

LOK SABHA

**THE DIRECT TAXES (AMENDMENT) BILL,  
1973**

**(Report of the Select Committee)**

*[Presented on the 29th April, 1974]*



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1974/Vaisakha, 1896 (Saka)*

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Joint /Select Committee Reports Presented  
in the Lok Sabha during the year 1974.

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Sl.No.	Title	Date of presentation
<del>XXXXX</del>		
1.	The Untouchability (Offences) Amendment and Miscellaneous Provision Bill, 1972 (Report of the Joint Committee)	22.2.74
2.	The Direct Taxes (Amendment) Bill, 1973 (Report of the Select Committee)	29.4.74
	-do- EVIDENCE	
3.	The Disturbed Areas (Special Courts) Bill, 1972 (Report of the Joint Committee)	30.4.74
4.	The National Library Bill, 1972 (Report of the Joint Committee)	26.7.74
	-do- EVIDENCE	

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CORRIGENDA  
TO  
THE REPORT OF THE SELECT COMMITTEE ON THE  
DIRECT TAXES (AMENDMENT) BILL, 1973.

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Page (viii), line 6, for "opnion" read "opinion".

Page (ix), line 1, for "dote" read "date".

Page (x), line 12, for "part" read "past".

Page (xi) -

(i) line 4, for "Commissions" read "Commissioners";

(ii) line 17, omit "vio"; and

(iii) line 26, for "th" read "the".

Page 16, S.No. 5, for "Sura" read "Surat".

Page 39 -

(i) line 20, for "Comittee" read "Committee";

(ii) line 20, for "recomend" read "recommend"; and

(iii) line 25, after "force" insert "with".

# CONTENTS

	PAGE
COMPOSITION OF THE SELECT COMMITTEE . . . . .	(iii)
REPORT OF THE SELECT COMMITTEE . . . . .	(v)
MINUTES OF DISSENT . . . . .	(x)
BILL AS REPORTED BY THE SELECT COMMITTEE . . . . .	I
APPENDIX I:	
Motion in Lok Sabha for reference of the Bill to the Select Committee . . . . .	15
APPENDIX II :	
List of Associations, Organisations, etc. from whom Memoranda/Representations/Notes, etc. were received by the Select Committee . . . . .	16
APPENDIX III:	
List of Associations, Organisations, etc. who gave evidence before the Select Committee . . . . .	18
APPENDIX IV :	
Minutes of the sittings of the Select Committee . . . . .	19

2. Shri R. V. S. Peri-Sastri, Joint Secretary and Legislative Counsel, Ministry of Law, Justice and Company Affairs (Legislative Department).
3. Shri V. S. Bhashyam, Deputy Legislative Counsel, Ministry of Law, Justice & Company Affairs (Legislative Department).

REPRESENTATIVES OF THE MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri M. R. Yardi, *Finance Secretary.*
2. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
3. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
4. Shri R. R. Khosla, *Director.*
5. Shri O. P. Bhardwaj, *Deputy Secretary.*
6. Shri V. P. Minocha, *Under Secretary.*

SECRETARIAT

1. Shri P. K. Patnaik—*Joint Secretary.*
2. Shri H. G. Paranjpe—*Deputy Secretary.*

## REPORT OF THE SELECT COMMITTEE

1. the Chairman of the Select Committee to which the Bill\* further to amend the Income-tax Act, 1961, the Wealth-tax Act, 1957, the Gift Tax Act, 1958 and the Companies (Profits) Surtax Act, 1964 and to provide for certain related matters was referred, having been authorised to submit the Report on their behalf, present their report with the Bill, as amended by the Committee, annexed thereto.

2. The Bill was introduced in Lok Sabha on the 3rd September, 1973. The motion for reference of the Bill to a Select Committee was moved in the House by Shri K. R. Ganesh, Minister of State in the Ministry of Finance on the 23rd November, 1973 and was adopted (Appendix I).

3. The Committee held 11 sittings in all.

4. The first sitting of the Committee was held on the 7th December, 1973 to draw up their programme of work. The Committee decided to invite written memoranda from the State Governments, Chambers of Commerce and Industry, Business Organisations and other Associations and every one else interested in the subject matter of the Bill by the 31st December, 1973.

The Committee further decided that the concerned Secretaries to the Government of India might be invited to give oral evidence on the provisions of the Bill.

5. 35 memoranda on the Bill were received by the Committee from various associations, organisations, etc. (*vide* list at Appendix II).

6. The Committee heard the evidence given by various associations, organisations, etc. and concerned Secretaries to the Government of India, at their sittings held on the 17th and 19th January, 1974. The list of associations, organisations, etc. who appeared before the Committee is at Appendix III.

7. At their sitting held on the 8th April, 1974, the Committee decided that (i) the evidence given before them might be laid on the Table of the House; and (ii) two copies each of the memoranda received by the Committee from various associations, organisations, etc. might be placed in Parliament Library, after the Report was presented, for reference by the Members of Parliament.

8. The Report of the Committee was to be presented by the 22nd February, 1974. The Committee were granted extension of time for presentation of their Report on the 21st February, 1974 upto the 30th April, 1974.

9. The Committee considered the Bill clause-by-clause at their sittings held on the 4th and 5th February, 27th March and 8th April, 1974.

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\*Published in the Gazette of India, Extraordinary, Part II, Section 2, dated the 3rd September, 1973.

10. The Committee considered and adopted the Report on the 22nd April, 1974.

11. The observations of the Committee with regard to the principal changes proposed in the Bill are detailed in the succeeding paragraphs.

12. *Clause 2.*—The Committee note that under new clause (17A) as proposed to be inserted in section 10 of the Income-tax Act, 1961, the payments made in pursuance of awards for literary, scientific and artistic work or attainment or for proficiency in sports and games, instituted by the Central Government or approved by it will be completely exempt from income-tax. The Committee feel that similar awards instituted by the various State Governments should be treated on par with those instituted by the Central Government.

Proposed new clause (17A) has been amended accordingly.

13. *Clause 3.*—The Committee have made certain amendments in sub-clause (a) of this clause as explained below:—

(i) The Committee feel that the proposed benefit of initial depreciation should be made available in respect of the machinery and plant installed in small scale industrial undertakings irrespective of the articles or things produced by such undertakings. For this purpose an industrial undertaking should be regarded as a small scale industrial undertaking if the actual cost of the machinery and plant installed therein does not exceed seven hundred and fifty thousand rupees.

(ii) The Committee note that under an existing provision in the Income-tax Act, 1961 development rebate is admissible in respect of machinery and plant installed before the 1st June, 1974. The Committee feel that the enterprises having large unabsorbed development rebate may not like to avail of the initial depreciation allowance until such development rebate is set off against profits for the assessment year 1975-76 or subsequent years. This is because set off of development rebate is allowed against profits after adjustment of depreciation allowance which will include the initial depreciation allowance now proposed. Since the provision for the grant of initial depreciation allowance is intended to help the industrial undertakings and not to work to their disadvantage by depriving them of their right to development rebate, the Committee are of the opinion that an assessee may at his option, declare and choose not to avail of the proposed benefit (in the initial years of the operation of the scheme) of initial depreciation allowance. The assessee may exercise his option before the expiry of the time allowed for furnishing the return of income for the assessment year in which he first becomes entitled to a deduction under new clause (vi). Once the assessee exercises this option, no deduction in respect of initial depreciation allowance should be allowed till he revokes the option exercised by him. The assessee should also be required to give the notice of revocation in writing to the Income-tax Officer before the expiry of the time for furnishing the return of income for the assessment year for which such revocation is to operate.

(iii) The Committee note that under the proposed provisions, the initial depreciation will be admissible in respect of new ships or new aircraft acquired after the 31st May, 1974 by concerns engaged in shipping and aviation and new machinery or plant installed after that date in certain specified industries.

The Finance Bill, 1974 contains a provision for continuance of development rebate for another year in respect of coal-fired boilers, machinery and plant for converting oil-fired boilers to coal-fired boilers and ships, machinery or plant in cases where the assessee had entered into a contract for the purchase thereof before the 1st December, 1973. In view of this position, ships, aircraft, machinery or plant will, in certain cases, qualify for development rebate, even if these are acquired or installed after the 31st May, 1974 but before the 1st June, 1975. The effect will, therefore, be that in such cases, assessee will be entitled to both development rebate under the provisions in the Finance Bill, 1974 and initial depreciation allowance under the proposed provisions of the Direct Taxes (Amendment) Bill, 1973 in respect of the same ship, aircraft, machinery or plant.

As it is not the intention to allow initial depreciation allowance in respect of ships, aircraft, machinery or plant which qualify for development rebate, the Committee feel that the initial depreciation allowance should be restricted only to ships, aircraft, machinery or plant in respect of which development rebate is not admissible.

(iv) The Committee note that under the proposed provisions, re-conditioned machinery or plant imported into India by the assessee will be regarded as new machinery or plant and will, accordingly, qualify for initial depreciation allowance. The Committee feel that such initial depreciation allowance should also be admissible in cases where re-conditioned machinery or plant is not directly imported into India by the assessee, but purchased from a dealer in such machinery or plant who has imported the same into India.

Sub-clause (a) of clause 3 has been amended accordingly.

14. *Clause 4.*—The new sub-section (2A) as proposed to be inserted in section 34 of the Income-tax Act, 1961 provides that the initial depreciation allowance will not be allowed in respect of any machinery or plant installed for the purposes of construction, manufacture or production of any one or more of the articles or things specified in the list in the Ninth Schedule unless the taxpayer furnishes a certificate from the prescribed authority to the effect that the machinery or plant has been installed for the purposes of such business. The Committee feel that this requirement of furnishing the certificate from the prescribed authority may cause hardship in the case of small taxpayers.

The new sub-section (2A) has, therefore, been omitted.

15. *Clause 5.*—(i) The Committee note that under the proposed provisions, an assessee who pays any sum to an approved scientific research association or university or college or other institution for sponsored scientific research relating to his business will be allowed a deduction equal to one and one-third times the sum so paid.

The Committee are of the view that since the scientific research for which a sum is paid by an assessee is required to be undertaken under a programme approved in this behalf by the prescribed authority having regard to the social, economic and industrial needs of the country, the proposed incentive should not be restricted to sums paid for scientific research related to the business carried on by the assessee.



New sub-section (2A) proposed to be inserted by sub-clause (c) of clause 5 has, therefore, been amended accordingly.

(ii) Deletion of the Explanation to sub-section (2A) of section 35 of the Income-tax Act, 1961 proposed to be inserted by sub-clause (c) of clause 5 is of a consequential nature.

16. *Clause 9.*—(i) The Committee are of the opinion that for the development of backward areas, the proposed deduction of an amount equal to twenty per cent. of the profits and gains derived from an industrial undertaking established in such areas should be allowed even in cases where an existing industrial undertaking in a non-backward area is shifted to a backward area.

Clauses (ii) and (iii) of clause 2 of the proposed section 80HH have been amended accordingly.

(ii) Under the Bill, the proposed tax concession will not be available to industrial undertakings engaged in construction of ships. The Committee feel that the benefit of the proposed concession shall not be denied to such undertakings. Sub-section (10) of new section 80HH has been amended accordingly.

(iii) The other amendments made in this clause are of a consequential nature.

