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Finance Act 1976

Chapter III - Direct Taxes

In the Income-tax Act, in section 2, with effect from the 1st day of June, 1976, -

(a) after clause (28), the following clause shall be inserted, namely :-

(28A) "interest" means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised;;

(b) in clause (37A), in sub-clause (i), -

(i) for the words and figures "in a case not falling under section 164", the words, figures and letters "in a case not falling under section 115A or section 115B or section 164" shall be substituted;

(ii) for the words and figures "in a case falling under section 164, the rate specified in that section", the words, figures and letters "in a case falling under section 115A or section 115B or section 164, the rate or rates specified in section 115A or section 115B or, as the case may be, section 164" shall be substituted.

Section 4 - Amendment of Section 9

In the Income-tax Act, in section 9, in sub-section (1), with effect from the 1st day of June, 1976, -

(a) in clause (i), the words "or through or from any money lent at interest and brought into India in cash or in kind" shall be omitted;

(b) after clause (iv), the following clauses shall be inserted, namely :-

(v) income by way of interest payable by -

(a) the Government; or

(b) a person who is a resident, except where the interest is payable in respect of any debt incurred or moneys borrowed and used, for the purposes of a business or profession carried on by such person outside India or for the purposes of making, or earning any income from any source outside India; or

(c) a person who is a non-resident, where the interest is payable in respect of any debt incurred, or moneys borrowed and used, for the purposes of a business or profession carried on by such person in India;

(vi) income by way of royalty payable by -

(a) the Government; or

(b) a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India; or

(c) or person who is a non-resident, where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India :

Provided that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property, if such income is payable in pursuance of an agreement made before the 1st day of April, 1976, and the agreement is approved by the Central Government.

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

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

(i) the transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;

(ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;

(iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;

(iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;

(v) the transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films; or

(vi) the rendering of any services in connection with the activities referred to in sub-clauses (i) to (v);

(vii) income by way of fees for technical services payable by -

(a) the Government; or

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

(c) a person who is a non-resident, where the fees are payable in respect of services utilised in a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India.

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

Section 5 - Amendment of Section 10

In section 10 of the Income-tax Act, -

(a) in clause (6), after sub-clause (x), the following sub-clause shall be inserted, namely :-

"(xi) the remuneration received by him as an employee of the Government of a foreign State during his stay in India in connection with his training in any establishment or office of, or in any undertaking owned by, -

(i) the Government; or

(ii) any company in which the entire paid-up share capital is held by the Central Government, or any State Government or Governments, or partly by the Central Government and partly by one or more State Governments; or

(iii) any company which is a subsidiary of a company referred to in item (ii); or

(iv) any corporation established by or under a Central, State or Provincial Act; or

(v) any society registered under the Societies Registration Act, 1860 (14 of 1860), or under any other corresponding law for the time being in force and wholly financed by the Central Government, or any State Government or State Governments, or partly by the Central Government and partly by one or more State Governments;";

(b) in clause (15), after item (e) of sub-clause (iv), the following item shall be inserted with effect from the 1st day of June, 1976, namely :-

(f) by an industrial undertaking in India on any moneys borrowed by it in foreign currency from sources outside India under a loan agreement approved by the Central Government having regard to the need for industrial development in India, to the extent to which such interest does not exceed the amount of interest calculated at the rate approved by the Central Government in this behalf, having regard to the terms of the loan and its repayment.

Explanation : For the purposes of this item, the expression "foreign currency" shall have the meaning assigned to it in the Foreign Exchange Regulation Act, 1973 (46 of 1973);;

(c) in clause (17), for the words "any Committee thereof;", the words, brackets and figures "any Committee thereof or any allowance received by a member of either House of Parliament under the Members of Parliament (Additional Facilities) Rules, 1975;" shall be substituted.

Section 6 - Amendment of Section 13

In section 13 of the Income-tax Act, in sub-section (5) [as directed to be inserted by clause (iii) of section 5 of the Taxation Laws (Amendment) Act, 1975 (41 of 1975)], for clause (a) (iii), the following clause shall be substituted with effect from the 1st day of April, 1977, namely :-

"(iii) deposit in any account with the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), or any subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), or any nationalised bank, that is to say, any corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970);".

Section 7 - Amendment of Section 32

In section 32 of the Income-tax Act, in sub-section (1), -

(1) in clause (iv), for the words "seven thousand five hundred rupees", the words "ten thousand rupees" shall be substituted with effect from the 1st day of April, 1977;

(2) in clause (vi), -

(a) for the words "any one or more of the articles or things specified in the list in the Ninth Schedule", the words, figures and brackets "any one or more of the articles or things specified in items 1 to 24 (both inclusive) in the list in the Ninth Schedule" shall be substituted;

(b) in the second proviso, -

(i) in clause (a), the word "and" shall be omitted;

(ii) in clause (b), the word "and" shall be inserted at the end;

(iii) after clause (b), the following clause shall be inserted, namely :-

"(c) any ship or aircraft acquired after the 1st day of March, 1976, or any machinery or plant installed after that date.".

Section 8 - Insertion of new Section 32A

After section 32 of the Income-tax Act, the following section shall be inserted, namely :-

32A. Investment allowance. - (1) In respect of a ship or an aircraft or machinery or plant specified in sub-section (2), which is owned by the assessee and is wholly used for the purposes of the business carried on by him, there shall, in accordance with and subject to the provisions of this section, be allowed a deduction, in respect of the previous year in which the ship or aircraft was acquired or the machinery or plant was installed or, if the ship, aircraft, machinery or plant is first put to use in the immediately succeeding previous year, then, in respect of that previous year, of a sum by way of investment allowance equal to twenty-five per cent. of the actual cost of the ship, aircraft, machinery or plant to the assessee :

Provided that no deduction shall be allowed under this section in respect of -

(a) any machinery or plant installed in any office premises or any residential accommodation, including any accommodation in the nature of a guest-house;

(b) any office appliances or road transport vehicles;

(c) any ship, machinery or plant in respect of which the deduction by way of development rebate is allowable under section 33; and

(d) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any one previous year.

