DEDUCTIONS FROM GROSS TOTAL INCOME

After studying this chapter, you would be able to:

- **appreciate** the general provisions contained in “A – General” of Chapter VI-A relating to deductions to be made in computing total income.

- **analyse and apply** the provisions of Chapter VI-A contained in “B – Deductions in respect of certain payments” in problem solving and addressing related issues.

- **appreciate** the provisions of Chapter VI-A contained in “C – Deductions in respect of certain incomes” and “CA – Deductions in respect of other incomes”, and **analyse and apply** the provisions in problem solving and addressing related issues.

- **compute** the deduction allowable in the case of a person with disability under section 80U.

- **compute** the aggregate deduction available under Chapter VI-A to an assessee, and thereafter, arrive at the total income of the assessee.
11.1 GENERAL PROVISIONS

As we have seen earlier, section 10 exempts certain incomes. Such income are excluded from total income and do not enter into the computation process at all. On the other hand, Chapter VI-A contains deductions from gross total income. The important point to be noted here is that if there is no gross total income, then no deductions will be permissible.

This Chapter contains deductions in respect of certain payments, deductions in respect of certain incomes and other deductions.

Section 80A

1. Section 80A(1) provides that in computing the total income of an assessee, there shall be allowed from his gross total income, the deductions specified in sections 80C to 80U.

2. According to section 80A(2), the aggregate amount of the deductions under this chapter shall not, in any case, exceed the gross total income of the assessee. Thus, an assessee cannot have a loss as a result of the deduction under Chapter VI-A and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.

3. Section 80A(3) provides that in the case of AOP/BOI, if any deduction is admissible under section 80G/80GGA/80GGC/80-IA/80-IB/80-IC/80-ID/80-IE, no deduction under the same section shall be made in computing the total income of a member of the AOP or BOI in relation to the share of such member in the income of the AOP or BOI.

4. The profits and gains allowed as deduction under section 10AA or under any provision of Chapter VIA under the heading "C.-Deductions in respect of certain incomes" in any assessment year, shall not be allowed as deduction under any other provision of the Act for such assessment year [Section 80A(4)];

5. The deduction, referred to in (iv) above, shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be [Section 80A(4)];

6. No deduction under any of the provisions referred to in (iv) above, shall be allowed if the deduction has not been claimed in the return of income [Section 80A(5)];

7. The transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer [Section 80A(6)].

8. For this purpose, the expression "market value" has been defined to mean,-
   (a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;
(b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;

(9) Where a deduction under any provision of this Chapter under the heading “C – Deductions in respect of certain incomes” is claimed and allowed in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.

In short, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes” for the same or any other year and vice versa.

Section 80AB

This section provides that for the purpose of calculation of deductions specified in Chapter VI-A under the heading “C - Deductions in respect of certain incomes”, the net income computed in accordance with the provisions of the Act (before making any deduction under Chapter VI-A) shall alone be regarded as income received by the assessee and which is included in his gross total income. Accordingly, the deductions specified in the aforesaid sections will be calculated with reference to the net income as computed in accordance with the provisions of the Act (before making deduction under Chapter VI-A) and not with reference to the gross amount of such income. This is notwithstanding anything contained in the respective sections of Chapter VI-A.

Section 80AC: Furnishing return of income on or before due date mandatory for claiming exemption under sections 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID and 80-IE

(1) Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing benefit under the following sections –

(i) Section 80-IA applicable to undertakings or enterprises engaged in infrastructure development, etc.

(ii) Section 80-IAB applicable to undertakings or enterprises engaged in any business of developing a special economic zone.

(iii) Section 80-IB applicable to certain industrial undertakings other than infrastructure development undertakings.

(iv) Section 80-IC applicable to certain undertakings or enterprises in certain special category States.

(v) Section 80-IE applicable to certain undertakings in North-Eastern States.
(2) The effect of this provision is that in case of failure to file return of income on or before the stipulated due date, the undertakings would lose the benefit of deduction under these sections.

**Illustration 1**

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

(a) For grant of deduction under section 80-IB, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.

(b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80-IE.

**Solution**

(a) The statement is not correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 80-IB.

(b) The statement is correct. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, *inter alia*, section 80-IE.

**Section 80B(5)**

“Gross total income” means the total income computed in accordance with the provisions of the Act without making any deduction under Chapter VI-A. “Computed in accordance with the provisions of the Act” implies—

(1) that deductions under appropriate computation section have already been given effect to;

(2) that income of other persons, if includible under sections 60 to 64, has been included;

(3) the intra head and/or inter head losses have been adjusted; and

(4) that unabsorbed business losses, unabsorbed depreciation etc., have been set-off.

Let us first consider the deductions allowable in respect of certain payments.

**11.2 DEDUCTIONS IN RESPECT OF PAYMENTS**

**(1) Deduction in respect of investment in specified assets [Section 80C]**

Section 80C provides for a deduction from the Gross Total Income, of savings in specified modes of investments. The deduction under section 80C is available only to an individual or HUF. The maximum permissible deduction under section 80C is ₹ 1,50,000.
**Investments/contributions eligible for deduction**

**(i) Premium paid in respect of Life Insurance policy**

Premium paid on insurance on the life of the individual, spouse or child (minor or major) and in the case of HUF, any member thereof. This will include a life policy and an endowment policy.

*Exemption on receipts from LIC [Section 10(10D)]: Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy shall not be included in the total income of a person.*

The following is a tabular summary of the exemption available under section 10(10D) and deduction allowable under section 80C vis-à-vis the date of issue of such policies –

<table>
<thead>
<tr>
<th>Date of Issue</th>
<th>Exemption u/s 10(10D)</th>
<th>Deduction u/s 80C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In respect of policies issued before 1.4.2003</strong></td>
<td>Any sum received under a LIP including the sum allocated by way of bonus is exempt.</td>
<td>Premium paid to the extent of 20% of “actual capital sum assured”.</td>
</tr>
<tr>
<td><strong>In respect of policies issued between 1.4.2003 and 31.3.2012</strong></td>
<td>Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 20% of “actual capital sum assured”.</td>
<td>Premium paid to the extent of 20% of “actual capital sum assured”.</td>
</tr>
<tr>
<td><strong>In respect of policies issued on or after 1.4.2012 but before 1.4.2013</strong></td>
<td>Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of “minimum capital sum assured” under the policy on the happening of the insured event at any time during the term of the policy.</td>
<td>Premium paid to the extent of 10% of “minimum capital sum assured”</td>
</tr>
<tr>
<td><strong>In respect of policies issued on or after 1.4.2013</strong></td>
<td>Where the insurance is on the life of a person with disability or severe disability as referred to in section 80U or a person suffering from disease or ailment as specified under section 80DDB.</td>
<td>Premium paid to the extent of 15% of “minimum capital sum assured”</td>
</tr>
</tbody>
</table>
exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 15% of “minimum capital sum assured” under the policy on the happening of the insured event at any time during the term of the policy.

(b) Where the insurance is on the life of any person, other than mentioned in (a) above

Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of “minimum capital sum assured” under the policy on the happening of the insured event at any time during the term of the policy.

Premium paid to the extent of 10% of “minimum capital sum assured”.

Notes:

(a) For the purpose of calculating the actual capital sum assured,

(1) the value of any premiums agreed to be returned or

(2) the value of any benefit by way of bonus or otherwise, over and above the sum actually assured,

shall not be taken into account.

(b) In respect of the life insurance policies to be issued on or after 1st April, 2012, the actual capital sum assured shall mean the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account -

(1) the value of any premium agreed to be returned; or

(2) any benefit by way of bonus or otherwise over and above the sum actually assured which is to be or may be received under the policy by any person.

In effect, in case the insurance policy has varied sum assured during the term of policy then the minimum of the sum assured during the life time of the policy shall be taken into consideration for calculation of the “actual capital sum assured”, in respect of life
insurance policies to be issued on or after 1st April, 2012.

(c) Any sum received under section 80DD(3) shall not be exempt under section 10(10D). Further, any sum received under a Keyman insurance policy shall also not be exempt.

(d) *Explanation* 1 to section 10(10D) defines “Keyman insurance policy” as a life insurance policy taken by one person on the life of another person who is or was the employee of the first-mentioned person or is or was connected in any manner whatsoever with the business of the first-mentioned person. The term includes within its scope a keyman insurance policy which has been assigned to any person during its term, with or without consideration. Therefore, such policies shall continue to be treated as a keyman insurance policy even after the same is assigned to the keyman. Consequently, the sum received by the keyman on such policies, being “keyman insurance policies”, would not be exempt under section 10(10D).

**Illustration 2**

*Compute the eligible deduction under section 80C for A.Y.2018-19 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2017-18, the details of which are given hereunder -*

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured (₹)</th>
<th>Insurance premium paid during 2017-18 (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 1/4/2011</td>
<td>Self</td>
<td>3,00,000</td>
<td>40,000</td>
</tr>
<tr>
<td>(ii) 1/5/2014</td>
<td>Spouse</td>
<td>1,50,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(iii) 1/6/2015</td>
<td>Handicapped Son (section 80U disability)</td>
<td>4,00,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>

**Solution**

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured (₹)</th>
<th>Insurance premium paid during 2017-18 (₹)</th>
<th>Deduction u/s 80C for A.Y.2018-19 (₹)</th>
<th>Remark (restricted to % of sum assured)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 1/4/2011</td>
<td>Self</td>
<td>3,00,000</td>
<td>40,000</td>
<td>40,000</td>
<td>20%</td>
</tr>
<tr>
<td>(ii) 1/5/2014</td>
<td>Spouse</td>
<td>1,50,000</td>
<td>20,000</td>
<td>15,000</td>
<td>10%</td>
</tr>
</tbody>
</table>
(ii) **Premium paid in respect of a contract for deferred annuity**

Premium paid to effect and keep in force a contract for a deferred annuity on the life of the individual and/or his or her spouse or any child, provided such contract does not contain any provision for the exercise by the insured of an option to receive cash payments in lieu of the payment of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

(iii) **Any sum deducted from the salary payable of a Government employee for securing a deferred annuity**

Amount deducted by or on behalf of the Government from the salary of a Government employee for securing a deferred annuity or making provisions for his spouse or children. The excess, if any, over one-fifth of the salary is to be ignored.

(iv) **Contribution to SPF/PPF/RPF**

Contributions to any provident fund to which the Provident Funds Act, 1925 applies and recognized provident fund qualifies for deduction under section 80C.

Contribution made to any Provident Fund set up by the Central Government and notified in his behalf (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968) also qualifies for deduction under section 80C. Such contribution can be made in the name of the individual, his spouse and any child of the individual; and any member of the family, in case of a HUF. The maximum limit for deposit in PPF is ₹ 1,50,000 in a year.

(v) **Contribution to approved superannuation Fund**

Contribution by an employee to an approved superannuation fund qualifies for deduction under section 80C.

(vi) **Any sum paid or deposited in Sukanya Samridhi Account**

Subscription to any such security of the Central Government or any such deposit scheme as the Central Government as may notify in the Official Gazette. Accordingly, Sukanya...
Samriddhi Scheme has been notified to provide that any sum paid or deposited during the previous year in the said Scheme, by an individual in the name of –

(a) the individual himself or herself;
(b) any girl child of the individual; or
(c) any girl child for whom such individual is the legal guardian
would be eligible for deduction under section 80C.