17. *Clause 15.*—The Committee have made certain amendments in the list of backward areas as explained below:—

(i) The Committee were informed that some of the listed districts in this clause had either been bifurcated or trifurcated or otherwise re-organised before the 3rd September, 1973 i.e. the date of introduction of the Bill in Lok Sabha and some of the districts in Himachal Pradesh, Madhya Pradesh and Uttar Pradesh had been added by the Planning Commission to the list of backward areas. The Committee feel that the list of backward areas in the Bill should be brought in line with the list of such areas identified by the Planning Commission.

(ii) The Committee feel that the portion of District of Kolaba in the State of Maharashtra, which has been designated as the site for the proposed new town of New Bombay [vide notification No. RPB-1171-18124-I.W. dated the 20th March, 1971, issued under sub-section (1) of section 113 of the Maharashtra Regional and Town Planning Act, 1966 (Maharashtra Act 37 of 1966) by the Government of Maharashtra (Urban Development, Public Health and Housing Department) as amended by notification No. RPB-1173-I-RPC, dated the 16th August, 1973, issued by that Government] should be excluded from the list of backward areas.

(iii) The Committee also feel that references to the State of Mysore and the Union Territory of Laccadive, Minicoy and Amindivi Islands should be made by their new names viz. Karnataka and Lakshadweep respectively.

(iv) The Committee are also of the opinion that reference to any district in the proposed schedule should be construed as a reference to the areas comprised in that district on the 3rd September, 1973 i.e. the

dote on which the Bill was introduced in Lok Sabha and any reorganisation or change in the nomenclature of the districts which might be made by the State Governments should not have the effect of either enlarging or limiting the scope of the concession to newly established industrial undertakings and hotels in those areas.

The list of backward areas has been amended and an Explanation added to this clause accordingly.

18. *Clause 16.*—The Committee feel that it will be advantageous to follow as far as possible the language of the Fifth Schedule to the Income-tax Act, 1961 in describing the various articles or things in the list in the proposed Ninth Schedule.

The Committee recommend that items relating to steel castings and forgings, fertilisers, textiles and cement should be re-worded and brought in line with the language of the corresponding items in the Fifth Schedule.

The List of articles or things in the proposed Ninth Schedule has been amended accordingly.

19. *Clause 1, Enacting Formula and changes of formal nature.*—The Bill was introduced in Lok Sabha on the 3rd September, 1973. On account of the efflux of time, it is necessary to make certain amendments in clause 1, enacting formula and certain other clauses.

By virtue of sub-clause (2) of clause 1, clauses 2, 6, 14, 17, 19, 21 and 22 which do not contain any commencement provision to the contrary would have come into force with effect from the 1st day of April, 1973. Clauses 14, 17, 19 and 21 of the Bill seek to confer a power to make rules with retrospective effect. This power can be exercised only after the legislation receives the assent of the President and the Committee, therefore, feel that it would not be necessary to give these clauses retrospective effect. Retrospective effect is of significance for the purposes of clauses 2, 6 and 22. The Committee, therefore, recommend that sub-clause (2) of clause 1 may be omitted and specific provisions made for providing for retrospective effect in clauses 2, 6 and 22.

In the Bill, as introduced, the amendments proposed in clauses 5(a) and (c), 7, 8, 9, 10, 11, 12 and 15 were directed to come into force with effect from the 1st day of April, 1974. As the 1st day of April, 1974 is already over, the Committee consider that it is necessary to change the direction to the effect that the amendments concerned shall be deemed to have been made with effect from the 1st day of April, 1974.

The aforementioned provisions have been amended accordingly.

20. The Select Committee recommend that the Bill, as amended, be passed.

NEW DELHI;  
April 29, 1974.  
Vaisakha 9, 1896 (Saka).

N. K. P. SALVE,  
Chairman,  
Select Committee.

# MINUTES OF DISSENT

## I

This is a time of shortages, unemployment, stagnation and inflation. The paramount need is to at least maintain production. Production cannot be maintained without investment in replacement of plant. Funds for investment have to come mainly from resources of companies. And the companies will have no resources for this purpose if taxation takes this away. In Socialist Sweden corporate tax is 40 per cent and economic associations pay still lower taxes at 32 per cent. As against this, in India presently companies are taxed at 65 per cent and above. The cost of replacement of fixed assets is galloping. The wholesale price index rose by 26 per cent in the part 12 months alone. The Price index of machinery is up by nearly 100 per cent over the past decade. Hundreds of units will be on the sick list since they will have no funds to undertake their replacement, much less modernisation.

As against this, the illusory incentive offered in the Bill of a 20 per cent initial depreciation allowance will have no impact. The initial depreciation allowance amounts to no more than deferred taxation, if there is any income at all, since the total depreciation has to be within 100 per cent. The earlier policy of depreciation and development rebate permitted 120 to 135 per cent write off.

I, therefore, strongly urge that the initial depreciation allowance be raised to 25 per cent and that the total depreciation be allowed to be 125 per cent. This is in the national interest as our main aim is to maintain and even promote production.

NEW DELHI;  
April 25, 1974.

D. D. DESAI.

The Law Commission in their 12th Report felt it essential "that a halt should be called to the making of ill-digested amendments in a frenzy of hurry which has characterised the history of Income-tax Law". Since the submission of this Report in 1958 more than 800 amendments had been introduced to the Taxation Law. Amending laws have added more complexity and embiguity to the various provisions and the present Bill seems to be no exception.

When this Bill was sought to be considered and passed in a hurry in November, 1973, I moved a motion for reference to a Select Committee. Other Members who participated in the discussion also supported me on this. Though the Finance Minister agreed to my suggestion later, he did not feel at the beginning the need for a Select Committee. At the end of the deliberations of the Select Committee, I am inclined to appreciate his wisdom.

I feel that the following clauses in the Bill require more attention and clarity in drafting and content.

*Clause 2.*—In my amendment, I suggested that designing, erection operations should be built into the explanation itself. The amendment in the Bill removes the restriction imposed in sub-clause (a) which pointedly refers to "technicians". Unless the explanation "technician" is amended, the proposed amendment in the Bill as such will not have the desired effect as it will be completely outside sub-clause (vii) (a) of clause 6 of section 10 of the Income-tax Act, 1961 itself.

*Clause 3.*—In this clause, the "new ship" and "new machinery" should be defined as "owned by the assessee and used for the purposes of the business or profession". The opening words of Section 32 of the Income Tax Act will not be helpful in this regard inasmuch as that expression is confined only to "building machinery, plant or furniture." The expression "plant" has been defined in Section 43 as "including a ship". Therefore air-craft is not covered by this definition, let alone a new-craft. The expressions "new ship" and "new machinery" are different from "ship" and "machinery". They are a category apart from what has been dealt with in Section 31 and if Income Tax Officer tries to restrict the initial depreciation of new ship and new machinery and plant owned by the assessee and used for the business, the assessee may successfully challenge the Officer's action pointing out the omission of these crucial words in the proposed sub-clause (vi).

The present form of clause 3 also leaves room for a non-resident citizen of India to obtain development rebate and depreciation and then transfer that asset to a citizen of India by collusive arrangement. Under the Income-tax Act a total income is determined on the same criteria for both the resident and non-resident. A non-resident is entitled to all the allowance a resident is entitled to and no distinction is drawn.

Regarding clause 13, I am afraid this will provide a wide scope for manipulation of accounts and evasion of tax. This goes against the very arguments put forth by the Government before the Supreme Court in the case of *Commissioners of Income-tax versus Vegetable Products Ltd.* There the Government Counsel argued to the effect "that the advance tax paid or taxes deducted at source cannot be taken into consideration in determining the penalty payable".

While there can be no two opinions on the need to give incentives for establishment of industrial undertakings in backward areas, the Bill has not evolved any reasonable yardstick for determining the backwardness of an area. The norm and methodology adopted by the Planning Commission are open to question and needs further examination. To put a whole district as backward or forward does not appear to be satisfactory. A part of a so-called "developed" district may be backward and *vice-versa*. Hence mere demarcation for the convenience of administration should not deny an area or region the benefits of these incentives. I will not be surprised if the State Governments vie with each other in trying to declare more districts and areas as backward in order to avail the benefits offered under this clause.

The rationale of the Ninth Schedule is not understandable. There seems to be no rhyme or reasons for inclusion or omission of certain industries in this list as compared to the Fifth Schedule. Our confusion became worse confounded when we were given a note by the Ministry on non-inclusion in the Ninth Schedule of certain items of the Fifth Schedule of the Act. For example, "Pesticides" is an item in the Fifth Schedule of the Act, but does not find a place in the Ninth Schedule of the Bill. The reason given by the Department is "this item does not suffer from any price control, and, therefore, it was felt that initial depreciation allowance may not be necessary for the development of this industry".

Similarly, for items Automobile ancillaries, Seamless tubes, Gears, Ball, roller and tapered bearings (Items 20 to 23 in the Fifth Schedule) the Department completely ignored them in the Ninth Schedule under the plea that "the market for these items is today a seller's market. There is no price control". For non-inclusion of another item (No. 24 of the the Fifth Schedule) it is contended that "prices are not controlled". The criteria for non-inclusion of an item appear to be that it has got a seller's market and that there is no price control. If so, it is hard to find an item of production and distribution in India at the present which does not find a seller's market or for which there is any effective price control.

When food production is to be increased with an urgency it is beyond comprehension why production of pesticides should not be included in the Ninth Schedule. The Ministry of Agriculture in their comments on the Memorandum submitted by Pesticides Association of India on this Bill has stated:

"It may be pointed out that pesticides industry has been treated as a core industry since it produces articles which constitute an essential need for mass consumption. Pesticides can be defined with precision and there would be little chances of abuse of any concessions granted".

Even if the Finance Minister does not want to accept my amendment he at least could have given some consideration to the recommendations of another Ministry of the Government.

Further Item No. 8 of the Ninth Schedule "Industrial and agricultural machinery" is a very vague term capable of covering almost all items of machinery and equipments. It may not be long before the Government comes forward with another set of amendments to rectify some of the lacunae and loopholes now created by this Bill.

NEW DELHI;  
*April 25, 1974*

ERA SEZHIYAN.

It seems that in our country the official view is that unless incentives in the form of tax reliefs are given to the industrialists, there will be no industrial expansion in the country and that to develop industries in the backward areas of the country, special incentives should be provided. The representatives of the big industrialists who tendered evidence before the Select Committee seemed to be of the view that not sufficient incentive is being given to the industrialists by way of tax reliefs and the development rebate which has so long been in force should not only be continued but larger relief should be provided. It appeared to be the unanimous view of such representatives that the provision in the Bill for granting initial depreciation is extremely meagre and will not serve any useful or practical purpose.

I do not subscribe to the official view nor have I been impressed with the evidence given on behalf of the big industrialists. In spite of supposed disincentives in the form of high taxation as was alleged, it is well known that the monopoly houses and big industrial houses have expanded many times and their resources and assets have increased by leaps and bounds. It was not complained now in spite of such supposed disincentives such expansion or increase could be achieved. In my view, private capital cannot be persuaded to start new industries merely by giving tax reliefs as proposed in the Bill which have been described by some of the witnesses as mere pittance. What is required is a vigorous industrial policy and control of the monopoly and the large business houses and encouragement to small scale industries. It appears that since development rebate is being discontinued, the Bill provides for grant of initial depreciation allowance in lieu thereof as a sop to the big industrial and monopoly houses. In the present situation in this country, in view of the role played by the monopoly and big business houses, I do not think they deserve such allowances. However, I am glad that the Committee has accepted my proposal to include the small scale industries to be entitled to the initial depreciation allowance.