(2) The ship or aircraft or machinery or plant referred to in sub-section (1) shall be the following, namely :-

(a) a new ship or new aircraft acquired after the 31st day of March, 1976, by an assessee engaged in the business of operation of ships or aircraft;

(b) any new machinery or plant installed after the 31st day of March, 1976 -

(i) for the purposes of business of generation or distribution of electricity or any other form of power; or

(ii) for the purposes of business of construction, manufacture or production of any one or more of the articles or things specified in the list in the Ninth Schedule; or

(iii) in a small-scale industrial undertaking for the purposes of business of manufacture or production of any other articles or things.

Explanation : For the purposes of this sub-section and sub-section (4), -

(1) "new ship" or "new aircraft" or "new machinery or plant" shall have the same meanings as in the Explanation to clause (vi) of sub-section (1) of section 32;

(2) an industrial undertaking shall be deemed to be a small-scale industrial undertaking, if the aggregate value of the machinery and plant (other than tools, jigs, dies and moulds) installed, as on the last day of the previous year, for the purposes of the business of the undertaking does not exceed ten lakh rupees; and for this purposes the value of any machinery or plant shall be, -

(a) in the case of any machinery or plant owned by the assessee, the actual cost thereof to the assessee; and

(b) in the case of any machinery or plant hired by the assessee, the actual cost thereof as in the case of the owner of such machinery or plant.

(3) Where the total income of the assessee assessable for the assessment year relevant to the previous year in which the ship or aircraft was acquired or the machinery or plant was installed, or, as the case may be, the immediately succeeding previous year [the total income for this purposes being computed after deduction of the allowances under section 33 and section 33A, but without making any deduction under sub-section (1) of this section or any deduction under Chapter VIA] is nil or is less than the full amount of the investment allowance, -

(i) the sum to be allowed by way of investment allowance for that assessment year under sub-section (1) shall be only such amount as is sufficient to reduce the said total income to nil; and

(ii) the amount of the investment allowance, to the extent to which is has not been allowed as aforesaid, shall be carried forward to the following assessment year, and the investment allowance to be allowed for the following assessment year shall be such amount as is sufficient to reduce the total income of the assessee

assessable for that assessment year, computed in the manner aforesaid, to nil, and the balance of the investment allowance, if any, still outstanding shall be carried forward to the following assessment year and so on, so, however, that no portion of the investment allowance shall be carried forward for more than eight assessment year immediately succeeding the assessment year relevant to the previous year in which the ship or aircraft was acquired or the machinery or plant was installed or, as the case may be, the immediately succeeding previous year.

Explanation : Where for any assessment year, investment allowance is to be allowed in accordance with the provisions of this sub-section is respect of any ship or aircraft acquired or any machinery or plant installed in more than one previous year, and the total income of the assessee assessable for that assessment year [the total income for this purposes being computed after deduction of the allowances under section 33 and section 33A, but without making any deduction under sub-section (1) of this section or any deduction under Chapter VIA] is less than the aggregate of the amounts due to be allowed in respect of the assets aforesaid for that assessment year, the following procedure shall be followed, namely :-

(a) the allowance under clause (ii) shall be made before any allowance under clause (i) is made; and

(b) where an allowance has to be made under clause (ii) in respect of amounts carried forward from more than one assessment year, the amount carried forward from an earlier assessment year shall be allowed before any amount carried forward from a later assessment year.

(4) The deduction under sub-section (1) shall be allowed only if the following conditions are fulfilled, namely :-

(i) the particulars prescribed in this behalf have been furnished by the assessee in respect of the ship or aircraft or machinery or plant;

(ii) an amount equal to seventy-five per cent. of the investment allowance to be actually allowed is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Investment Allowance Reserve Account") to be utilised -

(a) for the purposes of acquiring, before the expiry of a period of ten years next following the previous year in which the ship or aircraft was acquired or the machinery or plant was installed, a new ship or a new aircraft or new machinery or plant [other than machinery or plant of the nature referred to in clause (a), (b) and (d) of the proviso to sub-section (1)] for the purposes of the business of the undertaking; and

(b) until the acquisition of a new ship or a new aircraft or new machinery or plant as aforesaid, for the purposes of the business of the undertaking other than for distribution by way of dividends or profits or for remittance outside India as profits or for the creation of any asset outside India :

Provided that this clause shall have effect in effect in respect of a ship as if for the word "seventy-five", the word "fifty" had been substituted.

Explanation : Where the amount debited to the profit and loss account and credited to the Investment Allowance Reserve Account under this sub-section is not less than the amount required to be so credited on the basis of the amount of deduction in respect of investment allowance claimed in the return made by the assessee under section 139, but a higher deduction in respect of the investment allowance is admissible on the basis of the total income as proposed to be computed by the Income-tax Officer under section 143, the Income-tax Officer shall, by notice in writing in this behalf, allow the assessee an opportunity to credit within the time specified in the notice or within such further time as the Income-tax Officer may allow, a further amount to the Investment Allowance Reserve Account out of the profits and gains of the previous year in which such notice is served on the assessee or of the immediately preceding previous year, if the accounts for that year have not been made up; and, if the assessee credits any further amount to such account within the time aforesaid, the amount so credited shall be deemed to have been credited to the Investment Allowance Reserve Account of the previous year in which the deduction is admissible and such amount shall not be taken into account in determining the adequacy of the reserve required to be credited by the assessee in respect of the previous year in which such further credit is made :

Provided that such opportunity shall not be allowed by the Income-tax Officer in a case where the difference in the total income as proposed to be computed by him and the total income as

returned by the assessee arises out of the application of the proviso to sub-section (1) of section 145 or sub-section (2) of that section or the omission by the assessee to disclose his income fully and truly.