(vii) Subscription to National Savings Certificates VIII

Subscription to any Savings Certificates under the Government Savings Certificates Act, 1959 notified by the Central Government in the Official Gazette (i.e. National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959).

(viii) Contribution in Unit-linked Insurance Plan 1971

Contributions in the name of the individual, his spouse or any child of the individual for participation in the Unit-linked Insurance Plan 1971. In case of a HUF, the contribution can be in the name of any member.

(ix) Contribution in Unit-linked Insurance Plan of LIC Mutual Fund

Contributions in the name of the individual, his spouse or any child of the individual for participation in any Unit linked Insurance Plan of the LIC Mutual Fund. In case of a HUF, the contribution can be in the name of any member.

(x) Contribution to approved annuity plan of LIC

Contributions to approved annuity plans of LIC (New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III) or any other insurer (Tata AIG Easy Retire Annuity Plan of Tata AIG Life Insurance Company Ltd.) as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(xi) Subscription towards notified units of mutual fund or UTI

Subscription to any units of any mutual fund referred to in section 10(23D) or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government;

(xii) Contribution to notified pension fund set up by mutual fund or UTI

Contribution by an individual to a pension fund set up by any Mutual Fund referred to in section 10(23D) or by the Administrator or the specified company as the Central Government may specify (i.e., UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).
Specified company means a company formed and registered under the Companies Act, 1956 and whose entire capital is subscribed by such financial institutions or banks as may be specified by the Central Government, by notification in the Official Gazette, for the purpose of transfer and vesting of the undertaking.

“Administrator” means a person or a body of persons appointed as Administrator by the Central Government. The Central Government shall appoint a person or a body of persons, as the “Administrator of the specified undertaking of the Unit Trust of India” for the purpose of taking over the administration thereof and the Administrator shall carry on the management of the specified undertaking of the Trust for and on behalf of the Central Government.

“Specified undertaking” includes all business, assets, liabilities and properties of the Trust representing and relatable to the schemes and Development Reserve Fund.

(xi) Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008

Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank i.e., National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

(xiv) Subscription to notified deposit scheme

Subscription to any such deposit scheme of

- a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes or
- any such deposit scheme of any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both.

The deposit scheme should be notified by the Central Government, for example, public deposit scheme of HUDCO.

(xv) Payment of tuition fees to any university, college, school or other educational institutions within India for full-time education for maximum 2 children

Payment of tuition fees by an individual assessee at the time of admission or thereafter to any university, college, school or other educational institutions within India for the purpose of full-time education of any two children of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.
(xvi) Repayment of housing loan including stamp duty, registration fee and other expenses

Any payment made towards the cost of purchase or construction of a new residential house property. The income from such property –

(1) should be chargeable to tax under the head “Income from house property”;

(2) would have been chargeable to tax under the head “Income from house property” had it not been used for the assessee’s own residence.

The approved types of payments are as follows:

(1) Any installment or part payment of the amount due under any self-financing or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis; or

(2) Any installment or part payment of the amount due to any company or a cooperative society of which the assessee is a shareholder or member towards the cost of house allotted to him; or

(3) Repayment of amount borrowed by the assessee from:

   (a) The Central Government or any State Government;
   
   (b) Any bank including a co-operative bank;
   
   (c) The Life Insurance Corporation;
   
   (d) The National Housing Bank;
   
   (e) Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii);
   
   (f) Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses;
   
   (g) The assessee’s employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;
   
   (h) The assessee’s employer where such employer is a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.

(4) Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee.

**Inadmissible payments:** However, the following amounts do not qualify for rebate:

(1) admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member; or
(2) the cost of any addition or alteration or renovation or repair of the house property after the completion of the house or after the house has been occupied by the assessee or any person on his behalf or after it has been let out; or

(3) any expenditure in respect of which deduction is allowable under section 24.

(xvii) Subscription to certain equity shares or debentures

Subscription to equity shares or debentures forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form.

Eligible issue of capital means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilized wholly and exclusively for the purposes of any business referred to in section 80-IA(4).

A lock-in period of three years is provided in respect of such equity shares or debentures. In case of any sale or transfer of shares or debentures within three years of the date of acquisition, the aggregate amount of deductions allowed in respect of such equity shares or debentures in the previous year or years preceding the previous year in which such sale or transfer has taken place shall be deemed to be the income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

A person shall be treated as having acquired any shares or debentures on the date on which his name is entered in relation to those shares or debentures in the register of members or of debenture-holders, as the case may be, of the public company.

(xviii) Subscription to certain units of mutual fund

Subscription to any units of any mutual fund referred to in section 10(23D) and approved by the Board on an application made by such mutual fund in the prescribed form.

It is necessary that such units should be subscribed only in the eligible issue of capital of any company.

Eligible issue of capital for (xvii) and (xviii) means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilised wholly and exclusively for the purposes of any business referred to in section 80-IA(4).

(xix) Investment in five year Term Deposit

Investment in term deposit -

(1) for a period of not less than five years with a scheduled bank; and

(2) which is in accordance with a scheme framed and notified by the Central Government in the Official Gazette
qualifies as an eligible investment for availing deduction under section 80C.

The maximum limit for investment in term deposit is ₹ 1,50,000.

Scheduled bank means -

(1) the State Bank of India constituted under the State Bank of India Act, 1955, or
(2) a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959, or
(3) a corresponding new bank constituted under section 3 of the -
   (a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, or
   (b) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or
(4) any other bank, being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934.

(xx) Subscription to notified bonds issued by NABARD

Subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) qualifies for deduction under section 80C.

(xxii) Investment in five year Post Office time deposit

Investment in five year time deposit in an account under Post Office Time Deposit Rules, 1981 qualifies for deduction under section 80C.

(xxii) Deposit in Senior Citizens Savings Scheme Rules, 2004

Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004 qualifies for deduction under section 80C.

Termination of Insurance Policy or Unit Linked Insurance Plan or transfer of House Property or withdrawal of deposit:

Where, in any previous year, an assessee:

(1) terminates his contract of insurance referred to in (i) above, by notice to that effect or where the contract ceases to be in force by reason of not paying the premium, by not reviving the contract of insurance, -
   (a) in case of any single premium policy, within two years after the date of commencement of insurance; or
   (b) in any other case, before premiums have been paid for two years; or
(2) terminates his participation in any Unit Linked Insurance Plan referred to in (viii) or (ix) above, by notice to that effect or where he ceases to participate by reason of failure to pay any contribution, by not reviving his participation, before contributions in respect of such participation have been paid for five years, or
(3) transfers the house property referred to in (xvi) above, before the expiry of five years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified in (xvi) above, then, no deduction will be allowed to the assesseee in respect of sums paid during such previous year and the total amount of deductions of income allowed in respect of the previous year or years preceding such previous year, shall be deemed to be income of the assesseee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

Further, where any amount is withdrawn by the assesseee from his account under the Senior Citizens Savings Scheme or under the Post Office Time Deposit Rules before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be the income of the assesseee of the previous year in which the amount is withdrawn. Accordingly, the amount so withdrawn would be chargeable to tax in the assessment year relevant to such previous year. The amount chargeable to tax would also include that part of the amount withdrawn which represents interest accrued on the deposit.

However, if any part of the amount relating to interest so received or withdrawn has been subject to tax in any of the earlier years, such amount shall not be taxed again.

If any amount has been received by the nominee or legal heir of the assesseee, on the death of such assesseee, the amount would not be chargeable to tax. But if the amount relating to interest on deposit was not included in the total income of the assesseee in any of any earlier years, then such interest would be chargeable to tax.

**Illustration 3**

Mr. A, aged about 61 years, has earned a lottery income of ₹ 1,20,000 (gross) during the P.Y. 2017-18. He also has interest on Fixed Deposit of ₹ 30,000. He invested an amount of ₹ 10,000 in Public Provident Fund account and ₹ 24,000 in National Saving Certificates. What is the total income of Mr. A for the A.Y.2018-19?

**Solution**

**Computation of total income of Mr. A for A.Y.2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other sources</td>
<td></td>
</tr>
<tr>
<td>- Interest on Fixed Deposit</td>
<td>30,000</td>
</tr>
<tr>
<td>- Lottery income</td>
<td>1,20,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less: Deductions under Chapter VIA [See Note below]</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>Under section 80C</td>
<td></td>
</tr>
<tr>
<td>- Deposit in Public Provident Fund</td>
<td>10,000</td>
</tr>
<tr>
<td>- Investment in National Saving Certificate</td>
<td>24,000</td>
</tr>
<tr>
<td>Restricted to</td>
<td>34,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td>1,20,000</td>
</tr>
</tbody>
</table>

**Note:** Though the value of eligible investments is ₹34,000, however, deduction under Chapter VIA cannot exceed the gross total income exclusive of long term capital gains, short-term capital gains covered under section 111A, winnings of lotteries etc. of the assessee.

Therefore, the maximum permissible deduction u/s 80C = ₹1,50,000 – ₹1,20,000 = ₹30,000.

**2) Deduction in respect of contribution to certain pension funds [Section 80CCC]**

(i) Where an assessee, being an individual, has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund set up by LIC or such other insurer, he shall be allowed a deduction in the computation of his total income.

(ii) For this purpose, the interest or bonus accrued or credited to the assessee’s account shall not be reckoned as contribution.

(iii) The maximum permissible deduction is ₹1,50,000 (Further, the overall limit of ₹1,50,000 prescribed in section 80CCE will continue to be applicable i.e. the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together is ₹1,50,000).

(iv) Where any amount standing to the credit of the assessee in the fund in respect of which a deduction has been allowed, together with interest or bonus accrued or credited to the assessee’s account is received by the assessee or his nominee on account of the surrender of the annuity plan in any previous year or as pension received from the annuity plan, such amount will be deemed to be the income of the assessee or the nominee in that previous year in which such withdrawal is made or pension is received. It will be chargeable to tax as income of that previous year.

(v) Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a deduction under section 80C shall not be allowed with reference to such amount.
### Deduction in respect of contribution to pension scheme notified by the Central Government [Section 80CCD]

(i) As per the “Restructured Defined Contribution Pension System” applicable to new entrants to Government service, it is mandatory for persons entering the service of Central Government on or after 1st January, 2004, to contribute 10% of their salary every month towards their pension account. A matching contribution is required to be made by the Government to the said account. The benefit of this scheme is also available to individuals employed by any other employer as well as to self-employed individuals.

(ii) Section 80CCD provides deduction in respect of contribution made to the pension scheme notified by the Central Government.

   **Accordingly, in exercise of the powers conferred by section 80CCD(1), the Central Government has notified the ‘Atal Pension Yojana (APY)’ as a pension scheme, contribution to which would qualify for deduction under section 80CCD in the hands of the individual.**

(iii) Section 80CCD(1) provides a deduction for the amount paid or deposited by an employee in his pension account subject to a maximum of 10% of his salary. The deduction in the case of a self-employed individual would be restricted to 20% of his gross total income in the previous year.

<table>
<thead>
<tr>
<th>Eligible Assessee</th>
<th>10% of salary</th>
<th>20% of GTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>An individual employed by CG on or after 01.04.2004</td>
<td>An Individual employed by any other employer</td>
<td>Any other individual</td>
</tr>
</tbody>
</table>

(iv) Section 80CCD(1B) provides for an additional deduction of up to ₹ 50,000 in respect of the whole of the amount paid or deposited by an individual assessee under NPS in the previous year, whether or not any deduction is allowed under section 80CCD(1).
(v) Whereas the deduction under section 80CCD(1) is subject to the overall limit of ₹ 1.50 lakh under section 80CCE, the deduction of upto ₹ 50,000 under section 80CCD(1B) is in addition to the overall limit of ₹ 1.50 lakh provided under section 80CCE.