The list of backward areas as mentioned in the Eighth Schedule does not seem to be exhaustive. There are various backward areas like the Sunderbans and the Bararat Sub-division of the District 24- Parganas in West Bengal which do not find any place in the list because the list has been prepared with districts as units. Merely because the Planning Commission has prepared the list of backward areas, district-wise, the Bill should not have mechanically adopted the same principle.

NEW DELHI;  
April 29, 1974.

SOMNATH CHATTERJEE

THE DIRECT TAXES (AMENDMENT) BILL, 1973

(AS REPORTED BY THE SELECT COMMITTEE)

[Words underlined or side-lined indicate the amendments suggested by the Committee; asterisks indicate omissions.]

A

BILL

further to amend the Income-tax Act, 1961, the Wealth-tax Act, 1957, the Gift-tax Act, 1958 and the Companies (Profits) Surtax Act, 1964 and to provide for certain related matters.

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

CHAPTER I

PRELIMINARY

5 1. \* This Act may be called the Direct Taxes (Amendment) Act, Short  
1974. title.

\* \* \* \* \*



## CHAPTER II

## AMENDMENTS TO THE INCOME-TAX ACT, 1961

Amendment of section 10.

2. In section 10 of the Income-tax Act, 1961 (hereinafter referred to as the Income-tax Act),— 43 of 1961,

(a) in sub-clause (vii) of clause (6), before the *Explanation*, the following proviso shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1973, namely:— 5

“Provided that the Central Government may, if it considers it necessary or expedient in the public interest so to do, waive the condition specified in item (1) of this sub-clause in the case of any individual who is employed in India for designing, erection or commissioning of machinery or plant or supervising activities connected with such designing, erection or commissioning.”; 10

(b) in clause (15), after item (c) of sub-clause (iv), the following items shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1973, namely:— 15

“(d) by the Industrial Finance Corporation of India established by the Industrial Finance Corporation Act, 1948 or the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 or the Industrial Credit and Investment Corporation of India (a company formed and registered under the Indian Companies Act, 1913), on any moneys borrowed by it from sources outside 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; 15 of 1948. 20 18 of 1964. 7 of 1913. 25

(e) by any other financial institution established in India or a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act), on any moneys borrowed by it from sources outside India under a loan agreement approved by the Central Government where the moneys are borrowed either for the purpose of advancing loans to industrial undertakings in India for purchase outside India of raw materials or capital plant and machinery or for the purpose of importing any goods which the Central Government may consider necessary to import in the public interest, 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;” 30 10 of 1949. 35 40

(c) after clause (17), the following clauses shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1973, namely:—

“(17A) any payment made, whether in cash or in kind, in pursuance of awards for literary, scientific and artistic work or attainment, or for proficiency in sports and games, instituted by the Central Government or by any State Government or approved by the Central Government in this behalf: 45

Provided that the approval granted by the Central Government shall have effect for such assessment year or years (including an assessment year or years commencing before the date on which such approval is granted) as may be specified in the order granting the approval;

(17B) any payment made, whether in cash or in kind, as a reward by the Central Government or any State Government for such purposes as may be approved by the Central Government in this behalf in the public interest;".

10 3. In section 32 of the Income-tax Act, with effect from the 1st day of April, 1975,—

Amend-  
ment of  
section 32.

(a) in sub-section (1), after clause (v), the following clause shall be inserted, namely:—

15 '(vi) in the case of a new ship or a new aircraft acquired after the 31st day of May, 1974 by an assessee engaged in the business of operation of ships or aircraft or in the case of new machinery or plant (other than office appliances or road transport vehicles) installed after that date for the purposes of business of generation or distribution of electricity or any other form of power or of construction, manufacture or production of any one or more of the articles or things specified in the list in the Ninth Schedule or in the case of new machinery or plant (other than office appliances or road transport vehicles) installed after that date in a small-scale industrial undertaking for the purposes of business of manufacture or production of any other articles or things, a sum equal to twenty per cent. of the actual cost of the ship, aircraft, machinery or plant to the assessee, in respect of the previous year in which the ship or aircraft is acquired or the machinery or plant is 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; but any such sum shall not be deductible in determining the written down value for the purposes of clause (ii):

35 Provided that the assessee may, 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 in respect of which he first becomes entitled to deduction under this clause, furnish to the Income-tax Officer a declaration in writing that the provisions of this clause shall not apply to him, and if he does so, the provisions of this clause shall not apply to him for that assessment year and for every subsequent assessment year; so, however, that the assessee may, by notice in writing furnished to the Income-tax Officer 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 any such subsequent assessment year, revoke his declaration and upon such revocation, the provisions of this clause shall apply to the assessee for that subsequent assessment year and for every assessment year thereafter;

Provided further that no deduction shall be allowed under this clause 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, and

(b) any ship, aircraft, machinery or plant in respect of which the deduction by way of development rebate is allowable under section 33.

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

(1) “new ship” or “new aircraft” includes a ship or aircraft which before the date of acquisition by the assessee was used by any other person, if it was not at any time previous to the date of such acquisition owned by any person resident in India;

(2) “new machinery or plant” includes machinery or plant which before its installation by the assessee was used outside India by any other person, if the following conditions are fulfilled, namely:—

(a) such machinery or plant was not, at any time previous to the date of such installation by the assessee, used in India;

(b) such machinery or plant is imported into India \* \* \* from any country outside India; and

(c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of the Indian Income-tax Act, 1922 or this Act in computing the total income of any person for any period prior to the date of the installation of the machinery or plant by the assessee;

(3) an industrial undertaking shall be deemed to be a small-scale industrial undertaking, if the aggregate value of the machinery and plant installed, as on the last day of the previous year, for the purposes of the business of the undertaking does not exceed seven hundred and fifty thousand rupees; and for this purpose 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;’;

(b) in sub-section (2), after the words, brackets and figure “or clause (v)”, the words, brackets and figures “or clause (vi)” shall be inserted.

Amendment of section 34.

4. In section 34 of the Income-tax Act, in clause (ii) of sub-section (2), after the words, brackets and figures “or clause (iv)”, the words, brackets and figures “or clause (v) or clause (vi)” shall be inserted with effect from the 1st day of April, 1975.

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5. In section 35 of the Income-tax Act,—

Amend-  
ment of  
section 35.

(a) in clause (i) of sub-section (1), the following *Explanation* shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1974, at the end, namely:—

5 “*Explanation.*—Where any such expenditure has been laid out or expended before the commencement of the business (not being expenditure laid out or expended before the 1st day of April, 1973) on payment of any salary [as defined in *Explanation* 2 below sub-section (5) of section 40A] to an employee engaged  
10 in such scientific research or on the purchase of materials used in such scientific research, the aggregate of the expenditure so laid out or expended within the three years immediately preceding the commencement of the business shall, to the extent it is certified by the prescribed authority to have been laid out or  
15 expended on such scientific research, be deemed to have been laid out or expended in the previous year in which the business is commenced;”;

(b) in clause (iv) of sub-section (2), for the word, brackets and figures “and (iii)”, the brackets, figures and word “, (iii) and  
20 (vi)” shall be substituted with effect from the 1st day of April, 1975;

(c) after sub-section (2), the following sub-section shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1974, namely:—

25 “(2A) Where the assessee pays any sum to a scientific research association or university or college or other institution referred to in clause (ii) of sub-section (1) to be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority having regard to the social, economic and industrial needs of India, then,—

30 (a) there shall be allowed a deduction of a sum equal to one and one-third times the sum so paid; and

(b) no deduction in respect of such sum shall be allowed under clause (ii) of sub-section (1) for the same or any other assessment year.”.

35 6. In section 35B of the Income-tax Act, in clause (a) of sub-section (1), the following proviso shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1973, at the end, namely:—

Amend-  
ment of  
section  
35B.

40 ‘Provided that in respect of the expenditure incurred after the 28th day of February, 1973 by a domestic company, being a company in which the public are substantially interested, the provisions of this clause shall have effect as if for the words “one and one-third times”, the words “one and one-half times” had been substituted.’

45 7. In section 40A of the Income-tax Act, in sub-section (5), in sub-clause (i) of clause (c), the following proviso shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1974, at the end, namely:—

Amend-  
ment of  
section  
40A.

50 “Provided that where the expenditure is incurred on payment of any salary to an employee or a former employee engaged in

scientific research during any one or more of the three years immediately preceding the commencement of the business and such expenditure is deemed under the *Explanation* to clause (i) of sub-section (1) of section 35 to have been laid out or expended in the previous year in which the business is commenced, the limit referred to in this sub-clause shall, in relation to the previous year in which the business is commenced, be an amount calculated at the rate of five thousand rupees for each month or part thereof comprised in the period of his employment in India during the previous year in which such business is commenced and in the period of his employment in India during which he was engaged in scientific research during the three years immediately preceding that previous year;"

Amendment of section 80A.

8. In section 80A of the Income-tax Act, in sub-section (3), for the word, figures and letter "section 80H", the words, figures and letters "section 80H or section 80HH" shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974.

Insertion of new section 80HH.

9. In the Income-tax Act, after section 80H, the following section shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1974, namely:—

Deduction in respect of profits and gains from newly established industrial undertakings or hotel business in backward areas.

'80HH. (1) Where the gross total income of an assessee includes any profits and gains derived from an industrial undertaking, or the business of a hotel, 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 from such profits and gains of an amount equal to twenty per cent. thereof.

(2) This section applies to any industrial undertaking which fulfils all the following conditions, namely:—

(i) it has begun or begins to manufacture or produce articles after the 31st day of December, 1970 in any backward area

\* \* \*;

(ii) it is not formed by the splitting up, or the reconstruction, of a business already in existence in any backward area:

Provided that this condition 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 section 33B, in the circumstances and within the period specified in that section;

(iii) it is not formed by the transfer to a new business of machinery or plant previously used for any purpose in any backward area;

(iv) it employs 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.

\* \* \* \* \*

*Explanation.*—Where any machinery or plant or any part thereof previously used for any purpose in any backward area is transferred

to a new business in that area or in any other backward area and the total value of the machinery or plant or part so transferred does not exceed twenty per cent. of the total value of the machinery or plant used in the business, then, for the purposes of clause (iii) of this sub-section, the condition specified therein shall be deemed to have been fulfilled.

(3) This section applies to the business of any hotel, where all the following conditions are fulfilled, namely:—

(i) the business of the hotel has started or starts functioning after the 31st day of December, 1970 in any backward area\*\*\*;

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

(iii) the hotel is for the time being approved for the purposes of this sub-section by the Central Government.