(5) Any allowance made under this section in respect of any ship, aircraft, machinery or plant shall be deemed to have been wrongly made for the purposes of this Act, -

(a) if the ship, aircraft, machinery or plant is sold or otherwise transferred by the assessee to any person at any time before the expiry of eight years from the end of the previous year in which it was acquired or installed; or

(b) if at any time before the expiry of ten years from the end of the previous year in which the ship or aircraft was acquired or the machinery or plant was installed, the assessee does not utilise the amount credited to the reserve account under sub-section (4) for the purposes of acquiring a new ship or a new aircraft or new machinery or plant [other than machinery or plant of the nature referred to in clauses (a), (b) and (d) of the proviso to sub-section (1)] for the purposes of the business of the undertaking; or

(c) if at any time before the expiry of the ten years aforesaid, the assessee utilises the amount credited to the reserve account under sub-section (4) for distribution by way of dividends or profits or for remittance outside India as profits or for the creation of any assets outside India or for any other purpose which is not a purpose of the business of the undertaking,

and the provisions of sub-section (4A) of section 155 shall apply accordingly :

Provided that nothing in clause (a) shall apply -

(i) where the ship, aircraft, machinery or plant is sold or otherwise transferred by the assessee to the Government, a local authority, a corporation established by a Central, State or Provincial Act or a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956); or

(ii) where the sale or transfer of the ship, aircraft, machinery or plant is made in connection with the amalgamation or succession, referred to in sub-section (6) or sub-section (7).

(6) Where, in a scheme of amalgamation, the amalgamating company sells or otherwise transfers to the amalgamated company any ship, aircraft, machinery or plant, in respect of which investment allowance has been allowed to the amalgamating company under sub-section (1), -

(a) the amalgamated company shall continue to fulfil the conditions mentioned in sub-section (4) in respect of the reserve created by the amalgamating company and in respect of the period within which such ship, aircraft, machinery or plant shall not be sold or otherwise transferred and in default of any of these conditions, the provisions of sub-section (4A) of section 155, shall apply to the amalgamated company as they would have applied to the amalgamating company had it committed the default; and

(b) the balance of investment allowance, if any, still outstanding to the amalgamating company in respect of such ship, aircraft, machinery or plant, shall be allowed to the amalgamated company in accordance with the provisions of sub-section (3), so, however, that the total period for which the balance of investment allowance shall be carried forward in the assessments of the amalgamating company and the amalgamated company shall not exceed the period of eight years specified in sub-section (3) and the amalgamated company shall be treated as the assessee in respect of such ship, aircraft, machinery or plant for the purposes of this section.

(7) Where a firm is succeeded to by a company in the business carried on by it as a result of which the firm sells or otherwise transfers to the company any ship, aircraft, machinery or plant, the provisions of clauses (a) and (b) sub-section (6) shall, so far as may be, apply to the firm and the company.

Explanation : The provisions of this sub-section shall apply only where -

(i) all the property of the firm relating to the business immediately before the succession becomes the property of the company;

(ii) all the liabilities of the firm relating to the business immediately before the succession become the liabilities of the company; and

(iii) all the shareholders of the company were partners of the firm immediately before the succession.

(8) The Central Government, if it considers necessary or expedient so to do, may, by notification in the Official Gazette, direct that the deduction allowable under this section shall not be allowed in respect of any ship or aircraft

acquired or any machinery or plant installed after such date, not being earlier than three years from the date of such notification, as may be specified therein.

(9) For the removal of doubts, it is hereby declared that the deduction under sub-section (1) shall not be denied by reason only that the amount debited to the profits and loss account of the relevant previous year and credited to the Investment Allowance Reserve Account exceeds the amount of the profit of such previous year (as arrived at without making the deposit aforesaid), in accordance with the profit and loss account..

Section 9 - Amendment of Section 37

In section 37 of the Income-tax Act, -

(a) in sub-section (2A), -

(i) in clause (i), for the words, figures and letter "section 33 or section 33A", the words, figures and letters "section 32A or section 33 or section 33A" shall be substituted;

(ii) in the Explanation, the words, brackets, figure and letter "and sub-section (2B)" shall be omitted with effect from the 1st day of April, 1977;

(b) sub-section (2B) shall be omitted with effect from the 1st day of April, 1977.

Section 10 - Insertion of New Sections 44C and 44D

In the Income-tax Act, in Chapter IV-D, after section 44B, the following sections shall be inserted, with effect from the 1st day of June, 1976, namely :-

44C. Deduction of head office expenditure in the case of non-residents. - Notwithstanding anything to the contrary contained in sections 28 to 43A, in the case of an assessee, being a non-resident, no allowance shall be made, in computing the income chargeable under the head "Profits and gains of business or profession", in respect of so much of the expenditure in the nature of head office expenditure as is in excess of the amount computed as hereunder, namely :-

(a) an amount equal to five per cent. of the adjusted total income; or

(b) an amount equal to the average head office expenditure; or

(c) the amount of so much of the expenditure in the nature of head office expenditure incurred by the assessee as is attributable to the business or profession of the assessee in India,

whichever is the least :

Provided that in a case where the adjusted total income of the assessee is a loss, the amount under clause (a) shall be computed at the rate of five per cent. of the average adjusted total income of the assessee.

Explanation : For the purposes of this section, -

(i)\ "adjusted total income" means the total income computed in accordance with the provisions of this Act, without giving effect to the allowance referred to in this section or in sub-section (2) of section 32 or the deduction referred to in section 32A or section 33 or section 33A or the first proviso to clause (ix) of sub-section (1) of section 36 or any loss carried forward under sub-section (1) of section 72 or sub-section (2) of section 73 or sub-section (1) of section 74 or sub-section (3) of section 74A or the deductions under Chapter VIA;

(ii) "average adjusted total income" means, -

(a) in a case where the total income of the assessee is assessable for each of the three assessment years immediately preceding the relevant assessment year, one-third of the aggregate amount of the adjusted total income in respect of the previous years relevant to the aforesaid three assessment years;

(b) in a case where the total income of the assessee is assessable only for two of the aforesaid three assessment years, one-half of the aggregate amount of the adjusted total income in respect of the previous years relevant to the aforesaid two assessment years;

(c) in a case where the total income of the assessee is assessable only for one of the aforesaid three assessment years, the amount of the adjusted total income in respect of the previous year

relevant to that assessment year;

(iii) "average head office expenditure" means, -

(a) in a case where any expenditure in the nature of head office expenditure has been allowed as a deduction in computing the income of the assessee chargeable under the head "Profits and gains of business or profession" in respect of each of the three previous years relevant to the assessment years commencing on the 1st day of April, 1974, the 1st day of April, 1975, and the 1st day of April, 1976, one-third of the aggregate amount of the expenditure so allowed;

(b) in a case where such expenditure has been so allowed only in respect of two of the aforesaid three previous years, one-half of the aggregate amount of the expenditure so allowed;

(c) in a case where such expenditure has been so allowed only in respect of one of the aforesaid three previous years, the amount of the expenditure so allowed;

(iv) "head office expenditure" means executive and general administration expenditure incurred by the assessee outside India, including expenditure incurred in respect of -

(a) rent, rates, taxes, repairs or insurance of any premises outside India used for the purposes of the business or profession;

(b) salary, wages, annuity, pension, fees, bonus, commission, gratuity, perquisites or profits in lieu of or in addition to salary, whether paid or allowed to any employee or other person employed in, or managing the affairs of, any office outside India;

(c) travelling by any employee or other person employed in, or managing the affairs of, any office outside India; and

(d) such other matters connected with executive and general administration as may be prescribed.