(vi) Under section 80CCD(2), contribution made by the Central Government or any other employer in the previous year to the said account of an employee, is allowed as a deduction in computation of the total income of the assessee.

(vii) The entire employer’s contribution would be included in the salary of the employee. However, deduction under section 80CCD(2) would be restricted to 10% of salary.

Note: The limit of ₹ 1,50,000 under section 80CCE does not apply to employer’s contribution to pension scheme of Central Government which is allowable as deduction under section 80CCD(2).

(viii) Further, the amount standing to the credit of the assessee in the pension account (for which deduction has already been claimed by him under this section) and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on -

(a) closure of the account or
(b) his opting out of the said scheme or
(c) receipt of pension from the annuity plan purchased or taken on such closure or opting out.

However, the amount received by the nominee on the death of the assessee under the circumstances referred to in (a) and (b) above, shall not be deemed to be the income of the nominee.

(ix) However, the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

(x) No deduction will be allowed under section 80C in respect of amounts paid or deposited by the assessee, for which deduction has been allowed under section 80CCD(1) or under section 80CCD(1B).

Notes:

1. **Exemption on payment from NPS Trust to an employee on closure of his account or on his opting out of the pension scheme [Section 10(12A)]**

   (i) As per section 80CCD, any payment from National Pension System Trust to an employee on account of closure or his opting out of the pension scheme is chargeable to tax.
(ii) Section 10(12A) provides that any payment from National Pension System Trust to an employee on account of closure or his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed 40% of the total amount payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax.

2. Exemption on payment from NPS Trust to an employee on partial withdrawal [Section 10(12B)]

To provide relief to an employee subscriber of NPS, new clause (12B) has been inserted in section 10 to provide that any payment from National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawn made out of his account in accordance with the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made there under, shall be exempt from tax to the extent it does not exceed 25% of amount of contributions made by him.

(4) Limit on deductions under sections 80C, 80CCC & 80CCD(1) [Section 80CCE]

This section restricts the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) to ₹ 1,50,000. It may be noted that the deduction of upto ₹ 50,000 under section 80CCD(1B) and employer’s contribution to pension scheme, allowable as deduction under section 80CCD(2) in the hands of the employee, would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE.

The following table summarizes the ceiling limit under these sections w.e.f. A.Y.2018-19–

<table>
<thead>
<tr>
<th>Section</th>
<th>Particulars</th>
<th>Ceiling limit (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>80C</td>
<td>Investment in LIP, Deposit in PPF/SPF/RPF etc.</td>
<td>1,50,000</td>
</tr>
<tr>
<td>80CCC</td>
<td>Contribution to certain pension funds</td>
<td>1,50,000</td>
</tr>
<tr>
<td>80CCD(1)</td>
<td>Contribution to NPS of Government</td>
<td>10% of salary or 20% of GTI, as the case may be.</td>
</tr>
<tr>
<td>80CCE</td>
<td>Aggregate deduction under sections 80C, 80CCC &amp; 80CCD(1)</td>
<td>1,50,000</td>
</tr>
<tr>
<td>80CCD(1B)</td>
<td>Contribution to NPS notified by the Central Government (outside the limit of ₹ 1,50,000 under section 80CCE)</td>
<td>50,000</td>
</tr>
<tr>
<td>80CCD(2)</td>
<td>Contribution by the employer to NPS of Government (outside the limit of ₹ 1,50,000 under section 80CCE)</td>
<td>10% of salary</td>
</tr>
</tbody>
</table>
Illustration 4

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2017-18:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to the public provident fund</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Insurance premium paid on the life of the spouse (policy taken on 1.4.2014)</td>
<td>25,000</td>
</tr>
</tbody>
</table>

What is the deduction allowable under section 80C for A.Y.2018-19?

Solution

**Computation of deduction under section 80C for A.Y.2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit in public provident fund</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000, as the policy is taken after 31.3.2012)</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,70,000</strong></td>
</tr>
</tbody>
</table>

However, the maximum permissible deduction u/s 80C is restricted to ₹ 1,50,000.

**Note:** As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) cannot exceed ₹ 1,50,000.

Illustration 5

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Examine the tax treatment in respect of such contribution in the hands of Mr. A.

Solution

**Tax treatment in the hands of Mr. A in respect of employer’s and own contribution to pension scheme referred to in section 80CCD**

(a) Employer’s contribution to such pension scheme would be treated as salary since it is specifically included in the definition of “salary” under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A’s salary.
(b) Mr. A’s contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, “salary” for the purpose of deduction under section 80CCD for Mr. A would be –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary = ₹ 1,00,000 × 12 =</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000</td>
<td></td>
</tr>
<tr>
<td>50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Salary for the purpose of deduction under section 80CCD</td>
<td>14,40,000</td>
</tr>
</tbody>
</table>

Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000) 1,44,000

As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000). 36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer’s contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer’s contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer’s contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

Illustration 6

The gross total income of Mr. X for the A.Y.2018-19 is ₹ 5,00,000. He has made the following investments/payments during the F.Y.2017-18 –
Compute the eligible deduction under Chapter VI-A for the A.Y.2018-19.

**Solution**

**Computation of deduction under Chapter VI-A for the A.Y.2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction under section 80C</td>
<td></td>
</tr>
<tr>
<td>(1) Contribution to PPF – fully allowed, since it is within the limit of ₹ 1,50,000</td>
<td>1,10,000</td>
</tr>
<tr>
<td>(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI</td>
<td>45,000</td>
</tr>
<tr>
<td>(3) Repayment of housing loan</td>
<td>25,000</td>
</tr>
<tr>
<td>Restricted to ₹1,50,000, being the maximum permissible deduction u/s 80C</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Deduction under section 80CCC</td>
<td></td>
</tr>
<tr>
<td>(4) Contribution to approved pension fund of LIC</td>
<td>1,05,000</td>
</tr>
<tr>
<td>As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000</td>
<td>2,55,000</td>
</tr>
<tr>
<td>Deduction allowable under Chapter VIA for the A.Y.2018-19</td>
<td>1,50,000</td>
</tr>
</tbody>
</table>

**Deduction in respect of investment made under an equity savings scheme [Section 80CCG]**

(i) Deduction under this section would be available to a new retail investor, being a resident individual with gross total income of up to ₹ 12 lakh, for investment in listed equity shares or listed units of equity oriented fund, in accordance with a notified scheme.
The deduction is 50% of amount invested in such equity shares or ₹ 25,000 whichever is lower. The maximum deduction of ₹ 25,000 is available on investment of ₹ 50,000 in such listed equity shares.

Further, the deduction shall be allowed for three consecutive assessment years, beginning with the assessment year relevant to the previous year in which the listed equity shares or listed units of equity oriented fund were first acquired.

(ii) Therefore, the conditions under section 80CCG for claiming deduction would be –

1. The gross total income of the assessee for the relevant assessment year should be less than or equal to ₹ 12 lakh.

2. The assessee should be a new retail investor as per the requirement specified under the notified scheme.

3. The investment should be in such listed equity shares or listed units of equity-oriented fund specified under the notified scheme.

4. The minimum lock-in period in respect of such investment should be three years from the date of acquisition. The fixed lock-in period would be one year from the end of the previous year in which the investment was made.

5. Any other condition as may be prescribed.

(iii) If the resident individual, after having claimed such deduction, fails to comply with any of the conditions in any previous year, say, he sells the shares or units within one year, then, the deduction earlier allowed shall be deemed to be the income of the previous year in which he fails to comply with the condition. The income shall, accordingly, be liable to tax in the assessment year relevant to such previous year.

(iv) No deduction under this section shall be allowed from A.Y. 2018-19. However, an assessee who has claimed deduction under this section for A.Y. 2017-18 or earlier assessment year, shall be allowed deduction till A.Y. 2019-20, if he is otherwise eligible to claim the deduction as per the provisions of this section.

Rajiv Gandhi Equity Savings Scheme, 2013

The Central Government has, in exercise of the powers conferred by section 80CCG(1), notified the Rajiv Gandhi Equity Savings Scheme, 2013. The said scheme provides for eligibility criteria, procedure for investment, period of holding and other conditions.
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Content</th>
</tr>
</thead>
</table>
| 1.    | Eligibility        | The deduction under this scheme shall be available to a **new retail investor** who complies with the conditions of the Scheme and whose gross total income for the financial year in which the investment is made under the Scheme is less than or equal to ₹12 lakh.  <br> **New retail investor** means a resident individual:  
(i) **who has not opened a demat account** and has not made any transactions in the derivative segment before –  
- the date of opening of a demat account;  
or  
- the first day of the **initial year**;  
However, an individual who is not the first account holder of an existing joint demat account shall be deemed to have not opened a demat account for the purposes of this Scheme;  
(ii) **who has opened a demat account** but has not made any transactions in the equity segment or the derivative segment before –  
- the date he designates his existing demat account for the purpose of availing the benefit under the Scheme;  
or  
- the first day of the **initial year**.  
**Initial year** means -  
(a) the financial year in which the investor designates his demat account as Rajiv Gandhi Equity Savings Scheme account and makes investment in the eligible securities for availing deduction under the Scheme; or  
(b) the financial year in which the investor makes investment in eligible securities for availing deduction under the Scheme for the first time, if the investor does not make any investment in eligible securities in the financial year in which the account is so designated. |
| 2.    | Procedure for investment | A new retail investor shall make investments under the Scheme in the following manner, namely:-  
1. the new retail investor may invest in one or more financial |
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>years in a block of three consecutive financial years beginning with the initial year;</td>
</tr>
<tr>
<td>2.</td>
<td>the new retail investor may make investment in eligible securities in one or more than one transaction during any financial year during the three consecutive financial years beginning with the initial year in which the deduction has to be claimed;</td>
</tr>
<tr>
<td>3.</td>
<td>the new retail investor may make any amount of investment in the demat account but the amount eligible for deduction under the Scheme shall not exceed fifty thousand rupees in a financial year;</td>
</tr>
<tr>
<td>4.</td>
<td>the new retail investor shall be eligible for the tax benefit under the Scheme only for three consecutive financial years beginning with the initial year, in respect of the investment made in each financial year;</td>
</tr>
<tr>
<td>5.</td>
<td>if the new retail investor does not invest in any financial year following the initial year, he may invest in the subsequent financial year, within the three consecutive financial years beginning with the initial year, in accordance with the Scheme;</td>
</tr>
<tr>
<td>6.</td>
<td>the new retail investor who has claimed a deduction under sub-section (1) of section 80CCG of the Act in any assessment year shall not be allowed any deduction under the Scheme for the same investment for any other assessment year;</td>
</tr>
<tr>
<td>7.</td>
<td>the new retail investor shall be permitted a grace period of seven trading days from the end of the financial year so that the eligible securities purchased on the last trading day of the financial year also get credited in the demat account and such securities shall be deemed to have been acquired in the financial year itself;</td>
</tr>
<tr>
<td>8.</td>
<td>the new retail investor can make investments in securities other than the eligible securities covered under the Scheme and such investments shall not be subject to the conditions of the Scheme nor shall they be counted for availing the benefit under the Scheme;</td>
</tr>
<tr>
<td>9.</td>
<td>the deduction claimed shall be withdrawn if the lock-in period requirements of the investment are not complied with or any other condition of the Scheme is contravened by the new retail investor.</td>
</tr>
</tbody>
</table>
3. Period of holding