(4) The deduction specified in sub-section (1) shall be allowed in computing the total income in respect of each of the ten assessment years beginning with the assessment year relevant to the previous year in which the industrial undertaking begins to manufacture or produce articles or the business of the hotel starts functioning:

Provided that,—

(i) in the case of an industrial undertaking which has begun to manufacture or produce articles, and

(ii) in the case of the business of a hotel which has started functioning,

after the 31st day of December, 1970 but before the 1st day of April, 1973, this sub-section shall have effect as if the reference to ten assessment years were a reference to ten assessment years as reduced by the number of assessment years which expired before the 1st day of April, 1974.

(5) Where the assessee is a person other than a company or a co-operative society, the deduction under sub-section (1) shall not be admissible unless the accounts of the industrial undertaking or the business of the hotel 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-section (2) of section 288 and the assessee furnishes, along with his return of income, the report of such audit in the prescribed form duly signed and verified by such accountant.

(6) Where any goods held for the purposes of the business of the industrial undertaking or the hotel 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 and, in either case, the consideration, if any, for such transfer as recorded in the accounts of the business of the industrial undertaking or the hotel 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 shall be computed as if the transfer, in either case, had been made at the market value of such goods as on that date:

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Provided that where, in the opinion of the Income-tax Officer, the computation of the profits and gains of the industrial undertaking or the business of the hotel in the manner hereinbefore specified presents exceptional difficulties, the Income-tax Officer may compute such profits and gains on such reasonable basis as he may deem fit. 10

*Explanation.*—In this sub-section, “market value” in relation to any goods means the price that such goods would ordinarily fetch on sale in the open market.

(7) Where it appears to the Income-tax Officer that, owing to the close connection between the assessee carrying on the business of the industrial undertaking or the hotel 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, the Income-tax Officer shall, in computing the profits and gains of the industrial undertaking or the hotel for the purposes of the deduction under this section, take the amount of profits as may be reasonably deemed to have been derived therefrom. 15 20 25

(8) In a case where the assessee is entitled also to the deduction under section 80H in relation to the profits and gains of an industrial undertaking to which this section applies, the deduction under sub-section (1) shall be allowed with reference to the amount of such profits and gains as reduced by the deduction under section 80H in relation to such profits and gains. 30

(9) In a case where the assessee is entitled also to the deduction under section 80J in relation to the profits and gains of an industrial undertaking or the business of a hotel to which this section applies, effect shall first be given to the provisions of this section. 35

(10) Nothing contained in this section shall apply in relation to any undertaking engaged \* \* \* in mining.

*Explanation.*—In this section, “backward area” means an area specified in the list in the Eighth Schedule. 40

10. In section 80J of the Income-tax Act \* \* \* ,—

(a) in sub-section (1), for the brackets, words, figures and letter “(reduced by the deduction, if any, admissible to the assessee under section 80H)”, the brackets, words, figures and letters “(reduced by the aggregate of the deductions, if any, admissible to the assessee under section 80H and section 80HH)” shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974; 45

(b) in sub-section (3), for the word, figures and letter “section 80H”, the words, figures and letters “section 80H, section 80HH” shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974. 50

Amend-  
ment of  
section  
80J.

11. In section 80P of the Income-tax Act, in sub-section (3) \* \* \*,—

Amend-  
ment of  
section  
80P.

5 (a) for the words, figures and letters "section 80H or section 80J", the words, figures and letters "section 80H or section 80HH or section 80J" shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974;

(b) for the words, figures and letters "section 80H and section 80J", the words, figures and letters "section 80H, section 80HH and section 80J" shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974.

10 12. In section 80QQ of the Income-tax Act, in sub-section (2) \* \* \*,—

Amend-  
ment of  
section  
80QQ.

(a) for the words, figures and letters "section 80H or section 80J", the words, figures and letters "section 80H or section 80HH or section 80J" shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974;

15 (b) for the words, figures and letters "sections 80H, 80J and 80P", the words, figures and letters "section 80H, section 80HH, section 80J and section 80P" shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1974.

20 13. In section 271 of the Income-tax Act, for clause (i) of sub-section (1), the following clause shall be substituted and shall be deemed always to have been substituted, namely:—

Amend-  
ment of  
section  
271.

25 '(i) in the cases referred to in clause (a), in addition to the amount of the tax, if any, payable by him, a sum equal to two per cent. of the assessed tax for every month during which the default continued, but not exceeding in the aggregate fifty per cent. of the assessed tax.

*Explanation.*—In this clause, "assessed tax" means tax as reduced by the sum, if any, deducted at source under Chapter XVII-B or paid in advance under Chapter XVII-C;'

30 14. In section 295 of the Income-tax Act, after sub-section (3), the following sub-section shall be inserted, namely:—

Amend-  
ment of  
section  
295.

35 "(4) The power to make rules conferred by this section shall include the power to give retrospective effect, from a date not earlier than the date of commencement of this Act, to the rules or any of them and, unless the contrary is permitted (whether expressly or by necessary implication), no retrospective effect shall be given to any rule so as to prejudicially affect the interests of assesses."

40 15. In the Income-tax Act, after the Seventh Schedule, the following Schedule shall be inserted, and shall be deemed to have been inserted, with effect from the 1st day of April, 1974, namely:—

Insertion  
of Eighth  
Schedule.



## "THE EIGHTH SCHEDULE

(See section 80HH)

*List of backward areas*

Name of State or Union territory (1)	Backward areas (2)	5
<i>Andhra Pradesh</i>	The districts of Anantapur, Chittoor, Cuddapah, Karimnagar, Khammam, Kurnool, Mahbubnagar, Medak, Nalgonda, Nellore, Nizamabad, Ongole, Srikakulam and Warangal.	10
<i>Assam</i>	The districts of Cachar, Goalpara, Kamrup, Lakhimpur, Mikir Hills, North Cachar Hills and Nowgong.	
<i>Bihar</i>	The districts of Bhagalpur, Darbhanga, East Champaran, Madhubani, Muzaffarpur, Palamau, Purnea, Saharsa, Samastipur, Santal Parganas, Saran, Sitamarhi, Siwan, Vaishali and West Champaran.	15
<i>Gujarat</i>	The districts of Amreli, Banas Kantha, Bharuch, Bhavnagar, Junagadh, Kutch, Mahesana, Panch Mahals, Sabar Kantha and Surendranagar.	20
<i>Haryana</i>	The districts of <u>Bhiwani</u> , Hissar, Jind and Mahendragarh.	
<i>Himachal Pradesh</i>	The districts of Chamba, Hamirpur, Kangra, Kinnaur, Kulu, Lahul and Spiti, <u>Sirmur</u> , <u>Solan</u> and <u>Una</u> .	25
<i>Jammu and Kashmir</i>	The districts of Anantnag, Baramula, Doda, Jammu, Kathua, Ladakh, Punch, Rajauri, Srinagar and Udhampur.	30
<i>Karnataka</i>	The districts of Belgaum, Bidar, Bijapur, Dharwar, Gulbarga, Hassan, Mysore, North Kanara, Raichur, South Kanara and Tumkur.	
<i>Kerala</i>	The districts of Alleppey, Cannanore, Malappuram, Trichur and Trivandrum.	35
<i>Madhya Pradesh</i>	The districts of Balaghat, Bastar, Betul, Bilaspur, Bhind, Chhatarpur, Chhindwara, Damoh, Datia, Dewas, Dhar, Guna, Hoshangabad, Jhabua, Khargone, Mandla, Mandsaur, Morena, Narsimhapur, Panna, Raigarh, Raipur, Raisen, Rajgarh, <u>Rajnandgaon</u> , Ratlam, Rewa, Sagar, Sehore, Seoni, Shajapur, Shivpuri, Sidhi, Surguja, Tikamgarh and Vidisha.	40
<i>Maharashtra</i>	The districts of Aurangabad, Bhandara, Bhir, Buldhana, Chandrapur, Dhulia and Jalgaon; the district of Kolaba excluding such portion thereof as is comprised in the area designated as the site for the proposed new town of New Bombay by notification No. RPB 1171-18124-I.W., dated the 20th March, 1971, issued	50

(1)	(2)
5	under sub-section (1) of section 113 of the Maharashtra Regional and Town Planning Act, 1966 (Maharashtra Act 37 of 1966) by the Government of Maharashtra (Under Development, Public Health and Housing Department) as amended by notification No. RPB 1173-I-RPC, dated the 16th August, 1973, issued by that Government; the districts of <u>Nanded, Osmanabad, Parbhani, Ratnagiri and Yeotmal.</u>
10	The whole of the State. The districts of <u>Garo Hills, Jaintia Hills and Khasi Hills.</u>
Nagaland Orissa	* * * * * The whole of the State. The districts of <u>Balasore, Bolangir, Dhenkanal, Kalahandi, Keonjhar, Koraput, Mayurbhanj and Phulbani.</u>
15	The district of <u>Bhatinda</u> ; so much of the district of <u>Faridkot</u> as formed part of the district of <u>Bhatinda</u> on the 31st day of July, 1972; the districts of <u>Gurdaspur, Hoshiarpur and Sangrur.</u>
Punjab	The districts of <u>Alwar, Banswara, Barmer, Bhilwara, Churu, Dungarpur, Jaisalmer, Jalor, Jhalawar, Jhunjhunun, Jodhpur, Nagaur, Sikar, Sirohi, Tonk and Udaipur.</u>
20	The districts of <u>Dharmapuri, Kanyakumari, Madurai, North Arcot, Ramanathapuram, South Arcot, Thanjavur and Tiruchirapalli.</u>
Rajasthan	The whole of the State. The districts of <u>Almora, Azamgarh, Baharaich, Ballia, Banda, Bara Banki, Basti, Budaun, Bulandshahr, Chamoli, Deoria, Etah, Etawah, Faizabad, Farrukhabad, Fatehpur, Garhwal, Ghazipur, Gonda, Hamirpur, Hardoi, Jalaun, Jaunpur, Jhansi, Mainpuri, Mathura, Moradabad, Pilibhit, Pithoragarh, Pratapgarh, Rae Bareilly, Shahjahanpur, Sitapur, Sultanpur, Tehri-Garhwal, Unnao and Uttarkashi.</u>
25	The districts of <u>Bankura, Birbhum, Burdwan, Cooch Behar, Darjeeling, Hooghly, Jalpaiguri, Malda, Midnapore, Murshidabad, Nadia, Purulia and West Dinajpur.</u>
Tripura Uttar Pradesh	The whole of the Union territory.
30	The whole of the Union territory. The whole of the Union territory.
West Bengal	The whole of the Union territory. The whole of the Union territory.
40	The whole of the Union territory. The whole of the Union territory.
Andaman and Nicobar Islands	The whole of the Union territory.
Arunachal Pradesh	The whole of the Union territory.
45	The whole of the Union territory.
Dadra and Nagar Haveli	The whole of the Union territory.
Goa, Daman and Diu Lakshadweep	The whole of the Union territory.
Mizoram	The whole of the Union territory.
50	The whole of the Union territory.
Pondicherry	The whole of the Union territory.

*Explanation.*—Save as otherwise expressly provided, reference to any district in this Schedule shall be construed 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.”

Insertion  
of Ninth  
Schedule.

