii) Interest on deposits under any (other) Scheme framed by the Central Govt. and notified by it in this behalf in the official gazette.

- iii a) Interest on deposits under the post office (monthly income account) Rules 1987.
- iv) Dividends from any Indian Company.
- v) Income received in respect of units from the Unit Trust of India established under the Unit Trust of India Act 1963 (52 of 1963).
- va) Income received in respect of Units of a mutual fund specified under clause (23 D) of Section 10.
- vi) Interest on deposit with a banking company to which the Banking Regulation Act 1949 (10 of 1949) applies (including any bank or banking institution referred to in section 51 of that Act) or a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank.)
- (via) Interest on deposits with any such bank, not being a banking company or a co-operative society referred to in clause (vi) but being a bank established by or under any law made by Parliament, as may be approved by the Central Ban Govt. for the purposes of this clause.)
- vii) Interest on deposits with a financial corporation which is engaged in providing long-term finance for industrial development in India.
- ~~54~~ (amended)
- (Provided that the corporation is the time being approved by the Central Govt. for the purpose of Clause (viii) of sub sec. (1) of Sec. 36).
- viiia) Interest on deposits with any authority constituted

in India by or under any Law enacted either for the purpose of dealing with and satisfying the need for housing, accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both).

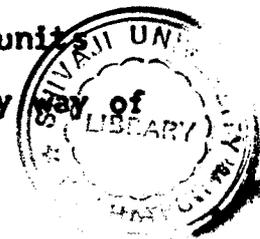
- viii) Interest on deposits with a co-operative society, not being a co-operative referred to in clause (vi) made by member of the society) or
- ix) Dividends from any co-operative society
- x) Interest on deposits with or dividend received from any public company formed and registered in India with the main object of carrying on the business of providing long term finance for construction or purchase of houses in India for residential purposes.

Provided that the company is for the time being approved by the Central Govt. for the purpose of clause (viii) of sub sec. (1) of Sec. 36.

There shall, in accordance with and subject to the provisions of this section, be allowed in computing the total income of the assessee a deduction as specified here under, namely -

- i) In case where the amount of such income does not exceed in the aggregate (seven) thousand rupees, the whole of such amount and
- ii) In any other case (seven) thousand rupees

Provided that where the gross total Income of the assessee includes any income by way of interest on any deposits referred to in clause (iia) or income in respect of units referred to in clause (v) or clause (va) or income by way of



interest or dividend referred to in clause (x) there shall be allowed in computing the total income of the assessee a further deduction of an amount equal to so much of such income as has not been allowed by way of deduction under the foregoing provisions of this sub sec. so however, that the amount of such further shall not exceed three thousand rupees.

2. - - - - -

3. (for the removal of doubts, it is hereby declared that where the income referred to in sub section (1) is derived from any asset held by, or on behalf of, a firm, an association of persons or a body of individuals, no deduction shall be allowed under the said sub-section in respect of such income in computing the total income of any partner of the firm or any member of the association or body).

2(-----)
(Omitted by the finance Act 1990 - w.e.f 1-4-1990)

80 M :- Deduction in respect of certain
Inter Corporate dividends

(Where the gross total income of an assessee being a domestic company includes any incomes by way dividends from a domestic company there shall be allowed in computing the total income of the assessee. A deduction from such income by way of dividends of an amount equal to 60% of such income.)

 Shall be substituted for existing sec. 80 M by the finance Act, 1990. w.e.f. 1-4-91.

 1. Where the gross total income of a domestic company of in any previous year. Includes any income by way of dividends from another domestic company. There shall in accordance with and subject to the provisions of this sec. be allowed in computing the total income of such domestic company a deduction of an amount equal to,-

- i) in the case of a scheduled bank or a public financial institution or a State Financial Corporation or a State Industrial Investment Corporation or a company registered under section 25 of the company Act. 1956. Sixty percent of the income by way of dividends from another domestic company.
- ii) In the case of any other domestic company, so much of the amount of income by way of dividends from another domestic company as does not exceed the amount of dividned distributed by the first mentioned domestic company on or before the due date.

2. Where any deduction in respect of the amount of dividend distributed by the domestic company has been allowed under clause (ii) of sub sec. (1) in any previous year. No deduction shall be allowed in respect of such amount in any other previous year.

3. Where the dividend distributed is in respect of any period comprised in the previous year ending on the 31st day of March, 1990. No deduction shall be allowed in respect of such dividend.

Explanation :-

for the purposes of this sec. the expressions

1) "Scheduled Bank"

means the state Bank of India constituted under the state Bank of India Act 1955 (23 of 1955). A subsidiary bank as defined in State Bank of India Act 1959 (38 of 1959) Corresponding new bank constituted under section 3 of the banking companies.

ii) "Public Financial Institutions"

Shall have the meaning assigned to it in Sec. 4A of companies Act. 1956.(1 of 1956).

iii) "State Financial Corporation"

"State Industrial Investment Corporation" shall have the same meanings as in sec. 43 B.

iv) 'Due Date'

means the date for furnishing the return of income under section (1) of Sec. 139.