44D. Special provisions for computing income by way of royalties, etc., in the case of foreign companies. - Notwithstanding anything to the contrary contained in sections 28 to 44C, in the case of an assessee, being a foreign company, -

(a) the deductions admissible under the said sections in computing the income by way of royalty or fees for technical services received from an India concern in pursuance of an agreement made by the foreign company with the Indian concern before the 1st day of April, 1976, shall not exceed in the aggregate twenty per cent. of the gross amount of such royalty or fees as reduced by so much of the gross amount of such royalty as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property;

(b) no deduction in respect of any expenditure or allowance shall be allowed under any of the said sections in computing the income by way of royalty or fees for technical services received from an Indian concern in pursuance of an agreement made by the foreign company with the Indian concern after the 31st day of March, 1976.

Explanation : For the purposes of this section, -

(a) "fees for technical services" shall have the same meaning as in Explanation to clause (vii) of sub-section (1) of section 9;

(b) "foreign company" shall have the same meaning as in section 80B;

(c) "royalty" shall have the same meaning as in the Explanation to clause (vi) of sub-section (1) of section 9;

(d) royalty received from an Indian concern in pursuance of an agreement made by a foreign company with the Indian concern after the 31st day of March, 1976, shall be deemed to have been received in pursuance of an agreement made before the 1st day of April, 1976, if such agreement is deemed, for the purposes of the proviso to clause (vi) of sub-section (1) of section 9, to have been made before the 1st day of April, 1976..

Section 11 - Amendment of Section 47

In section 47 of the Income-tax Act, after clause, (viii), the following clause shall be inserted with effect from the 1st day of April, 1977, namely :-

(ix) any transfer of a capital asset, being any work of art, archaeological, scientific or art collection, book, manuscript, drawing, painting, photograph or print, to the Government or a University or the National Museum, National Art Gallery, National Archives or any such other public museum or institution as may be notified by the Central Government in the Official Gazette to be of national importance or to be of renown throughout any State or States.

Explanation : For the purposes of this clause, "University" means a University established or incorporated by or under a Central, State or Provincial Act and includes an institution declared section 3 of the University Grant Commission Act, 1956 (8 of 1956), to be a University for the purposes of that Act..

Section 12 - Omission of Section 54C

Section 54C of the Income-tax Act shall be omitted.

Section 13 - Amendment of Section 57

In section 57 of the Income-tax Act, the following proviso and Explanation shall be inserted at the end, with effect from the 1st day of June, 1976, namely :-

Provided that nothing contained in clause (i) or clause (iii) shall apply in computing the income by way of dividends in the case of an assessee, being a foreign company.

Explanation : For the purposes of this section and section 58, "foreign company" shall have the same meaning as in section 80B..

Section 14 - Amendment of Section 58

In section 58 of the Income-tax Act, after sub-section (2), the following sub-section shall be inserted, with effect from the 1st day of June, 1976, namely :-

(3) In the case of an assessee, being a foreign company, the provisions of section 44D shall, so far as may be, apply in computing the income chargeable under the head "Income from other sources" as they apply in computing the income chargeable under the head "Profits and gains of business or profession"..

Section 15 - Amendment of Section 80A

In section 80A of the Income-tax Act, after sub-section (3), the following sub-section shall be inserted with effect from the 1st day of April, 1977, namely :-

"(4) Notwithstanding anything contained in sub-section (1), no deduction under section 80G or section 80GG or section 80HH or section 80J or section 80L or section 80QQ shall be allowed in computing the total income of an assessee, being a Hindu undivided family which at any time during the previous year has at least one member whose total income of the previous year exceeds the maximum amount not chargeable to tax.".

Section 16 - Amendment of Section 80C

In section 80C of the Income-tax Act, in clause (d) of sub-section (2), for the words "eight thousand rupees", the words "ten thousand rupees" shall be substituted with effect from the 1st day of April, 1977.

Section 17 - Amendment of Section 80G

In section 80G of the Income-tax Act, -

(a) for sub-section (1), the following sub-section shall be substituted with effect from the 1st day of April, 1977, namely :-

"(1) In computing the total income of an assessee, there shall be deducted, in accordance with and subject to the provisions of this section, -

(i) in a case where a aggregate of the sums specified in sub-section (2) includes any sum specified in sub-clause (vii) of clause (a) thereof, an amount equal to the whole of such sum plus fifty per cent. of

the balance of such aggregate; and

(ii) in any other case, an amount equal to fifty per cent. of the aggregate of the sums specified in sub-section (2).";

(b) in clause (a) of sub-section (2), with effect from the 1st day of April, 1977, -

(i) in sub-clause (v), the words "for any charitable purpose;", the words "for any charitable purpose other than the purposes of promoting family planning; or" shall be substituted;

(ii) after sub-clause (v), the following sub-clauses shall be inserted, namely :-

"(vi) any authority referred to in clause (20A) of section 10; or

(vii) the Government or to any such local authority, institution or association as may be approved in this behalf by the Central Government to be utilised for the purpose of promoting family planning;";

(c) in sub-section (4), for the words, brackets and figures "sub-clauses (iv) and (v)", the words, brackets and figures "sub-clauses (iv), (v), (vi) and (vii)" shall be substituted with effect from the 1st day of April, 1977;

(d) after Explanation 4, the following Explanation shall be inserted, namely :-

"Explanation 5 : For the removal of doubts, it is hereby declared that no deduction shall be allowed under this section in respect of any donation unless such donation is of a sum of money.".