The period of holding of eligible securities invested in each financial year shall be under a lock-in period of three years to be counted in the following manner:

<table>
<thead>
<tr>
<th>Type of lock-in</th>
<th>Meaning</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed lock-in period</td>
<td>The period commencing from the date of purchase of eligible securities in the relevant financial year and ending on 31st March of the year immediately following the relevant financial year.</td>
<td>The new retail investor shall hold eligible securities for fixed lock-in period. He shall not be permitted to sell, pledge or hypothecate any eligible security during the fixed lock-in period.</td>
</tr>
<tr>
<td>Flexible lock-in period</td>
<td>The period of two years beginning immediately after the end of the fixed lock-in period shall be called the flexible lock-in period.</td>
<td>The new retail investor shall be permitted to trade the eligible securities after the completion of the fixed lock-in period subject to the conditions prescribed under the scheme. The demat account should be compliant for a cumulative period of a minimum of 270 days during each of the two years of the flexible lock-in period. The demat account shall be considered as compliant for the number of days for which the value of the investment portfolio of eligible securities (other than those which are in fixed lock-in) is equal to or higher than the corresponding investment claimed as eligible for the purpose of deduction under section 80CCG.</td>
</tr>
</tbody>
</table>

4. Other Conditions

(i) While making initial investments up to ₹ 50,000, the total cost of acquisition of eligible securities shall not include brokerage...
11.26 DIRECT TAX LAWS

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
<th>Mr. Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Investment in listed equity shares</td>
<td>20,000</td>
<td>45,000</td>
<td>32,000</td>
</tr>
<tr>
<td>(ii) Investment in units of equity-oriented fund</td>
<td>40,000</td>
<td>-</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Illustration 7

Mr. X, Mr. Y and Mr. Z, new retail investors for the previous year 2015-16, 2016-17 and 2017-18, respectively, have made the following investments in equity shares/units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme for the P.Y.2017-18 as below:

- Charges, securities transaction tax, stamp duty, service tax and any other tax, which may appear in the contract note.
- Where the investment of the new retail investor undergoes a change as a result of involuntary corporate actions including demerger of companies, amalgamation and such other actions, as may be notified by SEBI, resulting in debit or credit of securities covered under the Scheme, the deduction claimed by such investor shall not be affected.
- In the case of voluntary corporate actions, including buy-back resulting only in debit of securities where new retail investor has the option to exercise his choice, the same shall be considered as a sale transaction for the purpose of the Scheme.

- If the new retail investor fails to fulfill any of the provisions of the Scheme, the deduction originally allowed to him under section 80CCG(1) for any previous year, shall be deemed to be the income of the assessee of the previous year in which he fails to comply with the provisions of the Scheme and shall be liable to tax for the assessment year relevant to such previous year.

A new retail investor who has invested in accordance with the Rajiv Gandhi Equity Savings Scheme, 2012 shall continue to be governed by the provisions of that Scheme to the extent it is not in contravention of the provisions of this Scheme and such investor shall also be eligible for the benefit of investment made in accordance with this Scheme for the financial years 2013-14 and 2014-15.
Mr. X has claimed deduction under section 80CCG for A.Y. 2016-17 and A.Y. 2017-18 and Mr. Y for A.Y. 2017-18.

Compute the deduction under section 80CCG for the Assessment Year 2018-19.

Solution

Computation of Deduction under section 80CCG for the A.Y. 2018-19

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
<th>Mr. Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction u/s 80CCG for A.Y. 2018-19</td>
<td>₹ 25,000</td>
<td>NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Remark</td>
<td>(Restricted to 50% of ₹ 50,000)</td>
<td>(Since GTI &gt; ₹ 12,00,000)</td>
<td>No deduction is allowed from A.Y. 2018-19.</td>
</tr>
</tbody>
</table>

Note – Mr. X is eligible for deduction under section 80CCG for A.Y. 2018-19, since he has claimed deduction thereunder for A.Y. 2016-17 and A.Y. 2017-18 and he fulfills the conditions for claim of deduction in A.Y. 2018-19.

(i) Deduction in respect of medical insurance premium [Section 80D]

(a) A deduction to the extent of ₹ 25,000 is allowed in respect of the following payments–
   (1) premium paid to effect or keep in force an insurance on the health of self, spouse and dependant children or
   (2) any contribution made to the Central Government Health Scheme or
   (3) such other health scheme as may be notified by the Central Government. Contributory Health Service Scheme of the Department of Space has been notified by the Central Government.

(b) A further deduction up to ₹ 25,000 is allowable –
   (1) to effect or keep in force an insurance on the health of parents.
   (2) on account of preventive health check-up of parents.

Also, deduction would be allowed only if the payment of insurance premium is made in any mode other than cash.
An increased deduction of ₹ 30,000 (instead of ₹ 25,000) shall be allowed in case any of the persons mentioned above is a senior citizen or very senior citizen i.e., an individual resident in India of the age of 60 years or more at any time during the relevant previous year or an individual resident in India of the age of 80 years or more at any time during the relevant previous year.

(c) Section 80D provides that deduction to the extent of ₹ 5,000 shall be allowed in respect of payment made on account of preventive health check-up of self, spouse, dependant children or parents made during the previous year. However, the said deduction of ₹ 5,000 is within the overall limit of ₹ 25,000 or ₹ 30,000, as the case may be.

(d) Further it is provided that, for claiming such deduction under section 80D, the payment can be made:

(1) by any mode, including cash, in respect of any sum paid on account of preventive health check-up;

(2) by any mode other than cash, in all other cases.

(e) As a welfare measure towards very senior citizens i.e., person of the age of 80 years or more and resident in India, who are unable to get health insurance coverage, deduction of upto ₹ 30,000 would be allowed in respect of any payment made on account of medical expenditure in respect of a such person(s), if no payment has been made to keep in force an insurance on the health of such person(s).

‘Very senior citizen’ means an individual resident in India who is of the age of 80 years or more at any time during the relevant previous year.

2. **In case of a HUF**

Deduction under section 80D is allowable in respect of premium paid to insure the health of any member of the family. The maximum deduction available to a HUF would be ₹ 25,000 and in case any member is a senior citizen, ₹ 30,000. Further, the amount paid on account of medical expenditure incurred on the health of any member(s) of a family who is a very senior citizen would qualify for deduction subject to a maximum of ₹ 30,000 provided no amount has been paid to effect or keep in force any insurance on the health of such person(s).

3. **Other conditions**

The other conditions to be fulfilled are that such premium should be paid by any mode, other than cash, in the previous year out of his income chargeable to tax. Further, the medical insurance should be in accordance with a scheme made in this behalf by -

(a) the General Insurance Corporation of India and approved by the Central Government in this behalf; or

(b) any other insurer and approved by the Insurance Regulatory and Development Authority.
The following table summarizes the provisions of section 80D –

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Nature of payment/ expenditure</th>
<th>Expenditure on behalf of</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health</td>
<td>In case of individual Self, spouse and dependant children</td>
<td>₹ 25,000</td>
</tr>
<tr>
<td></td>
<td>(ii) Contribution to Central Government Health Scheme (CGHS)</td>
<td>In case of HUF Family member</td>
<td>₹ 30,000</td>
</tr>
<tr>
<td></td>
<td>(iii) Preventive health check up expenditure</td>
<td>In case any of the above persons is of the age of 60 years or more + resident in India</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health</td>
<td>Parents</td>
<td>₹ 25,000</td>
</tr>
<tr>
<td></td>
<td>(ii) Preventive health check up</td>
<td>In case either or both the parents is of the age of 60 years or more + Resident in India</td>
<td>₹ 30,000</td>
</tr>
<tr>
<td></td>
<td>Maximum ₹ 5,000 allowed as deduction for aggregate of preventive health check up expenditure mentioned in I and II (Subject to overall limit of ₹ 25,000 or ₹ 30,000, as the case may be)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Amount paid on account of medical expenditure</td>
<td>For self/spouse/parents + who is of the age of 80 years or more + Resident in India + no payment has been made to keep in force an insurance on the health of such person</td>
<td>₹ 30,000</td>
</tr>
</tbody>
</table>

Note: In case the individual or any of his family members is a senior citizen or very senior citizen, the aggregate of deduction, in respect of payment of premium, contribution to CGHS and medical expenditure incurred, as specified in (I) & (III) above, cannot exceed ₹ 30,000.

In case one of the parents is a senior citizen and another is a very senior citizen or both of them are very senior citizens, the aggregate of deduction, in respect of payment of medical insurance premium and medical expenditure incurred, as specified in (II) & (III) above, cannot exceed ₹ 30,000.
Illustration 8

Mr. A, aged 40 years, paid medical insurance premium of ₹20,000 during the P.Y. 2017-18 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹27,000 during the year to insure the health of his father, aged 63 years, who is not dependant on him. He contributed ₹3,600 to Central Government Health Scheme during the year. He has incurred ₹3,000 in cash on preventive health check-up of himself and his spouse and ₹4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2018-19.

Solution

### Deduction allowable under section 80D for the A.Y. 2018-19

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Actual Payment ₹</th>
<th>Maximum deduction allowable ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Premium paid and medical expenditure incurred for self and spouse</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Medical insurance premium paid for self and spouse</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(ii) Contribution to CGHS</td>
<td>3,600</td>
<td>3,600</td>
</tr>
<tr>
<td>(iii) Exp. on preventive health check-up of self &amp; spouse</td>
<td>3,000</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Total deduction under section 80D (₹25,000 + ₹30,000)</strong></td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td><strong>B. Premium paid and medical expenditure incurred for father, who is a senior citizen</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Medi-claim premium paid for father, who is over 60 years of age</td>
<td>27,000</td>
<td>27,000</td>
</tr>
<tr>
<td>(ii) Expenditure on preventive health check-up of father</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total deduction under section 80D (₹25,000 + ₹30,000)</strong></td>
<td></td>
<td>55,000</td>
</tr>
</tbody>
</table>

**Notes:**

1. The total deduction under A.(i), (ii) and (iii) above should not exceed ₹25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹1,400, being (₹25,000 – ₹20,000 – ₹3,600).
(2) The total deduction under B. (i) and (ii) above should not exceed ₹ 30,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹30,000 – ₹ 27,000).

(3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is less than the maximum permissible limit of ₹ 5,000.

Illustration 9

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y.2017-18 to insure his health as well as the health of his spouse and dependant children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his father, aged 67 years, who is not dependant on him. He contributed ₹ 2,400 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y.2018-19.

Solution

Deduction allowable under section 80D for the A.Y.2018-19

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Medical insurance premium paid for self, spouse and dependant children</td>
<td>22,000</td>
</tr>
<tr>
<td>(ii) Contribution to CGHS</td>
<td>2,400</td>
</tr>
<tr>
<td>(iii) Medi-claim premium paid for father, who is over 60 years of age (₹ 33,000 but restricted to ₹ 30,000, being the maximum allowable)</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td>54,400</td>
</tr>
</tbody>
</table>

Note – The total deduction under (i) and (ii) above should not exceed ₹ 25,000. In this case, since the total of (i) and (ii) (i.e., ₹ 24,400) does not exceed ₹ 25,000, the same is fully allowable under section 80D.