16. In the Income-tax Act, the following Schedule shall be inserted at the end with effect from the 1st day of April, 1975, namely:—

“THE NINTH SCHEDULE

[See section 32(1)(vi)]

*List of articles or things*

- |   |    |
|---|----|
| 1. Iron and steel (metal).  | 10 |
| 2. Non-ferrous metals.  |    |
| 3. Ferro-alloys and special steels.   |    |
| 4. Steel castings and forgings and malleable iron and steel castings.   | 15 |
| 5. Thermal and hydro power generation equipment.  |    |
| 6. Transformers and switch gears.   |    |
| 7. Electric motors.   |    |
| 8. Industrial and agricultural machinery.   |    |
| 9. Earth moving machinery.  | 20 |
| 10. Machine tools.  |    |
| 11. Fertilisers, namely, ammonium sulphate, ammonium sulphate nitrate (double salt), ammonium nitrate, calcium ammonium nitrate (nitrolime stone), ammonium chloride, super phosphate, urea and complex fertilisers of synthetic origin containing both nitrogen and phosphorus, such as ammonium phosphates, ammonium sulphate phosphate and ammonium nitro phosphate. | 25 |
| 12. Soda ash.   |    |
| 13. Caustic soda.   |    |
| 14. Commercial vehicles.  | 30 |
| 15. Ships.  |    |
| 16. Aircraft.   |    |
| 17. Tyres and tubes.  |    |
| 18. Paper, pulp and newsprint.  |    |
| 19. Sugar.  | 35 |
| 20. Vegetable oils.   |    |
| 21. Textiles (including those dyed, printed or otherwise processed) made wholly or mainly of cotton, including cotton yarn, hosiery and rope.   |    |
| 22. Textiles (including those dyed, printed or otherwise processed) made wholly or mainly of jute, including jute twine and jute rope.  | 40 |
| 23. Cement and refractories.”   |    |

## CHAPTER III

## AMENDMENT TO THE WEALTH-TAX ACT, 1957

27 of 1957.

17. In section 46 of the Wealth-tax Act, 1957 (hereinafter referred to as the Wealth-tax Act), for sub-section (3), the following sub-section shall be substituted, namely:—

Amendment of section 46.

“(3) The power to make rules conferred by this section shall include the power to give retrospective effect, from a date not earlier than the date of commencement of this Act, to the rules or any of them and, unless the contrary is permitted (whether expressly or by necessary implication), no retrospective effect shall be given to any rule so as to prejudicially affect the interests of assesseees.”

## CHAPTER IV

## AMENDMENTS TO THE GIFT-TAX ACT, 1958

18 of 1958.

18. In section 17 of the Gift-tax Act, 1958 (hereinafter referred to as the Gift-tax Act), for clause (i) of sub-section (1), the following clause shall be substituted, and shall be deemed to have been substituted, with effect from the 1st day of April, 1963, namely:—

Amendment of section 17.

“(i) in the cases referred to in clause (a), in addition to the amount of the gift-tax, if any, payable by him, a sum equal to two per cent. of the assessed tax for every month during which the default continued, but not exceeding in the aggregate fifty per cent. of the assessed tax.

*Explanation.*—In this clause, “assessed tax” means the gift-tax chargeable under the provisions of this Act as reduced by the amount, if any, for which credit is allowed under section 18;’.

19. In section 46 of the Gift-tax Act, for sub-section (3), the following sub-section shall be substituted, namely:—

Amendment of section 46.

“(3) The power to make rules conferred by this section shall include the power to give retrospective effect, from a date not earlier than the date of commencement of this Act, to the rules or any of them and, unless the contrary is permitted (whether expressly or by necessary implication), no retrospective effect shall be given to any rule so as to prejudicially affect the interests of assesseees.”

## CHAPTER V

## AMENDMENTS TO THE COMPANIES (PROFITS) SURTAX ACT, 1964

7 of 1964.

20. In section 9 of the Companies (Profits) Surtax Act, 1964 [hereinafter referred to as the Companies (Profits) Surtax Act], in clause (a), for the words “surtax payable”, the words “surtax chargeable under the provisions of this Act” shall be substituted and shall be deemed always to have been substituted.

Amendment of section 9.

21. In section 25 of the Companies (Profits) Surtax Act, after sub-section (2), the following sub-section shall be inserted, namely:—

Amendment of section 25.

“(2A) The power to make rules conferred by this section shall include the power to give retrospective effect, from a date not earlier than the date of commencement of this Act, to the rules or any of them and, unless the contrary is permitted (whether expressly or by necessary implication), no retrospective effect shall be given to any rule so as to prejudicially affect the interests of assesseees.”

## CHAPTER VI

## MISCELLANEOUS

Section 13 not to apply in certain cases.

22. Where, in the case of an assessee, the Supreme Court has, before the date of introduction of the Direct Taxes (Amendment) Bill, 1973 in the House of the People, held, on an appeal in respect of an order imposing a penalty under clause (i) of sub-section (1) of section 271 of the Income-tax Act for any particular assessment year, that the expression "the amount of the tax, if any, payable by him" in the said clause shall be construed as the amount of the tax payable by him under the notice of demand under section 156 of that Act issued in pursuance of an order of assessment, nothing contained in section 13 of this Act shall apply or be deemed to have ever applied in relation to the order of penalty in the case of such assessee for that particular year. 5 10

Special provision as to effect of section 18(1) (i) of Wealth-tax Act, as it stood during certain period.

23. Clause (i) of sub-section (1) of section 18 of the Wealth-tax Act, as it stood during the period commencing on the 1st day of April, 1965 and ending with the 31st day of March, 1969, shall have and be deemed always to have effect as if the words "the tax" occurring therein, at both the places, mean the wealth-tax chargeable under the provisions of that Act. 15

Special provision as to effect of section 17(1) (i) of Gift-tax Act, as it stood during certain period.

24. Clause (i) of sub-section (1) of section 17 of the Gift-tax Act, as it stood before the 1st day of April, 1963, shall have and be deemed always to have effect as if the words "such tax" occurring therein mean the gift-tax chargeable under the provisions of that Act as reduced by the amount, if any, for which credit is allowed under section 18 of that Act. 20

## APPENDIX I

(Vide para 2 of the Report)

### MOTION IN LOK SABHA FOR REFERENCE OF THE BILL TO THE SELECT COMMITTEE

"That the Bill further to amend the Income-tax Act, 1961 the Wealth Tax Act, 1957, the Gift-tax Act, 1958 and the Companies (Profits) Surtax Act, 1964 and to provide for certain related matters, be referred to a Select Committee consisting of 30 members, namely:—

- (1) Shri Bhagwat Jha Azad
- (2) Shri Onkar Lal Berwa
- (3) Shri Raghunandan Lal Bhatia
- (4) Shri M. Bheeshmadev
- (5) Shri G. Bhuvarahan
- (6) Shri Narendra Singh Bisht
- (7) Shri Somnath Chatterjee
- (8) Shri Y. B. Chavan
- (9) Shri S. R. Damani
- (10) Shri B. K. Daschowdhury
- (11) Shri D. D. Desai
- (12) Smt. Marjorie Godfrey
- (13) Shri Dinesh Chandra Goswami
- (14) Shri Samar Guha
- (15) Shri Shyam Sunder Mohapatra
- (16) Shri Kartik Oraon
- (17) Shri D. K. Panda
- (18) Shri H. M. Patel
- (19) Shri Ramji Ram
- (20) Shri N. K. P. Salve
- (21) Shri N. K. Sanghi
- (22) Shri Vasant Sathe
- (23) Shrimati Savitri Shyam
- (24) Shri Era Sezhiyan
- (25) Shri C. K. Jaffer Sharief
- (26) Shri Shiv Kumar Shastri
- (27) Shri Somchand Solanki
- (28) Shri Maddi Sudarsanam
- (29) Shri K. P. Unnikrishnan; and
- (30) Shri K. R. Ganesh

with instructions to report by the last day of the first week of the next session."

## APPENDIX II

(Vide para 5 of the Report)

*List of Associations, Organisations, etc. from whom Memoranda|Representations|Notes, etc. were received by the Select Committee*

1. Kamani Brothers Private Limited, Kamani Chambers, NICOL Road, Ballard Estate, Bombay.
2. Federation of Indian Mineral Industries, 7, South Extension Part I, New Delhi.
3. Federation of Indian Chambers of Commerce and Industry, Federation House, New Delhi.
4. Bombay Chamber of Commerce & Industry, Mackinnon Mackenzie Building, Ballard Estate, Bombay.
5. Surat Art Silk Cloth Manufacturers Association, "Resham Bhavan", Lal Darwaja, Sura
6. Southern Gujarat Chamber of Commerce & Industry, "Samruddhi", Nanpura, Surat.
7. Punjab, Haryana & Delhi Chamber of Commerce & Industry, Phelps Building, 9A, Connaught Place, New Delhi.
8. Goa Chamber of Commerce & Industry, Panaji, Goa.
9. Madhya Pradesh Chamber of Commerce & Industry, Chamber Bhawan, Gwalior.
10. Upper India Chamber of Commerce, 14|69, Civil Lines, Kanpur.
11. Shri S. S. Kothari, Ex-M.P., India Steamship House, 21, Old Court House Street, Calcutta.
12. Madras Chamber of Commerce & Industry, Dare House Annexe, 3|4, Moore Street, Madras.
13. Indian Cotton Mills' Federation, Elphinstone Building, 10, Veer Nariman Road, Fort, Bombay.
14. Delhi Factory Owners' Federation, Phelps Building, 9A, Connaught Place, New Delhi.
15. Indian Merchants' Chamber, Lalji Naranji Memorial, Indian Merchants' Chamber Building, 76, Veer Nariman Road, Churchgate, Bombay.
16. Vidarbha Chamber of Commerce & Industry, Mangaldas Market, Akola.
17. Indian Chamber of Commerce, India Exchange, India Exchange Place, Calcutta.
18. M|s. Rajaram Bandekar (Sirigao) Mines, Vasco da Gama, Goa.