Section 18 - Amendment of Section 80M

In section 80M of the Income-tax Act, for sub-section (1), the following sub-section shall be substituted with effect from the 1st day of April, 1977, namely :-

"(1) Where the gross total income of an assessee, being a domestic company, includes any income by way of dividends from a domestic company, 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 from such income by way if dividends of an amount equal to -

(a) in respect of such income by way of dividends from a company formed and registered under the Companies Act, 1956 (1 of 1956), after the 28th day of February, 1975, and engaged exclusively or almost exclusively in the manufacture or production of any one or more of the articles or things specified in items 2 and 3, item 4 (excluding alloy, malleable and S.G. iron castings), items 7 to 15 (both inclusive), items 17 and 18, item 23 (excluding refractories) and items 24, 26, 27 and 29 in the list in the Ninth Schedule.	the whole of such income;
(b) in respect of such income by way of dividends other than the dividends referred to in clause (a)	sixty per cent. of such income.".

Section 19 - Amendment of Section 115

In section 115 of the Income-tax Act, in clause (i) with effect from the 1st day of April, 1977, -

(a) in sub-section (a)(1), for the words "forty-seven per cent.", the words "forty per cent." shall be substituted;

(b) in sub-clause (a)(2), for the words "forty-five per cent.", the words "fifty per cent." shall be substituted; and

(c) in sub-clause (b), for the words "forty-five per cent.", the words "forty per cent." shall be substituted.

Section 20 - Insertion of New Sections 115A and 115B

In the Income-tax Act, after section 115, the following sections shall be inserted with effect from the 1st day of June, 1976, namely :-

115A. Tax on dividends, royalty and technical service fees in the case of foreign companies. - (1) Subject to the provisions of sub-section (2), where the total income of an assessee, being a foreign company, includes any income by way of -

(a) dividends; or

(b) royalty or fees for technical services received from an Indian concern in pursuance of an agreement made by the foreign company with the Indian concern after the 31st day of March, 1976, and approved by the Central Government,

the income-tax payable shall be the aggregate of -

(i) the amount of income-tax calculated on the amount of income by way of dividends, if any, included in the total income, at the rate of twenty-five per cent.;

(ii) the amount of income-tax calculated on the income by way of royalty, if any, included in the total income -

(1) on so much of the amount of such income as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property, at the rate of twenty per cent.;

(2) on the balance of such income, if any, at the rate of forty per cent.;

(iii) the amount of income-tax calculated on the income by way of fees for technical services, if any, included in the total income, at the rate of forty per cent.; and

(iv) the amount of income-tax with which it would have been chargeable had its total income been reduced by the amount of income referred to in clause (a) and clause (b).

Explanation : For the purposes of this section, -

(a) "fees for technical services" shall have the same meaning as in the Explanation to clause (vii) of sub-section (1) of section 9;

(b) "foreign company" shall have the same meaning as in section 80B;

(c) "royalty" shall have the same meaning as in the Explanation to clause (vi) of sub-section (1) of section 9.

(2) Nothing contained in sub-section (1) shall apply in relation to any income by way of royalty received by a foreign company from an Indian concern in pursuance of an agreement made by it with the Indian concern after the 31st day of March, 1976, if such agreement is deemed, for the purposes of the proviso to clause (vi) of sub-section (1) section 9, to have been made before the 1st day of April, 1976; and the provisions of the annual Finance Act for calculating, charging, deducting or computing income-tax shall apply in relation to such income had been received in pursuance of an agreement made before the 1st day of April, 1976.

115B. Tax on profits and gains of life insurance business. -Where the total income of an assessee includes any profits and gains from life insurance business, the income-tax payable shall be the aggregate of -

(i) the amount of income-tax calculated on the amount of profits and gains of the life insurance business included in the total income, at the rate of twelve and one-half per cent.; and

(ii) the amount of income-tax with which the assessee would have been chargeable had the total income of the assessee been reduced by the amount if profits and gains of the life insurance business..

Section 21 - Amendment of Section 155

In section 155 of the Income-tax Act, after sub-section (4), the following sub-section shall be inserted, namely :-

(4A) Where the allowance by way of investment allowance has been made wholly or partly to an assessee in respect of a ship or an aircraft or any machinery or plant in any assessment year under section 32A and subsequently -

(a) at any time before the expiry of eight years from the end of the previous year in which the ship or aircraft was acquired or the machinery or plant was installed, the ship, aircraft, machinery or plant is sold or otherwise transferred by the assessee to any person other than Government, a local authority, a corporation established by a Central, State or Provincial Act or a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956), or in connection with any amalgamation or succession referred to in sub-section (6) or sub-section (7) of section 32A; or

(b) at any time before the expiry of ten years from the end of the previous year in which the ship or aircraft was

acquired or the machinery or plant was installed, the assessee does not utilise the amount credited to the reserve account under sub-section (4) of section 32A for the purposes of acquiring a new ship or a new aircraft or new machinery or plant [other than machinery or plant of the nature to in clauses (a), (b) and (d) of the proviso to sub-section (1) of section 32A] for the purposes of the business of the undertaking; or

(c) at any time before the expiry of the ten years referred to in clause (b), the assessee utilises the amount credited to the reserve account under sub-section (4) of section 32A -

(i) for distribution by way of dividends or profits; or

(ii) for remittance outside India as profits or for the creation of any asset outside India; or

(iii) for any other purpose which is not a purpose of the business of the undertaking,

the investment allowance originally allowed shall be deemed to have been wrongly allowed, and the Income-tax Officer may, notwithstanding anything contained in this Act, recompute the total income of the assessee for the relevant previous year and make the necessary amendment, and the provisions of section 154 shall, so far as may be, apply thereto, the period of four years specified in sub-section (7) of that section being reckoned, -

(i) in a case referred to in clause (a), from the end of the previous year in which the sale or other transfer took place;

(ii) in a case referred to in clause (b), from the end of the ten years referred to in that clause;

(iii) in a case referred to in clause (c), from the end of the previous year in which the amount was utilised.