However, had the medical insurance premium paid for self, spouse and children been ₹ 24,000 instead of ₹ 22,000, then, the total of ₹ 26,400 (i.e., ₹ 24,000 + ₹ 2,400) under (i) and (ii) above would be restricted to ₹ 25,000. In such a case, the total deduction allowable under section 80D would be ₹ 55,000 [i.e., ₹ 25,000 [(i) & (ii)] + ₹ 30,000 (iii)].

(7) Deduction in respect of maintenance including medical treatment of a dependant disabled [Section 80DD]

(i) **Eligible assessee:** Section 80DD provides deduction to an assessee, who is a resident in India, being an individual or Hindu undivided family.

(ii) **Payment qualifying for deduction:** Any amount –

- incurred for the medical treatment (including nursing), training and rehabilitation of a
dependant, being a person with disability, or
- paid or deposited under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the Specified Company as referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, for the maintenance of a dependant, being a person with disability qualifies for deduction.

The benefit of deduction under this section is also available to assessees incurring expenditure on maintenance including medical treatment of persons suffering from autism, cerebral palsy and multiple disabilities

(iii) **Conditions:** The scheme should provide for payment of annuity or a lump sum amount for the benefit of a dependant, being a person with disability, in the event of the death of the individual or member of the HUF, in whose name subscription was made and the assessee must nominate either the dependant, being a person with disability or any other person or a trust to receive the payment on his behalf, for the benefit of the dependant, being a person with disability.

(iv) **Quantum of deduction:** The quantum of deduction is ₹ 75,000 and in case of severe disability (i.e. person with 80% or more disability) the deduction shall be ₹ 1,25,000.

(v) **Consequence if the dependant predeceases the subscriber:** If the dependant, being a person with disability, predeceases the individual or the member of HUF, in whose name subscription was made, then the amount paid or deposited under the said scheme would be chargeable to tax in the hands of the assessee in the previous year in which such amount is received by the assessee.

(vi) **Other conditions:**

   1. For claiming the deduction, the assessee shall have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income under section 139.

   2. Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

(vii) **Meaning of “Dependant”:**

<table>
<thead>
<tr>
<th>Assessee</th>
<th>Dependant</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Individual</td>
<td>the spouse, children, parents, brother or sister of the individual who is wholly or mainly dependant on such individual and not claimed deduction under section 80U in the computation of his income</td>
</tr>
</tbody>
</table>
Illustration 10

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather who is wholly dependant upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2018-19.

Solution

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

Illustration 11

What will be the deduction if Mr. X had made this deposit for his dependant father?

Solution

Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

(8) Deduction in respect of medical treatment etc. [Section 80DDB]

(i) **Eligible assessee:** This section provides deduction to an assessee, who is resident in India, being an individual and Hindu undivided family. The deduction is available to an individual for medical expenditure incurred on himself or a dependant. It is also available to a Hindu undivided family (HUF) for such expenditure incurred on any of its members.

(ii) **Meaning of “Dependant”:**

<table>
<thead>
<tr>
<th>Assessee</th>
<th>Dependant</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Individual</td>
<td>the spouse, children, parents, brother or sister of the individual or any of them, wholly or mainly dependant on such individual for his support and maintenance.</td>
</tr>
<tr>
<td>(2) HUF</td>
<td>a member of the HUF, wholly or mainly dependant on such HUF for his support and maintenance.</td>
</tr>
</tbody>
</table>

(iii) **Payment qualifying for deduction:** Any amount actually paid for the medical treatment of such disease or ailment as may be specified in the rules made in this behalf by the Board for
himself or a dependant, in case the assessee is an individual or for any member of a HUF, in case the assessee is a HUF will qualify for deduction.

(iv) **Quantum of deduction:** The amount of deduction under this section shall be equal to the amount actually paid or ₹ 40,000, whichever is less, in respect of that previous year in which such amount was actually paid.

In case the amount is paid in respect of a senior citizen, i.e., a resident individual of the age of 60 years or more at any time during the relevant previous year, then the deduction would be the amount actually paid or ₹ 60,000, whichever is less. Further, a higher limit of deduction of upto ₹ 80,000 is allowable to the assessee, for the expenditure incurred in respect of the medical treatment of himself or a dependant, being a “very senior citizen”. A “very senior citizen” is as an individual resident in India who is of the age of 80 years or more at any time during the relevant previous year.

The deduction under this section shall be reduced by the amount received, if any, under an insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependant.

(v) **Maximum deduction:** The maximum limit of deduction under section 80DDB for the various categories of dependant are summarized hereunder:

<table>
<thead>
<tr>
<th>Dependant</th>
<th>Maximum limit (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) A very senior citizen, being a resident individual</td>
<td>80,000</td>
</tr>
<tr>
<td>(2) A senior citizen, being a resident individual</td>
<td>60,000</td>
</tr>
<tr>
<td>(3) Dependant, other than mentioned in (1) &amp; (2) above</td>
<td>40,000</td>
</tr>
</tbody>
</table>

(vi) **Condition:** No such deduction shall be allowed unless the assessee obtains the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or such other specialist, as may be prescribed.

(9) **Deduction in respect of interest loan taken for higher education [Section 80E]**

(i) **Eligible assessee:** Section 80E provides deduction to an individual-assessee in respect of any interest on loan paid by him in the previous year out of his income chargeable to tax.

(ii) **Conditions:** The loan must have been taken for the purpose of pursuing his higher education or for the purpose of higher education of his or her relative. The loan must have been taken from any financial institution or approved charitable institution.

(iii) **Meaning of Relative:** Spouse and children of the individual or the student for whom the individual is the legal guardian.
(iv) **Meaning of “Higher education”:** It means any course of study (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorized by the Central Government or State Government or local authority to do so. Therefore, interest on loan taken for pursuing any course after Class XII or its equivalent, will qualify for deduction under section 80E.

(v) **Period of deduction:** The deduction is allowed in computing the total income in respect of the initial assessment year (i.e. the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan) and seven assessment years immediately succeeding the initial assessment year or until the interest is paid in full by the assessee, whichever is earlier.

(vi) **Meaning of “Approved charitable institution”:** It means an institution established for charitable purposes and approved by the prescribed authority under section 10(23C) or an institution referred to in section 80G(2)(a).

(vii) **Meaning of “Financial institution”:** It means –

1. a banking company to which the Banking Regulation Act, 1949 applies (including a bank or banking institution referred to in section 51 of the Act); or
2. any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf.

**Illustration 12**

*Mr. B has taken three education loans on April 1, 2017, the details of which are given below:*

<table>
<thead>
<tr>
<th>For whose education loan was taken</th>
<th>Loan 1</th>
<th>Loan 2</th>
<th>Loan 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose of loan</td>
<td>MBA</td>
<td>B. Sc.</td>
<td>B.A.</td>
</tr>
<tr>
<td>Amount of loan (`)</td>
<td>5,00,000</td>
<td>2,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Annual repayment of loan (`)</td>
<td>1,00,000</td>
<td>40,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Annual repayment of interest (`)</td>
<td>20,000</td>
<td>10,000</td>
<td>18,000</td>
</tr>
</tbody>
</table>

*Compute the amount deductible under section 80E for the A.Y.2018-19.*

**Solution**

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.
Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

(10) Deduction for interest on loan borrowed for acquisition of self-occupied house property by an individual [Section 80EE]

(i) Section 80EE provides additional deduction in respect of interest on loan taken by an individual for acquisition of residential house property from any financial institution.

(ii) **Conditions:** The conditions to be satisfied for availing this deduction are as follows –

(iii) **Period of benefit:** The benefit of deduction under this section would be available till the repayment of loan continues.

(iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 50,000. The deduction of upto ₹ 50,000 under section 80EE is over and above the deduction of upto ₹ 2,00,000 available under section 24 for interest paid in respect of loan borrowed for acquisition of a self-occupied property.

(v) **Meaning of certain terms:**

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institution</td>
<td>• A banking company to which the Banking Regulation Act, 1949 applies; or</td>
</tr>
<tr>
<td></td>
<td>• Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or</td>
</tr>
<tr>
<td></td>
<td>• A housing finance company.</td>
</tr>
</tbody>
</table>
Illustration 13

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2018-19 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.3.2018 and he does not own any other house property.

Solution

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest deduction for A.Y.2018-19</td>
<td></td>
</tr>
<tr>
<td>(i) Deduction allowable while computing income under the head “Income from house property”</td>
<td></td>
</tr>
<tr>
<td>Deduction under section 24(b) ₹ 3,85,000</td>
<td>3,85,000</td>
</tr>
<tr>
<td>[₹ 35,00,000 × 11%]</td>
<td></td>
</tr>
<tr>
<td>Restricted to</td>
<td>2,00,000</td>
</tr>
<tr>
<td>(ii) Deduction under Chapter VI-A from Gross Total Income</td>
<td></td>
</tr>
<tr>
<td>Deduction under section 80EE ₹1,85,000</td>
<td></td>
</tr>
<tr>
<td>(₹ 3,85,000 – ₹ 2,00,000)</td>
<td>1,85,000</td>
</tr>
<tr>
<td>Restricted to</td>
<td>50,000</td>
</tr>
</tbody>
</table>

(11) Deduction in respect of donations to certain funds, charitable institutions etc. [Section 80G]

(i) Where an assessee pays any sum as donation to eligible funds or institutions, he is entitled to a deduction, subject to certain limitations, from the gross total income.

(ii) **Quantum of deduction:**

There are four categories of deductions. The following table gives the details of the institutions and funds to which donations can be made for the purpose of claiming deduction under section 80G, –
<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>The National Defence Fund set up by the Central Government</td>
</tr>
<tr>
<td>(2)</td>
<td>Prime Minister’s National Relief Fund.</td>
</tr>
<tr>
<td>(3)</td>
<td>Prime Minister’s Armenia Earthquake Relief Fund</td>
</tr>
<tr>
<td>(4)</td>
<td>The Africa (Public Contributions-India) Fund</td>
</tr>
<tr>
<td>(5)</td>
<td>The National Children’s Fund</td>
</tr>
<tr>
<td>(6)</td>
<td>The National Foundation for Communal Harmony</td>
</tr>
<tr>
<td>(7)</td>
<td>Approved University or educational institution of national eminence</td>
</tr>
<tr>
<td>(8)</td>
<td>Maharashtra Chief Minister’s Earthquake Relief Fund</td>
</tr>
<tr>
<td>(9)</td>
<td>Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat earthquake</td>
</tr>
<tr>
<td>(10)</td>
<td>Any Zila Saksharta Samiti for primary education in villages and towns and for literacy and post-literacy activities</td>
</tr>
<tr>
<td>(11)</td>
<td>National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement of operation and requirements of blood banks</td>
</tr>
<tr>
<td>(12)</td>
<td>Any State Government Fund set up to provide medical relief to the poor</td>
</tr>
<tr>
<td>(13)</td>
<td>The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependants.</td>
</tr>
<tr>
<td>(14)</td>
<td>The Andhra Pradesh Chief Minister’s Cyclone Relief Fund, 1996</td>
</tr>
<tr>
<td>(15)</td>
<td>The National Illness Assistance Fund</td>
</tr>
<tr>
<td>(16)</td>
<td>The Chief Minister’s Relief Fund or Lieutenant Governor’s Relief Fund</td>
</tr>
<tr>
<td>(17)</td>
<td>The National Sports Fund set up by the Central Government</td>
</tr>
<tr>
<td>(18)</td>
<td>The National Cultural Fund set up by the Central Government</td>
</tr>
<tr>
<td>(19)</td>
<td>The Fund for Technology Development and Application set up by the Central Government</td>
</tr>
</tbody>
</table>
### DEDUCTIONS FROM GROSS TOTAL INCOME