19. Engineering Association of India, India Exchange, 8th Floor, Calcutta.
  20. Hindustan Chamber of Commerce, Hindustan Chamber Buildings, No. 8, Kondi Chetty Street, Madras.
  21. Institute of Income Tax Practitioners of India, 72, Balepet, Bangalore.
  22. Bengal Chamber of Commerce & Industry, Royal Exchange, 6, Netaji Subhas Road, Calcutta.
  23. Shri N. A. Palkhivala, Senior Advocate, Supreme Court of India, Tata House, Fort, Bombay.
  24. Southern India Millowners' Association, "Shanmukha Manram", Race Course, Coimbatore.
  25. Associated Chambers of Commerce and Industry of India, 2nd Floor, Allahabad Bank Building, 17, Parliament Street, New Delhi.
  26. Federation of Hostel & Restaurant Associations of India, 15-A, Nizamuddin West, New Delhi.
  27. All India Bidi Industry Federation, 12, Rampart Row, Fort, Bombay.
  28. Shri Brijmohandas Nagory, Nagory Bhawan, Gwalior.
  29. Pesticides Association of India, 20, Ring Road, Lajpat Nagar-IV, New Delhi.
  30. Indian Refractory Makers Association, Royal Exchange, 6, Netaji Subhas Road, Calcutta.
  31. The Textile Processors' Association, 414, Senapati Bapat Marg, Bombay.
  32. Shri Babubhai M. Chinai, M.P., 2nd Floor, P.N.B. House, Sir P.M. Road, Fort, Bombay.
  33. Bengal National Chamber of Commerce & Industry, P-11, Mission Row Extension, Calcutta.
  34. Consultative Committee of Plantation Associations, Royal Exchange, 6, Netaji Subhas Road, Calcutta.
  35. Finance Department, Government of Gujarat, Gandhinagar.
-



### APPENDIX III

(Vide para 6 of the Report)

*List of Associations, Organisations, etc. who gave evidence before the Select Committee*

Sl. No.	Name of Association/Organisation, etc.	Date on which evidence was taken
1	2	3
1.	Federation of Indian Chambers of Commerce & Industry, New Delhi <i>Spokesmen:</i> 1. Shri Charat Ram—President 2. Shri A. K. Jain—Chairman, Taxation Sub-Committee 3. Shri Harishankar Singhania 4. Shri O. P. Vaish 5. Shri G. L. Bansal—Secretary-General	17-1-1974
2.	Shri N. A. Palkhivala, Senior Advocate, Supreme Court of India, Bombay	19-1-1974
3.	Associated Chambers of Commerce and Industry of India, New Delhi <i>Spokesmen:</i> 1. Shri M. H. Mody 2. Shri K. C. Khanna 3. Shri R. N. Ratnam 4. Shri M. M. Malhotra	19-1-1974
4	(1) Shri B.D. Pande, Cabinet Secretary, Government of India, New Delhi (2) Shri M. R. Yardi, Finance Secretary, Government of India, New Delhi (3) Shri M. G. Kaul, Secretary, (Department of Economic Affairs) Ministry of Finance, Government of India, New Delhi (4) Shri H. N. Ray, Secretary, (Department of Expenditure), Ministry of Finance, Government of India, New Delhi (5) Shri R. V. Raman, Secretary, Ministry of Industrial Development, Government of India, New Delhi (6) Shri B. B. Lal, Secretary, Ministry of Planning, Government of India, New Delhi	19-1-1974

**APPENDIX IV**  
**MINUTES OF THE SITTINGS OF THE SELECT COMMITTEE ON**  
**THE DIRECT TAXES (AMENDMENT) BILL, 1973.**

I

**First Sitting**

The Committee sat on Friday, the 7th December, 1973 from 10.00 to 11.00 hours.

**PRESENT**

Shri N. K. P. Salve—*Chairman*

**MEMBERS**

2. Shri M. Bheeshamadev
3. Shri Narendra Singh Bisht
4. Shri Somnath Chatterjee
5. Shri Y. B. Chavan
6. Shri B. K. Daschowdhury
7. Shri Dinesh Chandra Goswami
8. Shri H. M. Patel
9. Shri Vasant Sathe
10. Shri Era Sezhiyan
11. Shri K. P. Unnikrishnan

**LEGISLATIVE COUNSEL**

Shri R. V. S. Peri-Sastri, *Joint Secretary and Legislative Counsel.*

**REPRESENTATIVES OF THE MINISTRY OF FINANCE**

(DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
2. Shri R. R. Khosla, *Director.*

**SECRETARIAT**

Shri H. G. Paranjpe—*Deputy Secretary.*

2. At the outset, the Chairman welcomed the members of the Committee and referred to the implications of the proposed legislative measure and emphasized the importance and urgency of the task before the Committee.

3. The Committee then considered their future programme of work. They decided to invite written memoranda from the State Governments,

Chambers of Commerce and Industry, business organisations and other Associations and every one else interested in the subject matter of the Bill by Monday, the 31st December, 1973. The Committee decided not to grant any extension for submission of Memorandum. The Committee also decided to issue a Press Communique in this behalf.

4. The Committee also decided to hold their sittings at New Delhi from 17th to 19th January, 1974 to hear the oral evidence of the following officers of the Government of India and non-official:—

- (i) Cabinet Secretary.
- (ii) Secretary, Ministry of Industrial Development.
- (iii) Finance Secretary.
- (iv) Secretary, Department of Revenue and Insurance, Ministry of Finance.
- (v) Secretary, Ministry of Planning.
- (vi) Secretary, Department of Economic Affairs, Ministry of Finance.
- (vi) Chairman, Central Board of Direct Taxes.
- (viii) Shri N. A. Palkhivala, Senior Advocate, Supreme Court of India.

The Committee left it to the Chairman to invite any other witness considered proper by him.

5. The Committee then decided to take up consideration of various stages of the Bill as per following programme:—

- |   |  |                                 |
|---|--|---------------------------------|
| (i) Clause-by-clause consideration of the Bill    | con- }<br>s:u }<br>sideration of the Bill                                    | 4th and 5th February, 1974.     |
| (ii) Consideration and adoption of draft Report   | con- }<br>s:u }<br>sideration of draft Report                                | 18th February, 1974 (afternoon) |
| (iii) Minutes of Dissent, if any, by the Members. | con- }<br>s:u }<br>sideration of Minutes of Dissent, if any, by the Members. | 20th February, 1974             |
| (iv) Presentation of the Report to the House      | con- }<br>s:u }<br>sideration of Report to the House                         | 21st February, 1974             |

6. The Committee desired that the Ministry of Finance might examine the speeches made by various members in Lok Sabha on the provisions of the Bill and furnish factual information thereon to the Lok Sabha Secretariat at an early date.

7. The Committee also desired that the Ministry of Finance might tabulate various memoranda that might be received by the Committee and furnish their comments thereon to the Lok Sabha Secretariat for circulation to the Members of the Committee.

8. The Committee then adjourned.

## II

### Second Sitting

The Committee sat on Thursday, the 17th Jan., 1974 from 10.20 to 12.30 hours.

## PRESENT

Shri N. K. P. Salve—*Chairman*

## MEMBERS

2. Shri Bhagwat Jha Azad
3. Shri Onkar Lal Berwa
4. Shri Raghunandan Lal Bhatia
5. Shri M. Bheeshamadev
6. Shri G. Bhuvarahan
7. Shri Narendra Singh Bisht
8. Shri S. R. Damani
9. Shri B. K. Daschowdhury
10. Shri D. D. Desai
11. Shrimati Marjorie Godfrey
12. Shri Samar Guha
13. Shri Ramji Ram
14. Shri N. K. Sanghi
15. Shri Vasant Sathe
16. Shrimati Savitri Shyam
17. Shri Era Sezhiyan
18. Shri Shiv Kumar Shastri
19. Shri Somchand Solanki
20. Shri Maddi Sudarsanam
21. Shri K. P. Unnikrishnan
22. Shri K. R. Ganesh

## LEGISLATIVE COUNSEL

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

## SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. Before the Committee proceeded to hear evidence of the following representatives of the Federation of Indian Chambers of Commerce &

Industry, New Delhi, the Chairman drew their attention to Direction 58 of the Directions by the Speaker:—

1. Shri Charat Ram
2. Shri A. K. Jain
3. Shri Harishankar Singhania
4. Shri O. P. Vaish
5. Shri G. L. Bansal

3. A verbatim record of the evidence tendered before the Committee was kept. The evidence lasted till 12.15 hours.

4. The following representatives of the Associated Chambers of Commerce & Industry of India, New Delhi then appeared before the Committee:—

1. Shri M. H. Mody
2. Shri K. C. Khanna
3. Shri R. N. Ratnam
4. Shri M. M. Malhotra

At the Associated Chambers of Commerce & Industry of India, New Delhi had not submitted their memorandum, the Chairman observed that they might do so in the first instance. They assured the Committee that the copies of their memorandum would be sent to the Lok Sabha Secretariat by the 18th January, 1974. The Committee then decided that the Chamber might appear before the Committee to give evidence on Saturday, the 19th January, 1974 at 12.30 hours.

5. At the end, the Committee decided to meet on the 18th and 19th January, 1974 at 10.30 hours *instead* of 10.00 hours.

6. The Committee then adjourned.

**Third Sitting**

The Committee sat on Friday, the 18th January, 1974 from 10.30 to 11.00 hours.

PRESENT

Shri N. K. P. Salve—*Chairman*

**MEMBERS**

2. Shri Onkar Lal Berwa
3. Shri Raghunandan Lal Bhatia
4. Shri M. Bheeshamadev
5. Shri G. Bhuvarahan
6. Shri Narendra Singh Bisht
7. Shri Somnath Chatterjee
8. Shri S. R. Damani
9. Shri B. K. Daschowdhury
10. Shri Kartik Oraon
11. Shri N. K. Sanghi
12. Shri Vasant Sathe
13. Shri Era Sezhiyan
14. Shri Maddi Sudarsanam
15. Shri K. R. Ganesh

**LEGISLATIVE COUNSEL**

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

**REPRESENTATIVES OF THE MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE AND INSURANCE)**

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
8. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

**SECRETARIAT**

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee mourned the death of Shri Kamal Nath Tewari, Chairman, Estimates Committee and passed the following resolution:—

“The Committee place on record their profound sense of sorrow over the sudden demise on the 17th January, 1974 of their most esteemed colleague, Shri Kamal Nath Tewari, Chairman, Estimates Committee and send their heartfelt condolences to the members of the bereaved family.”

Thereafter, the Members stood in silence for a short while as a mark of respect to the deceased.

3. The Committee then decided that Secretaries to the Government of India who had been invited to appear before the Committee today, the 18th January, 1974, might be asked to appear on Saturday, the 19th January, 1974 at 15.00 hours.

4. The Committee then adjourned.

#### IV

#### Fourth Sitting

The Committee sat on Saturday, the 19th January, 1974 from 10.30 to 13.40 and again from 15.00 to 18.19 hours.

#### PRESENT

Shri N. K. P. Salve—*Chairman*

#### MEMBERS

2. Shri Bhagwat Jha Azad.
3. Shri Onkar Lal Berwa.
4. Shri Raghunandan Lal Bhatia.
5. Shri M. Bheeshamdev.
6. Shri G. Bhuvarahan.
7. Shri Narendra Singh Bisht.
8. Shri Somnath Chatterjee.
9. Shri S. R. Damani.
10. Shri D. D. Desai.
11. Shri Samar Guha.
12. Shri Kartik Oraon.
13. Shri Ramji Ram.
14. Shri N. K. Sanghi.
15. Shri Vasant Sathe.
16. Shrimati Savitri Shyam.
17. Shri Era Sezhiyan.
18. Shri Shiv Kumar Shastri.
19. Shri Somchand Solanki.
20. Shri Maddi Sudarsanam.
21. Shri K. P. Unnikrishnan.
22. Shri K. R. Ganesh.

## LEGISLATIVE COUNSEL

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

## SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee heard evidence of the representatives of the Associations, Organisations, etc. mentioned below:—

[In the beginning, the Chairman drew the attention of the representatives to the provisions of Direction 58 of the Directions by the Speaker.]

- I. Shri N. A. Palkhivala, Senior Advocate, Supreme Court of India, Bombay.