Explanation : For the purposes of clause (b), "new ship" or "new aircraft" or "new machinery or plant" shall have the same meanings at in the Explanation to clause (vi) of sub-section (1) of section 32..

Section 22 - Amendment of Section 195

In the Income-tax Act, in section 195, in sub-section (2), for the words "other than interest including interest on securities", the words "other than interest on securities" shall be substituted with effect from the 1st day of June, 1976.

Section 23 - Amendment of First Schedule

In the First Schedule to the Income-tax Act, with effect from the 1st day of April, 1977, -

(a) for rule 2, the following rule shall be substituted, namely :-

"2. Computation of profits of life insurance business. - The profits and gains of life insurance business shall be taken to be the annual average of the surplus arrived at adjusting the surplus or deficit disclosed by the actuarial valuation made in accordance with the Insurance Act, 1938 (4 of 1938), in respect of the last inter-valuation period ending before the commencement of the assessment year, so as to exclude from it any surplus or deficit included therein which was made in any earlier inter-valuation period.";

(b) rule 3 shall be omitted;

(c) in rule 7, in sub-rule (1), clauses (i) and (iii) shall be omitted.

Section 24 - Amendment of Eighth Schedule

In the Eighth Schedule to the Income-tax Act, -

(a) against Bihar in column (1), for the existing areas specified in column (2), the following shall be substituted, namely :-

"The districts of Aurangabad, Begusarai, Bhagalpur, Bhojpur, Darbhanga, East Champaran, Gaya, Madhubani, Monghyr, Muzaffarpur, Nalanda, Nawadah, Palamau, Purnea, Saharsa, Samastipur, Santal Parganas, Saran, Sitamarhi, Siwan, Vaishali and West Champaran.";

(b) against Punjab in column (1), for the existing areas specified in column (2), the following shall be substituted, namely :-

"The district of Bhatinda; so much of the district of Faridkot as formed part of the district of Bhatinda on the 31st day of July, 1972; the districts of Ferozepur, Gurdaspur, Hoshiarpur and Sangrur.";

(c) after Rajasthan in column (1) and the entries relating thereto, the following shall be inserted, namely :-

"Sikkim The whole of the State.";

(d) against Uttar Pradesh in column (1), for the existing areas specified in column (2), the following shall be substituted, namely :-

"The districts of Almora, Azamgarh, Baharaich, Ballia, Banda, Bara, Banki, Basti, Budaun, Bulandshahr, Chamoli, Deoria; Etab, Etawah, Faizabad, Farrukhabad, Fatehpur, Garhwal Ghazipur, Gonda, Hamirpur, Hardoi, Jalaun, Jaunpur, Jhansi, Mainpuri, Mathura, Moradabad, Pilibhit, Pithoragarh, Pratapgarh, Rae Bareli, Rampur, Shahjahanpur, Sitapur, Sultanpur, Tehri-Garhwal, Unnao and Uttarkashi.";

(e) for the Explanation, the following Explanation shall be substituted, namely :-

Explanation : Save as otherwise expressly provided, reference to any district in this Schedule shall be construed, -

(i) in the case of the districts of Aurangabad, Begusarai, Bhojpur, Gaya, Monghyr, Nalanda and Nawadah in the State of Bihar; the district of Ferozepur in the State of Punjab; and the district of Rampur in the State of Uttar Pradesh, as a reference to the areas comprised in the district concerned on the 15th day of March, 1976, being the date of introduction of the Finance Bill, 1976, in the House of the People; and

(ii) in the case of any other district, as a reference to the areas comprised in that district on the 3rd day of September, 1973, being the date of introduction of the Direct Taxes (Amendment) Bill, 1973, in the House of the People.".

Section 25 - Amendment of Ninth Schedule

In the Ninth Schedule to the Income-tax Act, -

(a) for item 4, the following item shall be substituted, namely :-

"4. Steel castings and forgings and alloy, malleable and S.G. iron castings.";

(b) after item 24 and before the Explanation, the following items shall be inserted, namely :-

"25. Carbon and graphite products.

26. Inorganic heavy chemicals (other than soda ash and caustic soda mentioned in items 12 and 13 respectively).

27. Organic heavy chemicals.

28. Synthetic rubber and rubber chemicals (including carbon black).

29. Industrial explosives.

30. Basic drugs.

31. Industrial sewing machines.

32. Finished leather and leather goods (including footwear made wholly or mainly of leather).".

Section 26 - Consequential Amendments to Ccertain Sections

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26. Consequential amendments to certain sections

The following amendments (being amendments of a consequential nature) shall be made in the Income-tax Act, namely :-

(a) in section 45, the figures and letter ",54C" shall be omitted;

(b) in clause (iv) of sub-section (2) of section 141A, for the words, brackets and figures "the deduction referred to in clause (ii) of sub-section (2) of section 33", the words, brackets, figures and letter "the deduction referred to in clause (ii) of sub-section (3) of section 32A or clause (ii) of sub-section (2) of section 33" shall be substituted;

(c) in sub-clause (iv) of clause (b) of sub-section (1) of section 143, for the words, brackets and figures "the deduction referred to in clause (ii) of sub-section (2) of section 33", the words, brackets, figures and letter "the deduction referred to in clause (ii) of sub-section (3) of section 32A or clause (ii) of sub-section (2) of section 33" shall be substituted;

(d) in clause (i) of sub-section (1) of section 160, the words, brackets and figure "clause (i) of" shall be omitted with effect from the 1st day of June, 1976;

(e) in the Ninth Schedule, for the brackets, words and figures "[See section 32(1)(vi)]", the brackets, words, figures and letters "[See section 32(1)(vi) and section 32A(2)(b)(ii)]" shall be substituted.

Section 27 - Amendment of Act 27 of 1957

In the Wealth-tax Act, 1957, -

(1) in section 3, for the words "at the rate or rates specified in the Schedule", the words and figure "at the rate or rates specified in Schedule I" shall be substituted with effect from the 1st day of April, 1977;

(2) in section 5, in sub-section (1), -

(a) after clause (ivb), the following clause shall be inserted with effect from the 1st day of April, 1977, namely :-

(ivc) one or more dwelling units (each such dwelling unit having a plinth area not exceeding eighty square metres) and the land appurtenant thereto, belonging to the assessee, where the construction of such dwelling unit or units is begun on or after the 1st day of April, 1976 :

Provided that this exemption shall apply in respect of any dwelling unit or units and the land appurtenant thereto only for a period of five successive assessment years next following the date on which the construction of such dwelling unit or units is completed.