#### (20) National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities

#### (21) The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013

#### (22) The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident, other than the sum spent in pursuance of CSR u/s 135(5) of the Companies Act, 2013

#### (23) The National Fund for Control of Drug Abuse constituted under section 7A of the Narcotic Drugs and Psychotropic Substances Act, 1985

#### II Donation qualifying for 50% deduction, without any qualifying limit

1. The Jawaharlal Nehru Memorial Fund
2. Prime Minister’s Drought Relief Fund
3. Indira Gandhi Memorial Trust
4. Rajiv Gandhi Foundation

#### III Donation qualifying for 100% deduction, subject to qualifying limit

1. The Government or to any such local authority, institution or association as may be approved for promotion of family planning
2. **Sum paid by a company** as donation to the Indian Olympic Association or any other association/institution established in India, as may be notified by the Government established –
   - for the development of infrastructure for sports or games, or
   - the sponsorship of sports and games in India

#### IV Donation qualifying for 50% deduction, subject to qualifying limit

1. Any Institution or Fund established in India for charitable purposes fulfilling prescribed conditions under section 80G(5).
2. The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning.
### (3) An authority constituted in India by or under any other law enacted either for the purpose - of dealing with and satisfying the need for housing accommodation or - of planning, development or improvement of cities, towns and villages, or both.

### (4) Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community as referred in section 10(26BB).

### (5) for renovation or repair of any such temple, mosque, gurdwara, church or other place as notified by the Central Government to be of historic, archaeological or artistic importance or to be a place of public worship of renown throughout any State or States.

#### (iii) Qualifying limit:
The eligible donations referred to in III and IV should be aggregated and the sum total should be limited to 10% of the adjusted gross total income. This would be the maximum permissible deduction.

The donations qualifying for 100% deduction would be first adjusted from the maximum permissible deduction and thereafter 50% deduction of the balance would be allowed.

#### (iv) Meaning of adjusted gross total income:
It means the gross total income as reduced by the following:

1. Amount of deductions under sections 80C to 80U (but not including section 80G),
2. Any income on which income-tax is not payable,
3. Long term capital gains taxable under section 112 and short term capital gains taxable under section 111A.

#### (v) Conditions:
Donation to any institution or fund referred in point no. (1) of (IV) above, shall be eligible for deduction if it is established in India for charitable purposes and fulfill the following conditions:

1. The institution or fund is:
   a. constituted as a public charitable trust, or
   b. registered under the Societies Registration Act, 1860 or under any corresponding law or under section 251 of the Companies Act, 1956, or
   c. a University established by law or

---

¹ Section 8 of the Companies Act, 2013.
(d) any other educational institution recognized by the Government or by a university established by law or affiliated to any university established by law

(e) an institution financed wholly or in part by the Government or a local authority.

(2) Where such institution or fund derives any income, such income should not be liable to inclusion in its total income under the provisions of section 10(23AA), 10(23C) or 11 or 12.

The Institution, referred to above are as follows:

(i) Regimental fund or Non-public Fund established by the armed forces of the Union for the welfare of its members and their dependants [Section 10(23AA)]

(ii) The Prime Minister Fund (Promotion of Folk Art) [Section 10(23C)]

(iii) The Prime Minister Aid to Students Fund [Section 10(23C)]

(iv) National Foundation for communal harmony [Section 10(23C)]

(v) Charitable Trusts and Institutions [Sections 11 and 12].

However, in respect of profits and gains of business, the condition of such income should not be liable to inclusion in its total income under the provisions of section 11 shall not be applicable if –

- The institution or fund maintains separate books of account in respect of such business;

- The donation made to it are not used by it, directly or indirectly, for the purpose of such business; and

- The institution or fund issues certificate to the donor in respect of the above compliance.

Further, it may be noted that the assessee will not lose the benefit of deduction if:

(a) subsequent to the donation, any part of the income of the Institution has become chargeable to tax due to non-compliance with any of the provisions of section 11 or section 12 or section 12A.

(b) as a result of the operation of section 13(1)(c), exemption under section 11 or section 12 is denied to the institution in relation to any income arising to it from any investment made in a concern in which the person specified under section 13(3) has substantial interest and aggregate of fund so invested does not exceed 5% of the capital of that concern. [Explanation 2]

(3) No part of the income or assets of the Institution or Fund is transferable or applicable at any time for any purposes other than charitable purpose.

Such charitable purpose however does not include any purpose the whole or
substantially the whole of which is of a religious nature. [Explanation 3]

However, where an institution or fund incurs expenditure of a religious nature for an amount not exceeding 5% of its total income in that previous year, such institution or fund shall be deemed to be a fund or institution to which the provisions of this section apply.

(4) For the purposes of this section, an association or institution having as its object the control, supervision, regulation or encouragement in India of such games or sports as the Central Government may, by notification in the Official Gazette, specify in this behalf, shall be deemed to be an institution established in India for a charitable purpose. [Explanation 4]

(5) The Institution or Fund is not expressed to be for the benefit of any particular religious community or caste.

An institution or fund established for the benefit of women and children or of Scheduled Castes, Backward classes or Scheduled Tribes is not however to be treated as an institution or fund for the benefit of a religious community or caste. [Explanation 1]

(6) The Institution or Fund maintains regular accounts of its receipt and expenditure.

(7) In respect of donations made after 31.3.1992 to any institution or fund, such institution or fund must be approved by the Commissioner in accordance with the rules made in this behalf.

(vi) **Other points:**

(1) Where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year.

(2) Donations in kind shall not qualify for deduction.

(3) No deduction shall be allowed in respect of donation of any sum exceeding ₹2,000 unless such sum is paid by any mode other than cash.

(4) The deduction under section 80G can be claimed whether it has any nexus with the business of the assessee or not.

(5) As per Circular No.2/2005 dated 12.1.2005, in cases where employees make donations to the Prime Minister’s National Relief Fund, the Chief Minister’s Relief Fund or the Lieutenant Governor’s Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is
eligible to claim deduction under section 80G. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/Employer in this behalf.

**Illustration 14**

Mr. Shiva aged 61 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

(i) **Premium paid to insure the life of her major daughter (policy taken on 1.4.2014)**
   (Assured value ₹ 1,80,000) – ₹ 20,000.

(ii) **Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.**

(iii) **Donation to a public charitable institution registered under 80G ₹ 1,50,000 by way of cheque.**

(iv) **LIC Pension Fund – ₹ 60,000.**

(v) **Donation to National Children’s Fund - ₹ 25,000 by way of cheque**

(vi) **Donation to Jawahararl Nehru Memorial Fund - ₹ 25,000 by way of cheque**

(vii) **Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque**

*Compute the total income of Mr. Shiva for A.Y. 2018-19.*

**Solution**

*Computation of Total Income of Mr. Shiva for A.Y. 2018-19*

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>7,75,000</td>
</tr>
<tr>
<td><strong>Less: Deduction under section 80C</strong></td>
<td></td>
</tr>
<tr>
<td>Life insurance premium paid for insurance of major daughter</td>
<td>18,000</td>
</tr>
<tr>
<td>(Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)</td>
<td></td>
</tr>
<tr>
<td>Deduction under section 80CCC in respect of LIC pension fund</td>
<td>60,000</td>
</tr>
<tr>
<td>Deduction under section 80D</td>
<td></td>
</tr>
<tr>
<td>Medical Insurance premium in respect of self and spouse</td>
<td>26,000</td>
</tr>
</tbody>
</table>
11.44 DIRECT TAX LAWS

<table>
<thead>
<tr>
<th>Particulars of donation</th>
<th>Amount donated (₹)</th>
<th>% of deduction</th>
<th>Deduction u/s 80G (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) National Children's Fund</td>
<td>25,000</td>
<td>100%</td>
<td>25,000</td>
</tr>
<tr>
<td>(ii) Jawaharlal Nehru Memorial Fund</td>
<td>25,000</td>
<td>50%</td>
<td>12,500</td>
</tr>
<tr>
<td>(iii) Approved institution for promotion of family planning</td>
<td>40,000</td>
<td>100%, subject to qualifying limit</td>
<td>40,000</td>
</tr>
<tr>
<td>(iv) Public Charitable Trust</td>
<td>1,50,000</td>
<td>50% subject to qualifying limit (See Note below)</td>
<td>13,550</td>
</tr>
</tbody>
</table>

**Note** - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,71,000, in this case.

₹ 67,100, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount.

Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted.

Hence, the contribution of ₹ 1,50,000 to public charitable trust is restricted to ₹ 27,100 (being, ₹ 67,100 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 13,550, which is 50% of ₹ 27,100.

(12) Deduction in respect of rent paid [Section 80GG]

(i) This section provides for deduction in respect of rent paid.

(ii) **Conditions:** The following conditions have to be satisfied for claiming deduction under section 80GG -
(1) The assessee should not be receiving any house rent allowance exempt under section 10(13A).

(2) The expenditure incurred by him on rent of any furnished or unfurnished accommodation should exceed 10% of his total income arrived at after all deductions under Chapter VI A except section 80GG.

(3) The accommodation should be occupied by the assessee for the purposes of his own residence.

(4) The assessee should fulfill such other conditions or limitations as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations.

(5) The assessee or his spouse or his minor child or an HUF of which he is a member should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession; or

(6) If the assessee owns any accommodation at any place other than that referred to above, such accommodation should not be in the occupation of the assessee and its annual value is not required to be determined under section 23(2)(a) or section 23(4)(a).

(7) The assessee should file a declaration in the prescribed form, confirming the details of rent paid and fulfillment of other conditions, with the return of income.

(iii) **Quantum of deduction:** The deduction admissible will be the least of the following:

- (1) Actual rent paid minus 10% of the total income of the assessee before allowing the deduction, or
- (2) 25% of such total income (arrived at after making all deductions under Chapter VI-A but before making any deduction under this section), or
- (3) Amount calculated at ₹ 5,000 p.m.

**Illustration 15**

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2018-19 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2018-19.

**Solution**

The deduction under section 80GG will be computed as follows:

(i) Actual rent paid less 10% of total income

\[ ₹ \frac{1,44,000}{(10 \times 4,60,000)} = ₹ 98,000 \ (A) \]
(ii) 25% of total income

\[
\frac{25 \times 4,60,000}{100} = \text{₹} 1,15,000 \ (B)
\]

(iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable (least of A, B and C) = ₹ 60,000

(13) Deduction in respect of donations for scientific research and rural development

[Section 80GGA]

(i) **Eligible assessee:** Section 80GGA grants deduction in respect of the donations made by any assessee not having income chargeable under the head “Profits and gains of business or profession”.

(ii) **Donations qualifying for deduction:**

1. Any sum paid by the assessee in the previous year to a research association which has, as its object, the undertaking of scientific research or to a University, college or other institution to be used for scientific research; and

   Such research association, University, college or institution must be approved under section 35(1)(ii).

2. Any sum paid to a research Association which has as its object the undertaking of research in social science or statistical research, University, College or other institution to be used for research in social science or statistical research.