[10.30 to 13.15 hours]

II. *Associated Chambers of Commerce and Industry of India, New Delhi.*

*Spokesmen*

1. Shri M. H. Mody
2. Shri K. C. Khanna
3. Shri R. N. Ratnam
4. Shri M. M. Malhotra

[13.15 to 13.40 hours]

[The Committee then adjourned for lunch and reassembled at 15.00 hours]

- III. 1. Shri B. D. Pande, Cabinet Secretary, Government of India, New Delhi.
2. Shri M. R. Yardi, Finance Secretary, Government of India, New Delhi.
3. Shri H. N. Ray, Secretary, (Department of Expenditure), Ministry of Finance, Government of India, New Delhi.
4. Shri R. V. Raman, Secretary, Ministry of Industrial Development, Government of India, New Delhi.



5. Shri B. B. Lal, Secretary, Ministry of Planning Government of India, New Delhi.

[15.00 to 18.10 hours]

3. A verbatim record of evidence was kept.

4. The Committee then decided that the notices of Government amendments together with explanatory notes thereon might be sent to Lok Sabha Secretariat by the 28th January, 1974.

5. The Committee also decided that the members might send their notices of amendments, if any, by the 1st February, 1974.

6. The Committee then adjourned.

## V

### Fifth Sitting

The Committee sat on Monday, the 4th February, 1974 from 10.30 to 13.00 hours.

### PRESENT

Shri N. K. P. Salve—*Chairman.*

### MEMBERS

2. Shri Bhagwat Jha Azad
3. Shri Onkar Lal Berwa
4. Shri Raghunandan Lal Bhatia
5. Shri M. Bheeshamdev.
6. Shri G. Bhuvarahan
7. Shri Narendra Singh Bisht
8. Shri Somnath Chatterjee
9. Shri Y. B. Chavan
10. Shri B. K. Daschowdhury
11. Shri D. D. Desai
12. Shri Kartik Oraon
13. Shri N. K. Sanghi
14. Shri Vasant Sathe
15. Shrimati Savitri Shyam
16. Shri Era Sezhiyan
17. Shri Shiv Kumar Shastri
18. Shri Somchand Solanki
19. Shri Maddi Sudarsanam
20. Shri K. P. Unnikrishnan
21. Shri K. R. Ganesh

## LEGISLATIVE COUNSEL

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

## REPRESENTATIVES OF THE MINISTRY OF FINANCE

## (DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

## SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. At the outset, the Committee held general discussion on the various points raised in the memoranda submitted to the Committee and also during the course of evidence before the Committee. The discussion concluded at 12.15 hours.

3. The Committee then took up clause-by-clause consideration of the Bill.

4. *Clause 2.*—The following amendment was accepted:—  
Page 2, line 36,

for "approved by it in this behalf" substitute "by any State Government or approved by the Central Government in this behalf"

The clause, as amended, was adopted

5. The Committee then adjourned to meet again on Tuesday, the 5th February, 1974 at 10.30 hours.

## VI

## Sixth Sitting

The Committee sat on Tuesday, the 5th February, 1974 from 10.30 to 13.00 and again from 15.00 to 17.00 hours.

## PRESENT

Shri N. K. P. Salve—*Chairman.*

## MEMBERS

2. Shri Bhagwat Jha Azad
3. Shri Onkar Lal Berwa
4. Shri Narendra Singh Bisht
5. Shri Somnath Chatterjee
6. Shri Y. B. Chavan

7. Shri S. R. Damani
8. Shri B. K. Daschowdhury
9. Shri D. D. Desai
10. Shrimati Marjorie Godfrey
11. Shri Dinesh Chandra Goswami
12. Shri Samar Guha
13. Shri Shyam Sunder Mohapatra
14. Shri Kartik Oraon
15. Shri N. K. Sanghi
16. Shri Vasant Sathe
17. Shrimati Savitri Shyam
18. Shri Era Sezhiyan
19. Shri Shiv Kumar Shastri
20. Shri Somchand Solanki
21. Shri Maddi Sudarsanam
22. Shri K. P. Unnikrishnan
23. Shri K. R. Ganesh

#### LEGISLATIVE COUNSEL

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

#### REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

#### SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee resumed clause-by-clause consideration of the Bill.
3. *Clause 3.*—The following amendments were accepted:
  - (i) Page 3, after line 15, insert—

“Provided that the assessee may, 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 in respect of which he first becomes entitled to deduction under this clause, furnish to the Income-tax Officer a declaration in writing that the provisions of this clause shall not apply to him, and if he does so, the provisions of this clause shall not apply to him for that assessment year and for every subsequent assessment

year; so, however, that the assessee may, by notice in writing furnished to the Income-tax Officer 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 any such subsequent assessment year, revoke his declaration and upon such revocation, the provisions of this clause shall apply to the assessee for that subsequent assessment year and for every assessment year thereafter."

(ii) Page 3, line 16, for "Provided that" substitute "Provided further that"

(iii) Page 3, lines 33 and 34, for "imported in India by the assessee" substitute "imported into India"

Further consideration of the clause was held over.

4. *Clause 4.*—The following amendments were accepted:

(i) Page 3, line 46, omit "(a)"

(ii) Page 4, omit lines 1 to 18.

The clause, as amended, was adopted.

5. The Committee rose at 13.00 hours and reassembled at 15.00 hours.

6. *Clause 5.*—The clause was held over for consideration of the following points:

(i) Whether section 35(1) (ii) can be modified to avoid scope for large scale tax avoidance; and

(ii) whether proposed sub-section (2A) of Section 35 of the Income-tax Act can be amplified to cover sums paid for scientific research connected with any business.

7. *Clause 6.*—Further consideration of the clause was held over.

8. *Clause 7 and 8.*—These clauses were adopted without any amendment.

9. *Clause 9.*—Consideration of this clause was held over.

10. *Clauses 10 to 12.*—These clauses were adopted without any amendment.

11. *Clause 13.*—Consideration of this clause was held over.

12. *Clause 14.*—The clause was adopted without any amendment.

13. The Committee decided that the members might send further notices of amendments to clause 16 of the Bill, if any, by Monday, the 11th February, 1974.

14. The Committee then decided to meet on Monday, the 18th February, 1974 at 15.00 hours to finalise their future programme of work.

15. The Committee then adjourned.

## VII

## Seventh Sitting

The Committee sat on Monday, the 18th February, 1974 from 15.00 to 15.45 hours.

## PRESENT

Shri N. K. P. Salve—*Chairman.*

## MEMBERS

2. Shri Bhagwat Jha Azad
3. Shri Onkar Lal Berwa
4. Shri Y. B. Chavan
5. Shri B. K. Daschowdhury
6. Shri D. D. Desai
7. Shrimati Marjorie Godfrey
8. Shri Dinesh Chandra Goswami
9. Shri Samar Guha
10. Shri H. M. Patel
11. Shri N. K. Sanghi

## LEGISLATIVE COUNSEL

Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri O. P. Bhardwaj, *Deputy Secretary.*

## SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. At the outset, the Committee were informed that the concerned officers of the Ministries of Finance and the Law & Justice would be busy with the Budget upto March, 1974.

3. In view of the above, the Committee felt that it would not be possible for them to complete clause-by-clause consideration and other stages of the Bill within the stipulated date i.e. 22nd February, 1974. The Committee, therefore, decided to seek an extension of time for presentation of their Report upto the 30th April, 1974.

4. The Committee authorised the Chairman and, in his absence, Shrimati Marjorie Godfrey to move necessary motion in this behalf in the House on the 21st February, 1974.

5. The Committee then considered their future programme of work and decided as follows:

- |  |  |
|--|--|
| (i) Further clause-by-clause consideration of the Bill | Tuesday, the 26th and Wednesday, the 27th March, 1974. |
| (ii) Consideration and adoption of draft Report        | Tuesday, the 16th April, 1974.                         |
| (iii) Minutes of Dissent from Members                  | Monday, the 22nd April, 1974.                          |

6. The Committee then adjourned.

### VIII

#### **Eighth Sitting**

The Committee sat on Tuesday, the 26th March, 1974 from 15.00 to 15.30 hours.

#### PRESENT

Shri N. K. P. Salve—*Chairman.*

#### MEMBERS

2. Shri Narendra Singh Bisht
3. Shri Somnath Chatterjee
4. Shri S. R. Damani
5. Shri D. D. Desai
6. Shri Shyam Sunder Mohapatra
7. Shri H. M. Patel
8. Shri N. K. Sanghi
9. Shri Era Sezhiyan

#### LEGISLATIVE COUNSEL

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

#### REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE AND INSURANCE)

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

#### SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee adjourned for want of quorum.
3. The Chairman announced that the sitting of the Committee will be held at 15.00 hours on Wednesday, the 27th March, 1974 as scheduled.

**IX****Ninth Sitting**

The Committee sat on Wednesday, the 27th March, 1974 from 15.00 to 17.30 hours.

**PRESENT**

Shri N. K. P. Salve—*Chairman*

**MEMBERS**

2. Shri Narendra Singh Bisht
3. Shri Somnath Chatterjee
4. Shri Y. B. Chavan
5. Shri S. R. Damani
6. Shri B. K. Daschowdhury
7. Shri D. D. Desai
8. Shri H. M. Patel
9. Shri N. K. Sanghi
10. Shri Era Sezhiyan
11. Shri K. P. Unnikrishnan
12. Shri K. R. Ganesh

**LEGISLATIVE COUNSEL**

1. Shri R. V. S. Peri-Sastri—*Joint Secretary and Legislative Counsel.*
2. Shri V. S. Bhashyam—*Deputy Legislative Counsel.*

**REPRESENTATIVES OF THE MINISTRY OF FINANCE****(DEPARTMENT OF REVENUE AND INSURANCE)**

1. Shri R. D. Shah, *Chairman, Central Board of Direct Taxes.*
2. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
3. Shri R. R. Khosla, *Director.*
4. Shri O. P. Bhardwaj, *Deputy Secretary.*
5. Shri V. P. Minocha, *Under Secretary.*

**SECRETARIAT**

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee resumed clause-by-clause consideration of the Bill.
3. *Clause 3.*—[vide paragraph 3 of the Minutes dated the 5th February 1974].—The following further amendment was accepted:

Page 3, for lines 16 to 19, substitute

“Provided further that no deduction shall be allowed under this clause 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, and
- (b) any ship, aircraft, machinery or plant in respect of which the deduction by way of development rebate is allowable under section 33.”.

The clause, as further amended, was adopted.

4. *Clause 5.*—[*vide* paragraph 6 of the Minutes dated the 5th February, 1974].—The following amendments were accepted:

(i) Page 4, line 44, *omit* “related to the business carried on by him,”

(ii) Page 5, *omit* lines 5 to 10.

The clause, as amended, was adopted.

5. *Clause 6.*—[*vide* paragraph 7 of the Minutes dated the 5th February, 1974].—The clause was adopted without any amendment.

6. *Clause 9.*—The following amendments were accepted:

(i) Page 6, *omit* lines 6 to 15 and 20 to 32.

The Committee, however, desired that the Government might place, before the Committee, a redraft in this behalf for consideration at their next sitting.

(ii) Page 8, line 14,  
*omit* “in the construction of ships or”

Further consideration of the clause was held over.

7. *Clause 13.*—[*vide* paragraph 11 of the Minutes dated the 5th February, 1974].—The clause was adopted without any amendment.

8. *Clause 15.*—The following amendments were accepted:—

(i) Page 9, *for* lines 26—28, *substitute*

“Bihar—The districts of Bhagalpur, Darbhanga, East Champaran, Madhubani, Muzaffarpur, Palamau, Purnea, Saharua, Samastipur, Santal Parganas, Saran, Sitamarhi, Siwan, Vaishali and West Champaran.”