Explanation : For the purposes of this clause, -

(a) "dwelling unit" means a unit of accommodation used solely for the purpose of residence;

(b) "land appurtenant", in relation to any dwelling unit or units comprising a building, means, -

(i) in an area where there is any law in force providing for the minimum extent of land contiguous to the land occupied by any building to be kept as open space for the enjoyment of such building, the minimum extent of land contiguous to the land occupied by the building comprising such dwelling unit or units required to be kept as open space under such law;

(ii) in any other area, an extent of land not exceeding one-third of the plinth area of the building comprising the dwelling unit or units at the ground level contiguous to the land occupied by such building;";

(b) after clause (x), the following clause shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 1975, namely :-

"(xa) the amount of any fee due to the assessee in respect of services rendered by him as a legal practitioner within the meaning of the Advocates Act, 1961 (25 of 1961);";

(c) after clause (xxx), the following clause shall be inserted, namely :-

(xxxa) the value of any building belonging to the assessee, where the building is used solely for the purposes of residence of persons employed by the assessee in any plantation or industrial undertaking belonging to the assessee and the income of each such person chargeable under the head "Salaries" under the Income-tax Act is ten thousand rupees or less;;

(d) in the Explanation to clause (xxxi), -

(i) for the words "this clause", the words, brackets, figures and letter "clause (xxxa), this clause" shall be substituted;

(ii) for the words, brackets and figures "and clause (xxxii)", the words, brackets and figures "clause (xxxii) and clause (xxxiv)" shall be substituted with effect from the 1st day of April, 1977;

(e) after clause (xxxii), the following clauses shall be inserted with effect from the 1st day of April, 1977, namely :-

"(xxxiii) in the case of an assessee, being a person of Indian origin who was ordinarily residing in foreign country and who, on leaving such country, has returned to India with the intention of permanently residing therein, moneys and the value of assets brought by him into India and the value

of the assets acquired by him out of such moneys :

Provided that this exemption shall apply only for a period of seven successive assessment years commencing with the assessment year next following the date on which such person returned to India.

Explanation : A person shall be deemed to be of Indian origin if he, or either of his parents or any of his grandparents, was born in undivided India;

(xxxiv) in the case of an individual, being a citizen of India, who is not resident in India during the year ending on the valuation date, the value of any equity shares in any company of the type referred to in clause (d) of section 45 which is engaged in the business of manufacture or production of any one or more of the articles or things specified in Schedule II or which is certified by the prescribed authority to have undertaken the export of such percentage of its total production as may be specified in this behalf by the prescribed authority, where such shares form part of the initial issue of the equity share capital made by the company after the 31st day of March, 1976, or where such shares form part of an issue of equity share capital which is certified by the prescribed authority to have been made by the company after the 31st day of March, 1976, for the purposes of expansion or diversification of its industrial undertaking.

Explanation : An individual shall be deemed to be not resident in India during the year ending on the valuation date if in respect of that year the individual is not resident in India within the meaning of the Income-tax Act.";

(3) in section 7, -

(a) in sub-section (3), for the words "the valuation date" the words, brackets and figure "the valuation date, or, in the case of an asset being a house referred to in sub-section (4), the valuation date referred to in that sub-section" shall be substituted;

(b) after sub-section (3), the following sub-section shall be inserted, namely :-

(4) Notwithstanding anything contained in sub-section (1), the value of a house belonging to the assessee and exclusively used by him for residential purposes throughout the period of twelve months immediately preceding the valuation date may, at the option of the assessee, be taken to be the price which, in the opinion of the Wealth-tax Officer, it would fetch if sold in the open market on the valuation date next following the date on which he become the owner of the house, or on the valuation dated relevant to the assessment year commencing on the 1st day of April, 1971, whichever valuation date is later :

Provided that where more than one house belonging to the assessee is exclusively used by him for residential purposes, the provisions of this sub-section shall apply only in respect of one of such house which the assessee may, at his option, specify in the behalf in the return of net wealth.

Explanation : For the purposes of this sub-section -

(i) where the house has been constructed by the assessee, he shall be deemed to have become the owner thereof on the date on which the construction of such house was completed;

(ii) "house" includes a part of a house, being an independent residential unit.;

(4) in section 21, in sub-section (4), for the words "the Schedule", at both the places where they occur, the word and figure "Schedule I" shall be substituted with effect from the 1st day of April, 1977;

(5) in section 21A, in clause (a), for the words "the Schedule", the word and figure "Schedule I" shall be substituted with effect from the 1st day of April, 1977;

(6) the Schedule shall be numbered as Schedule I with effect from the 1st day of April, 1977, and with effect from that date -

(a) in the Schedule as so numbered, for the Part I, the following Part shall be substituted, namely :-

Part I

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

Rates of Tax

(a) where the net wealth does not exceed Rs. 5,00,000	1/2 per cent. of the net wealth;
(b) where the net wealth exceeds Rs. 5,00,000 but does not exceed Rs. 10,00,000	Rs. 2,500 plus 1 1/2 per cent. of the amount by which the net wealth exceeds Rs. 5,00,000;
(c) where the net wealth exceeds Rs. 10,00,000 but does not Rs. 10,00,000 but does not	Rs. 10,000 plus 2 per cent. of the amount by which the net xwealth exceeds Rs. 10,00,000;
(d) where the net wealth exceeds Rs. 15,00,000	Rs. 20,000 plus 2 1/2 per cent. of the amount by which the net wealth exceeds Rs. 15,00,000 :

Provided that for the purposes of this item, -

(i) no wealth-tax shall be payable where the net wealth does not exceeds Rs. 1,00,000;

(ii) the wealth-tax payable shall, in no case, exceed 5 per cent. of the amount by which the net wealth exceeds Rs. 1,00,000.