   Such Research Association, University, College or institution must be approved under section 35(1)(iii).

3. Any sum paid by the assessee in the previous year

   - to an association or institution which has as its object the undertaking of any programme of rural development to be used for carrying out any programme of rural development approved by the prescribed authority for purposes of section 35CCA or

   - to an institution or association which has as its object the training of persons for implementing programmes of rural development.

   It is, however, essential that assessee furnishes the certificate from such institution or association as referred to in section 35CCA(2) & (2A).

4. Any sum paid to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme.
Note – It has been clarified that the deduction to which an assessee is entitled in respect of any sum paid to a research association, university, college or other institution or to an association or institution for carrying out the programme of rural development, or to a public sector company, or to a local authority or to an association or institution for carrying out the eligible project or scheme, respectively, shall not be denied merely on the ground that subsequent to the payment of such sum by the assessee the approval granted or, as the case may be, the notification has been withdrawn.

(5) Any sum paid to a rural development fund set up and notified under section 35CCA.

(6) Any sum paid by the assessee in the previous year to National Urban Poverty Eradication Fund (NUPEF).

(iii) Restrictions on deduction:

(1) Where a deduction under this section is claimed and allowed for any assessment year, deduction shall not be allowed in respect of such payment under any provision of this Act for the same or any other assessment year.

(2) No deduction shall be allowed in respect of donation of any sum exceeding ₹ 10,000 unless such sum is paid by any mode other than cash.

(14) Deduction in respect of contributions given by companies to political parties [Section 80GGB]

(i) Conditions: This section provides for deduction of any sum contributed in the previous year by an Indian company to any political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.

(ii) Meaning of “contribute”: For the purposes of this section, the word “contribute” has the same meaning assigned to it under section 293A of the Companies Act, 1956, which provides that -

(a) a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;

(b) the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.

(iii) Meaning of “Political party”: It means a political party registered under section 29A of the Representation of the People Act, 1951.
Illustration 16

During the P.Y. 2017-18, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction?

Solution

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

(15) Deduction in respect of contributions given by any person to political parties [Section 80GGC]

(i) **Conditions:** This section provides for deduction of any sum contributed in the previous year by any person to a political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.

(ii) **Persons not eligible for deduction:** This deduction will, however, not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.

(iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.
11.3 DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

(1) Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development, etc. [Section 80-IA]

Applicability

Section 80-IA(1) provides a 10 year tax holiday to an assessee, whose gross total income includes any profits and gains derived by an undertaking or enterprise from an eligible business i.e., business referred to in sub-section (4), namely:

(i) Infrastructure facility - Any enterprise carrying on the business of:

(a) developing; or

(b) operating and maintaining; or

(c) developing, operating and maintaining any infrastructure facility.

Conditions: However, such enterprise must fulfill the following conditions:

(1) It must be owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act.

(2) It has entered into an agreement with the Central or a State Government or a local authority or statutory body for (i) developing or (ii) operating and maintaining, or (iii) developing, operating and maintaining a new infrastructure facility.

(3) It starts operating and maintaining such infrastructure facility on or after 1-4-1995.

(4) However, where an enterprise which developed such infrastructure facility transfers it to another enterprise on or after 1-4-1999, and such transferee enterprise operates and maintains it according to the agreement drawn up with the Government, etc., this section will apply to the transferee enterprise for the unexpired period of deduction (which was available to the first enterprise).
Meaning of “infrastructure facility”:

1. Structures at the ports for storage, loading and unloading etc. will be included in the definition of port for the purpose of section 80-IA, if the concerned port authority has issued a certificate that the said structures form part of the port.

2. Effluent treatment and conveyance system is a part of water treatment system and would accordingly, qualify as an infrastructure facility for the purpose of section 80-IA.

3. The CBDT has, vide Circular No. 4/2010 dated 18.5.2010, clarified that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of section 80-IA(4)(i). However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.

Note – Any enterprise which starts the development or operation and maintenance of the infrastructure facility on or after 1.4.2017 will not be eligible for deduction under section 80-IA. Instead they would be eligible for investment-linked tax deduction under section 35AD.
(ii) **Telecom undertakings** - Any undertaking providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service or network of trunkey (NOT), broadband network and internet services on or after 1 April, 1995 but on or before 31 March, 2005.

**Meaning of “domestic satellite”:** Domestic satellite means a satellite owned and operated by an Indian company for providing telecommunication services.

(iii) **Industrial parks / Special Economic Zones:** Any undertaking which

- develops,
- develops and operates, or
- maintains and operates

an industrial park or a special economic zone.

**Conditions:**

1. The undertaking begins to operate an industrial park or special economic zone in accordance with the scheme framed and notified by the Central Government.
2. The scheme is notified by the Government for the period beginning on 1-4-1997 and ending on (i) 31-3-2011 for industrial parks and (ii) 31.3.2006 for SEZs.
3. However, where an undertaking develops an industrial park on or after 1.4.1999 or a special economic zone on or after 1.4.2001 and transfers the operation and maintenance to another undertaking (transferee undertaking), the deduction to the transferee undertaking shall be available for the remaining period in the ten consecutive assessment years, in such a manner as would have been available to the transferor undertaking, as if the operation and maintenance were not so transferred to the transferee undertaking.

Rule 18C lays down the following eligibility criteria for Industrial Parks to claim benefit under section 80-IA (4)(iii) -

1. The undertaking should begin to develop, develop and operate or maintain and operate an industrial park any time during the period from 1.4.2006 to 31.3.2011.
2. The undertaking and the Industrial Park should be notified by the Central Government under the Industrial Park Scheme, 2008.
3. The undertaking should continue to fulfill the conditions envisaged in the Industrial Park Scheme, 2008.

The deduction under section 80-IA would not be available in respect of any SEZ notified on or after 1.4.2005 in accordance with the Industrial Park Scheme, 2002 and notified schemes for SEZs, referred to in section 80-IA(4)(c)(iii) [Sub-section (13)].
(iv) **Power undertakings:** Any undertaking which

is set up in any part of India for the generation or generation and distribution of power. However, such undertaking must begin to generate power at any time during the period between 1.4.1993 and 31.3.2017

starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period from 1.4.1999 and 31.3.2017. However, the deduction shall be allowed only in respect of profits derived from the laying of such network of new lines for transmission or distribution

undertakes substantial renovation and modernisation of the existing network of transmission or distribution lines at any time during the period beginning on 1.4.2004 and ending on 31.3.2017

---

**Meaning of “Substantial renovation and modernisation”:**

'Substantial renovation and modernisation' means an increase in the plant and machinery in the network of transmission or distribution lines by at least fifty per cent of the book value of such plant and machinery as on 1st April, 2004.

**Additional Conditions for telecom and power undertakings:**

(a) It is not formed by splitting up or reconstruction of a business already in existence.

**Exception:** However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

(i) Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
(ii) riot or civil disturbance, or
(iii) accidental fire or explosion, or
(iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.
(b) The undertaking should not be formed by the transfer of machinery or plant previously used for any purpose.

Exceptions:

(1) However, these conditions do not apply in case of transfer, either in whole or in part, of machinery or plant previously used by a State Electricity Board. This is irrespective of whether or not such transfer is in pursuance of the splitting up or reconstruction of such State Electricity Board or reorganisation of the State Electricity Board under Part XIII of the Electricity Act, 2003.

(2) Also, this condition shall not apply to second-hand machinery or plant imported by the assessee if the following conditions are fulfilled:

   (i) Such machinery or plant was not used in India prior to the date of installation by the assessee.

   (ii) No deduction on account of depreciation was allowed to any person prior to the date of installation by the assessee.

(3) Further, where the total value of any plant or machinery previously used and now transferred to the new business does not exceed 20% of the total value of the machinery or plant used in the business, such plant or machinery will be considered as new for this purpose.

(v) Undertakings owned by an Indian company and set up for reconstruction or revival of a power generating plant:

   An undertaking owned by an Indian company and set up for reconstruction or revival of a power generating plant

   Such Indian company should be formed before 30.11.2005 with majority equity participation by public sector companies for the purposes of enforcing the security interest of the lenders to the company owning the power generating plant

   Such Indian company should have been notified before 31.12.2005 by the Central Government for the purposes of this clause

   Such undertaking should begin to generate or transmit or distribute power before 31.3.2011

Rate of Deduction

(1) The amount of deduction available will be 100% of the profits and gains derived from such business for ten consecutive assessment years commencing at any time during the periods
specified in period of tax holiday/concession below.

(2) However, in case of telecom undertakings covered under (2) above, the deduction will be 100% for the first 5 assessment years and thereafter 30% for the further 5 assessment years.

**Period of tax holiday/concession**

<table>
<thead>
<tr>
<th>Eligible business</th>
<th>Period of tax holiday</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. For all eligible business except business mentioned in point 2.</td>
<td>Assessee has the option to claim deduction for 10 consecutive assessment years out of 15 years beginning from the year in which the undertaking or the enterprise develops or begins to operate the infrastructure facility or starts providing telecommunication services eligible business or develops industrial park/SEZ or generates power or commences transmission or distribution of power or undertakes substantial renovation and modernization of the existing transmission or distribution lines.</td>
</tr>
<tr>
<td>2. In case of an infrastructure facility being a public facility like – (i) a road, including a toll road, bridge or rail system; or (ii) a highway project including housing or other activities which are an integral part of the highway project; or (iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system</td>
<td>Assessee has the option to claim deduction for 10 consecutive assessment years out of 20 years beginning from the year in which the undertaking or the enterprise develops or begins to operate the eligible business</td>
</tr>
</tbody>
</table>

**Other provisions**

(1) **Eligible business to be considered as the only source of income:** For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years [Sub-section (5)].
(2) **Conditions to exempt profit from housing or other activities, being integral part of highway project:** Where housing or other activities are an integral part of a highway project and the profits and gains have been calculated in accordance with the section, the profits shall not be liable to tax if the following conditions have been fulfilled:

(a) The profit has been transferred to a special reserve account; and

(b) the same is actually utilised for the highway project excluding housing and other activities before the expiry of 3 years following the year of transfer to the reserve account;

(c) The amount remaining unutilised shall be chargeable to tax as income of the year in which the transfer to the reserve account took place [Sub-section (6)].

(3) **Audit of accounts:** The deduction shall be allowed to the undertaking only if the accounts of the undertaking for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with his return of income [Sub-section (7)].

(4) **Transfer of goods/services between eligible business and other business of the assessee:** Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit [Sub-section (8)].

For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm’s length price as defined under section 92F, where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA.

(5) **Deduction not to exceed profits of eligible business:** The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter under the heading “Deductions in respect of certain incomes”. [Sub-section (9)].

(6) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:** The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the
reasonable profit that can be derived from the transaction, in case due to close connection or for any other reason the transaction between the assessee carrying on the eligible business under section 80-IA and any other person is so arranged that the transaction produces excessive profits to the eligible business [Sub-section (10)].

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 92BA, then, the amount of profit of such transaction shall be determined having regard to arm’s length price as defined under section 92F and not as per the reasonable profit from such transaction.

(7) **Central Government empowered to deny deduction to any class of eligible undertaking or enterprise:** The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette [Sub-section (11)].

(8) **Deduction in case of amalgamation or demerger:** In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company if the amalgamation/demerger had not taken place [Sub-section (12)].