(ii) Page 9, line 33,  
*after* “The districts of”  
*insert* “Bhiwani,”

(iii) Page 9, line 35,  
*after* “Chamba,”  
*insert* “Hamirpur,”

(iv) Page 9, line 36,  
*for* “and Lahul and Spiti.”  
*substitute* “Lahul and Spiti, Sirmur, Solan and Una.”

(v) Page 9, *after* line 39, *insert*

“Karnataka—The districts of Belgaum, Bidar, Bijapur, Dharwar, Gulbarga, Hassan, Mysore, North Kanara, Raichur, South Kanara and Tumkur.”

(vi) Page 9, line 46,  
*after* “Rajgarh.”  
*insert* “Rajnandgaon,”

(vii) Page 10, line 3, *for* “, Kolaba,” *substitute*

“; the district of Kolaba excluding such portion thereof as is comprised in the area designated as the site for the proposed new town of New Bombay by notification No. RPB 1171-18124-I.W., dated the 20th March, 1971, issued under sub-



section (1) of section 113 of the Maharashtra Regional and Town Planning Act, 1966 (Maharashtra Act 37 of 1966) by the Government of Maharashtra (Urban Development, Public Health and Housing Department) as amended by notification No. RPB 1173-I-RPC, dated the 16th August, 1973, issued by that Government; the districts of"

- (viii) Page 10, lines 7 and 8,  
for "and United Khasi and Jaintia Hills"  
substitute ", Jaintia Hills and Khasi Hills"
- (ix) Page 10, omit lines 9 to 11.
- (x) Page 10, line 16,  
for "The districts of Bhatinda,"  
substitute "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 district of"
- (xi) Page 10, line 33,  
after "Shahjahanpur"  
insert "Sitapur,"
- (xii) Page 10, lines 45 and 46,  
for "Laccadive, Minicoy and Amindivi Islands"  
substitute "Lakshadweep"
- (xiii) Page 10, after line 48, insert

"Explanation.—Save as otherwise expressly provided, reference to any district in this Schedule shall be construed 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."

The clause, as amended, was adopted.

9. *Clause 16*—Consideration of the clause was held over.

10. The Committee then decided to meet on Monday, the 8th April 1974 at 15.00 hours to take up further clause-by-clause consideration of the Bill.

11. The Committee then adjourned.

## X

### Tenth Sitting

The Committee sat on Monday, the 8th April, 1974 from 15.00 to 15.45 hours.

#### PRESENT

Shri N. K. P. Salve—*Chairman.*

#### MEMBERS

2. Shri Narendra Singh Bisht
3. Shri Y. B. Chavan
4. Shri B. K. Daschowdhury

5. Shri D. D. Desai
6. Shri Kartik Oraon
7. Shri H. M. Patel
8. Shri Vasant Sathe
9. Shrimati Savitri Shyam
10. Shri Somchand Solanki
11. Shri Maddi Sudarsanam
12. Shri K. P. Unnikrishnan

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1. Shri K. E. Johnson, *Member, Central Board of Direct Taxes.*
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3. Shri O. P. Bhardwaj, *Deputy Secretary.*
4. Shri V. P. Minocha, *Under Secretary.*

SECRETARIAT

Shri H. G. Paranjpe—*Deputy Secretary*

2. The Committee resumed clause-by-clause consideration of the Bill.
3. *Clause 3.*—[*vide* paragraph 3 of the minutes dated the 27th March, 1974]., The Committee re-opened discussion on this clause. The following further amendments were accepted:—

Page 3,

- (i) line 7, after "the Ninth Schedule", insert—

"or in the case of new machinery or plant (other than office appliances or road transport vehicles) installed after that date in a small scale industrial undertaking for the purposes of business of manufacture or production of any other articles or things";

- (ii) after line 40 insert—

“(3) an industrial undertaking shall be deemed to be a small scale industrial undertaking, if the aggregate value of the machinery and plant installed, as on the last day of the previous year, for the purposes of the business of the undertaking does not exceed seven hundred and fifty thousand rupees; and for this purpose 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.”.

The clause, as further amended, was adopted.

4. *Clause 5.*—[*vide* paragraph 4 of the minutes dated the 27th March, 1974].—The Committee re-opened discussion on this clause. The following further amendments were accepted:—

(i) Page 4,

line 44, for “related to the business carried on by him”, substitute “undertaken under a programme approved in this behalf by the prescribed authority having regard to the social, economic and industrial needs of India”;

(ii) Page 5,

omit lines 1 to 10.

The clause, as further amended, was adopted.

5. *Clause 9.*—[*vide* paragraph 6 of the minutes dated the 27th March, 1974].—The following amendments were accepted:—

(1) Page 6,

(i) line 5, omit “specified in the list in the Eighth Schedule”;

(ii) line 7, after “business already in existence”, insert “in any backward area”;

(iii) line 15, after “used for any purpose”, insert “in any backward area”;

(iv) omit lines 20 to 25;

(v) for lines 26, 27 and 28, substitute—

“*Explanation.*—Where any machinery or plant or any part thereof previously used for any purpose in any backward area is transferred to a new business in that area or in any other backward area and the total value of the machinery or plant of part so”;

(vi) line 37, omit “specified in the list in the Eighth Schedule”;

(2) Page 8,

after line 14, insert—

“*Explanation.*—In this section, “backward area” means an area specified in the list in the Eighth Schedule.”

The clause, as amended, was adopted.

6. *Clause 16.*—[*vide* paragraph 9 of the minutes dated the 27th March, 1974].—The following amendments were accepted:—

Page 11,

“(i) for line 9, substitute

“4. Steel castings and forgings and malleable iron and steel castings.”;

(ii) for line 16, substitute

“11. Fertilisers, namely, ammonium sulphate, ammonium sulphate nitrate (double salt), ammonium nitrate, calcium ammonium nitrate (nitrolime stone), ammonium chloride, super phosphate, urea and complex fertilisers of synthetic

origin containing both nitrogen and phosphorous, such as ammonium phosphates, ammonium sulphate phosphate and ammonium nitro phosphate.”;

(iii) for lines 26 and 27, substitute

“21. Textiles (including those dyed, printed or otherwise processed) made wholly or mainly of cotton, including cotton yarn, hosiery and rope.

22. Textiles (including those dyed, printed or otherwise processed) made wholly or mainly of jute, including jute twine and jute rope.

23. Cement and refractories.”.

The Clause, as amended, was adopted.

7. *Clauses 17 to 24.*—These clauses were adopted without any amendment.

8. *Clause 1.*—The following amendment was accepted:—

Page 1, line 6, for “1973”

Substitute “1974”

The clause, as amended, was adopted.

9. *Enacting Formula.*—The following amendment was accepted:—

Page 1, line 1, for “Twenty-fourth”

substitute “Twenty-fifth”

The Enacting Formula, as amended, was adopted.

10. *Long Title.*—The Long Title was adopted without any amendment.

11. The Committee authorised the Legislative Counsel to correct patent errors and carry out amendments of drafting or consequential nature in the Bill, if any.

12. The Committee decided that—

(i) Evidence given before the Committee be laid on the Table of the House; and

(ii) two copies of the memoranda received by the Committee from various Associations, Organisations, etc. be placed in the Parliament Library, after the report had been presented to the House, for reference by Members.

13. The Chairman then drew the attention of the Members of the Committee to the provisions of Direction 87 of the Directions by the Speaker relating to Minutes of Dissent.

14. The Committee decided to sit on Monday, the 22nd April, 1974 at 10.00 hours for consideration and adoption of their draft Report.

15. The Committee then adjourned.

**Eleventh Sitting**

The Committee sat on Monday, the 22nd April, 1974 from 10.00 to 11.00 hours.

**PRESENT**

Shri N. K. P. Salve—*Chairman.*

**MEMBERS**

2. Shri Narendra Singh Bisht
3. Shrimati Marjorie Godfrey
4. Shri Shyam Sunder Mohapatra
5. Shri H. M. Patel
6. Shri N. K. Sanghi
7. Shri Vasant Sathe
8. Shrimati Savitri Shyam
9. Shri Maddi Sudarsanam
10. Shri K. R. Ganesh

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5. Shri V. P. Minocha, *Under Secretary.*

**SECRETARIAT**

Shri H. G. Paranjpe—*Deputy Secretary.*

2. The Committee considered and adopted the Bill as amended.
3. The Committee then considered and adopted the draft Report subject to the following modifications:

(i) Para 13(i)—

for "The Committee feel that the proposed benefit of initial depreciation should be made available to small scale industrial undertakings irrespective of the articles or things produced by such undertakings in respect of the machinery and plant installed therein."

**Substitute**

"The Committee feel that the proposed benefit of initial depreciation should be made available in respect of the machinery and plant installed in small scale industrial undertakings irrespective of the articles or things produced by such undertakings."

(ii) Para 13(ii)—

for "31st May, 1974".

substitute "1st June, 1974"

(iii) for existing paragraph 19, substitute

"19. *Clause 1, Enacting Formula and changes of formal nature.*—  
The Bill was introduced in Lok Sabha on the 3rd September, 1973. On account of the efflux of time, it is necessary to make certain amendments in clause 1, enacting formula and certain clauses.

By virtue of sub-clause (2) of clause 1, clauses 2, 6, 14, 17, 19, 21 and 22 which do not contain any commencement provision to the contrary would have come into force with effect from the 1st day of April, 1973. Clauses 14, 17, 19, and 21 of the Bill seek to confer a power to make rules with retrospective effect. This power can be exercised only after the legislation receives the assent of the President and the Committee, therefore, feel that it would not be necessary to give these clauses retrospective effect. Retrospective effect is of significance for the purposes of clauses 2, 6 and 22. The Committee, therefore, recommend that sub-clause (2) of clause 1 may be omitted and specific provisions made for providing for retrospective effect in clauses 2, 6 and 22.

In the Bill, as introduced, the amendments proposed in clauses 5(a) and (c), 7, 8, 9, 10, 11, 12 and 15 were directed to come into force effect from the 1st day of April, 1974. As the 1st day of April, 1974 is already over, the Committee consider that it is necessary to change the direction to the effect that the amendments concerned shall be deemed to have been made with effect from the 1st day of April, 1974.

The aforementioned provisions have been amended accordingly."

4. The Chairman announced that the Minutes of Dissent, if any, might be sent to the Lok Sabha Secretariat so as to reach them by Thursday, the 25th April, 1974.

5. The Committee authorised the Chairman, and, in his absence, Shri Vasant Sathe to present the Report and to lay on the Evidence on the Table of the House on Monday, the 29th April, 1974.

6. The Committee placed on record their appreciation for the assistance rendered by the Minister of Finance and the Minister of State in the Ministry of Finance during the course of their deliberations.

7. The Committee also placed on record their appreciation for the co-operation and assistance rendered by the Legislative Counsel and the officers of the Ministry of Finance and the Lok Sabha Secretariat.

8. The Committee also placed on record their thanks to the Chairman for ably conducting the proceedings of the Committee and guiding their deliberations at various stages of the Bill.

9. The Committee then adjourned.