(2) In the case of every Hindu undivided family which has at least one member whose net wealth assessable for the assessment year exceeds Rs. 1,00,000, -

Rates of Tax

(a) where the net wealth does 1 not exceed Rs. 5,00,000	1/2 per cent. of the net wealth;
(b) where the net wealth exceeds Rs. 5,00,000 but does not net exceed Rs. 10,00,000	Rs. 7,500 plus 2 per cent. of the amount by which the wealth exceeds Rs. 5,00,000;
(c) where the net wealth exceeds Rs. 10,00,000	Rs. 17,500 plus 2 1/2 per cent. of the amount by which the net wealth exceeds Rs. 10,00,000 :

Provided that for the purposes of this item, -

(i) no wealth-tax shall be payable where the net wealth does not exceed Rs. 1,00,000;

(ii) the wealth-tax payable shall, in a case, exceed 5 per cent. of the amount by which the net wealth exceeds Rs. 1,00,000.";

(b) after the Schedule as so numbered, the following Schedule shall be inserted, namely :-

Schedule II

[See section 5(1) (xxxiv)]

List of Articles or Things

1. Ferro alloys; steel castings and forgings; special steels; and non-ferrous metals and their alloys.

2. Boilers and Steam Generating Plants.

3. Prime Movers (other than Electrical Generators), being industrial turbines or internal combustion engines.

4. Equipment for transmission and distribution of electricity; electrical motors; electrical furnaces; X-ray equipment; and electronic components and equipment.

5. Mechanised sailing vessels up to 1000 DWT; ship ancillaries; and commercial vehicles.

6. Industrial machinery.

7. Machine tools.

8. Agricultural machinery, being tractors or power tillers.

9. Earth-moving machinery.

10. Industrial instruments, being indicating, recording and regulating devices for pressure, temperature, rate of flow, weights, levels and the like.

11. Scientific instruments.

12. Nitrogenous and phosphatic fertilisers falling under "(1) Inorganic fertilisers" mentioned under the heading "18. Fertilisers" in the First Schedule to the Industries (Development and Regulation) Act, 1951 (65 of 1951).

13. Chemicals (other than fertilisers), namely :-

(1) Inorganic heavy chemicals.

(2) Organic heavy chemicals.

(3) Fine chemicals including photographic chemicals.

(4) Synthetic resins and plastics.

(5) Synthetic rubbers.

(6) Man-made fibres.

(7) Industrial explosives.

(8) Inspecticides, fungicides, weedicides and the like.

(9) Synthetic detergents.

(10) Miscellaneous chemicals (for industrial use only).

14. Drugs and pharmaceuticals.

15. Paper and pulp including paper products.

16. Automobile tyres and tubes.

17. Plate glass.

18. Ceramics, being refractories or furnace lining bricks -acidic, basic and neutral.

19. Cement products, being portland cement or asbestos cement..

Section 28 - Amendment of Act 18 of 1958

In section 5 of the Gift-tax Act, 1958, in clause (iv) of sub-section (1), after the words "local authority", the words, brackets, figures and letter "or any authority referred to in clause (20A) of section 10 of the Income-tax Act" shall be inserted with effect from the 1st day of April, 1977.

Section 29 - Amendment of Act 7 of 1964

In the Companies (Profits) Surtax Act, 1964, -

(a) in section 2, in clause (8), for the words "ten per cent." at both the places where they occur, the words "fifteen per cent." shall be substituted with effect from the 1st day of April, 1977;

(b) in the First Schedule, in rule 3, for the portion beginning with the words "by the aggregate of -" and ending with the brackets, figures and words "(ii) any expenditure", the words "by the amount of any expenditure" shall be substituted with effect from the 1st day of April, 1977;

(c) in the Second Schedule, -

(i) in rule 1 -

(1) in clause (ii), for the words, brackets and figures "sub-section (3) of section 34", the words, brackets, figures and letter "sub-section (4) of section 32A, or sub-section (3) of section 34" shall be substituted with effect from the 1st day of April, 1977; and

(2) clauses (iv) and (v) shall be omitted with effect from the 1st day of April, 1977;

(ii) after rule 1, the following rule shall be inserted, and shall be deemed to have been inserted with effect from the 1st day of April, 1975, namely :-

1A. Where a company has not made any credit in any account in its books as on the first day of the previous year relevant to the assessment year which is of the nature of item (8) or item (9) under the

heading "CURRENT LIABILITIES AND PROVISIONS" in the column relating to "LIABILITIES" in the "FORM OF BALANCE-SHEET", given in Part I of Schedule VI to the Companies Act, 1956 (1 of 1956), or where the Income-tax Officer is of opinion that the amount credited in such account falls short of the amount which should have reasonably been credited by it, the amount of its capital as computed under rule 1 shall be reduced by the amount which has not been so credited or, as the case may be, the amount of such shortfall.

Explanation : For the purposes of this rule, the amount of credit which should have reasonably been made by a company in relation to any account of the nature of item (9) aforesaid, means the amount of dividend declared or paid by the company, on or after the first day of the previous year relevant to the assessment year, for the previous year immediately preceding the first mentioned previous year.;

(iii) in rule 2, in clause (i), the brackets, words and figures "[other than the debentures referred to in clause (iv) or moneys referred to in clause (v) of rule 1]" shall be omitted with effect from the 1st day of April, 1977;

(iv) in rule 3, for the words, brackets and figures "or issue of the debentures referred to in clause (iv), or borrowing of any moneys referred to in clause (v), of rule 1 or is reduced by any amount on account of reduction of paid-up share capital or redemption of such debentures or repayment of any such moneys,", the words "or is reduced by any amount on account of reduction of paid-up share capital," shall be substituted with effect from the 1st day of April, 1977.

Section 30 - Amendment of Act 45 of 1974

In section 2 of the Interest-tax Act, 1974, in clause (7), with effect from the 1st day of April, 1977, -

(a) in sub-clause (i), the word "and" shall be omitted;

(b) in sub-clause (ii), the word "and" shall be inserted at the end;

(c) after sub-clause (ii), the following sub-clause shall be inserted, namely :-

"(iii) interest on money lent for the creation of a capital asset in India where the agreement under which such moneys are lent provides for the repayment thereof during a period of not less than seven years;".