However, such transfer of benefit of deduction to the amalgamated/resulting company would not be available in respect of any enterprise or undertaking which is transferred in a scheme of amalgamation or demerger effected on or after 1.4.2007 [Sub-section (12A)].

(9) **No deduction to any business carrying on specified activities in the nature of a work contract:** The tax holiday under section 80-IA would not be available in relation to a business referred to in sub-section (4) which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise referred to in section 80-IA(1).

<table>
<thead>
<tr>
<th>Eligibility of deduction under section 80-IA for unexpired period, in case of an undertaking or enterprise developing an infrastructure facility, industrial park, SEZ and transferring the same to another enterprise or undertaking for operation and maintenance [Circular No. 10/2014 dated 06-05-2014]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under section 80-IA, deduction is available in respect of profits &amp; gains derived by an</td>
</tr>
</tbody>
</table>
undertaking or enterprise engaged in developing, operating and maintaining any infrastructure facility, industrial park etc. The undertakings or enterprises eligible for availing deduction under this section have been specified under sub-section (4) of section 80-IA and can broadly be classified as under:

(i) enterprise carrying on the business of developing or operating & maintaining or developing, operating & maintaining infrastructure facilities [80-IA(4)(i)];

(ii) undertaking providing basic or cellular telecommunication services [80-IA(4)(ii)];

(iii) undertaking which develops, develops & operates or maintains & operates an industrial park or SEZ [80-IA(4)(iii)];

(iv) undertaking set up for generation / generation & distribution of power or laying of network/renovation or modernization of network of transmission / distribution lines [80-IA(4)(iv)] or

(v) set up for reconstruction or revival of power generation plant [80-IA(4)(v)].

The provisions of section 80-IA also contain the conditions to be satisfied for being eligible for deduction. As per section 80-IA(3), undertakings mentioned in (ii) and (iv) above should not be formed by splitting up or reconstruction of an existing business.

The proviso to clause (i) and clause (iii) of sub-section (4) of section 80-IA deal with the situation where operation and maintenance of infrastructure facility or operation and maintenance of industrial park / SEZ, respectively, is transferred to another enterprise in the manner provided therein and the transferee undertaking can avail deduction for the unexpired period.

Section 80-IA(12A) provides that where the enterprise or undertaking of an Indian Company entitled to the deduction under the said section is transferred on or after 01.04.2007 in a scheme of amalgamation or demerger, no deduction shall be available to the amalgamated or the resulting company.

The vital factor in determining the eligibility criteria for availing deduction u/s 80-IA would be verification of factual issues so as to ascertain whether

(a) there has been splitting up or reconstruction of a business already in existence,

(b) transfer is in accordance with the proviso to clause (i) or clause (iii) of sub-section (4) of section 80-IA, or

(c) transfer of an enterprise or undertaking is in a scheme of amalgamation or demerger.

The CBDT has, through this circular, clarified that if –

(i) an enterprise or undertaking develops an infrastructure facility, industrial park or special economic zone, as the case may be; and

(ii) transfers it to another enterprise or undertaking for operation and maintenance in accordance with the proviso to clause (i) or clause (iii) of sub-section (4) of section 80-
(2) Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of SEZ [Section 80-IAB]

(i) **Quantum of deduction:**

Sub-section (1) provides for a deduction of 100% of profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ for 10 consecutive assessment years.

(ii) **Eligible assessee:**

The deduction is available to an assessee, being a Developer, whose gross total income includes any profits and gains derived by an undertaking or an enterprise from any business of developing a SEZ, notified on or after 1st April, 2005 under the SEZ Act, 2005.

**Note -** No deduction would be available to an assessee, being a developer, where the development of SEZ begins on or after 1st April, 2017.

(iii) **Meaning of Developer:**

(a) a person who, or

(b) a State Government which

has been granted a letter of approval by the Central Government under section 3(10) of the SEZ Act, 2005.

A developer includes –

(a) an authority and

(b) a Co-developer.

(iv) **co-developer means** -

(a) a person who, or

(b) a State Government which

has been granted a letter of approval by the Central Government under section 3(12) of the SEZ Act, 2005.
(iv) **Option to choose 10 consecutive A.Y.s out of 15 years to claim deduction:**

The assessee has the option of claiming the said deduction for any ten consecutive assessment years out of fifteen years beginning from the year in which a SEZ has been notified by the Central Government.

(v) **Deduction to transferee in case of transfer of operation and maintenance of such SEZ:**

In a case where an undertaking, being a Developer, who develops a SEZ on or after 1.4.2005 and transfers the operation and maintenance of such SEZ to another Developer, the deduction under sub-section (1) shall be allowed to such transferee Developer for the remaining period in the ten consecutive assessment years as if the operation and maintenance were not so transferred to the transferee Developer.

(vi) **Eligible business to be considered as the only source of income:**

For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

(vii) **Audit of accounts:**

The deduction shall be allowed to the undertaking only if the accounts of the undertaking for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with his return of income.

(viii) **Transfer of goods/services between eligible business and other business of the assessee:**

Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm’s length price as defined under section 92F, where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA.
(ix) **Deduction not to exceed profits of eligible business:**

The deductions claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter under the heading “Deductions in respect of certain incomes”.

(x) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:**

The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case due to close connection or for any other reason the transaction between the assessee carrying on the eligible business under section 80-IAB and any other person is so arranged that the transaction produces excessive profits to the eligible business.

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 92BA, then, the amount of profit of such transaction shall be determined having regard to arm’s length price as defined under section 92F and not as per the reasonable profit from such transaction.

(xi) **Central Government empowered to deny deduction to any class of eligible undertaking:**

The section empowers the Central Government to declare any class of industrial undertaking or enterprise as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette.

(xiii) **Deduction in case of amalgamation or demerger:**

In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company if the amalgamation/demerger had not taken place.

### (3) Tax incentives for new start-ups [Section 80-IAC]

(i) **Objective:**

In order to provide an incentive to start-ups and aid their growth in the early phase of their business, new section 80-IAC has been inserted.
(ii) **Quantum of deduction:**

Accordingly, a deduction of 100% of the profits and gains derived by an eligible start-up from an eligible business is allowed for any three consecutive assessment years out of seven years beginning from the year in which the eligible start up is incorporated.

(iii) **Meaning of eligible start-up:**

- Company or LLP engaged in eligible business
  - Incorporated during the period 1.4.2016-31.3.2019
  - Total turnover ≤ ₹ 25 crores in any P.Y. from P.Y.2016-17 to P.Y.2020-21
  - Holds a certificate of eligible business from the notified IMBC

(iv) **Meaning of eligible business:**

A business which involves -

- Innovation
- Development
- Deployment
- Commercialization
  - of new products, processes or services
  - driven by technology or intellectual property

(v) **Conditions to be fulfilled:**

This incentive is available to an eligible start-up which fulfils the following conditions:

1. It is not formed by splitting up, or the reconstruction, of a business already in existence.

   **Exception:** However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

   i. Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
   ii. riot or civil disturbance, or
(iii) accidental fire or explosion, or
(iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.

(2) It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.

Exceptions: However, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:—

(a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;
(b) such machinery or plant is imported into India;
(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 Income-tax Act, 1961 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.

Further, where in the case of a start-up, any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, the condition specified that it should not be formed by transfer to a new business of plant and machinery used for any purpose shall be deemed to have been complied with.

(vi) Eligible business to be considered as the only source of income:

For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

(vii) Audit of Accounts:

The deduction shall be allowed only if the accounts of the start-up for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with his return of income.

(viii) Transfer of goods/services between eligible business and other business of the assessee:

Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for
such transfer does not correspond with the market value of the goods or services, then, the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

(ix) **Deduction not to exceed profits of eligible business:**

The deduction claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year no deduction in respect of such profits will be allowed under any other section under this chapter under the heading “Deductions in respect of certain incomes”.

(x) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:**

The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IAC and any other person is so arranged that the transaction produces excessive profits to the eligible business.

However, if the arrangement involves a specified domestic transaction referred to in section 92BA, the amount of profits from such transaction shall be determined having regard to the arm’s length price.

(xi) **Central Government empowered to deny deduction to any class of start-up:**

The section empowers the Central Government to declare any class of start-up as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in Official Gazette.

**Illustration 17**

_A Ltd. was incorporated on 1.4.2017 to carry on the business of innovation, development, deployment and commercialization of new processes driven by technology. It holds a certificate of eligible business from the notified IMBC^2_.

_Its total turnover and profits and gains from such business for the P.Y.2017-18 to P.Y.2023-24 are as follows:_

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^2 Inter-Ministerial Board of Certification
Is A Ltd. eligible for any tax benefit under the provisions of the Income-tax Act, 1961? If yes, what is the benefit available?

Solution

A Ltd. is an eligible start-up, since –

1. it is a company engaged in eligible business of innovation, development, deployment and commercialization of new processes driven by technology. It holds a certificate of eligible business from the notified IMBC.

2. it is incorporated during the period 1.4.2016 to 31.3.2019.

3. its total turnover does not exceed ₹ 25 crores in any previous year from P.Y.2016-17 to P.Y.2020-21.

4. it holds a certificate of eligible business from the notified IMBC

Therefore, A Ltd., being an eligible start-up, is eligible for deduction under section 80-IAC of 100% of the profits and gains derived by it from an eligible business for any three consecutive assessment years out of seven years beginning from the year in which the eligible start up is incorporated i.e. P.Y.2017-18.

In the first and second year i.e., P.Y.2017-18 and P.Y. 2018-19, A Ltd. has incurred a loss. In the subsequent five years i.e., P.Y. 2019-20, P.Y. 2020-21, P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24, A Ltd. has earned profits from eligible business and can hence, claim 100% of its profits as deduction for any three consecutive assessment years under section 80-IAC from the P.Y.2019-20 to P.Y.2023-24. However, for P.Y.2019-20, the profits eligible for deduction would be the profits after set-off of brought forward losses of P.Y.2017-18 and P.Y. 2018-19.

(4) Deductions in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings, etc. [Section 80-IB]

Applicability

This section will be applicable to assesses, whose gross total income includes any profits and gains derived from any of the following business activities -
(1) An industrial undertaking including a small scale industrial undertaking (SSI) in Jammu and Kashmir

(2) An undertaking which begins commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks.

(3) An undertaking deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains.

(4) An undertaking operating and maintaining a hospital anywhere in India, other than the excluded area.

**Conditions to be fulfilled, amount of deduction and period of deduction**

The rate and period of deduction and the conditions required to be satisfied by the different categories of businesses are given below:

(1) **An industrial undertaking including a small scale industrial undertaking (SSI) in Jammu and Kashmir [Sub-sections (2) and (4)]**

**Conditions:** In order to be eligible to claim deduction under section 80-IB, an industrial undertaking must fulfill the following conditions:

(i) It is not formed by splitting up, or the reconstruction of, an existing business.

**Exception:** However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

   (i) Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
   (ii) riot or civil disturbance, or
   (iii) accidental fire or explosion, or
   (iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.

(ii) It is not formed by the transfer to a new business of any plant or machinery previously used for any other purpose.

**Exceptions:** However, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously
used for any purpose, if all the following conditions are fulfilled, namely:—

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

(b) such machinery or plant is imported into India;

(c) no deduction in respect of depreciation of such plant or machinery has been allowed or is allowable under the provisions of the Income-tax Act, 1961 to any person at any time prior to the date of installation by the assessee.

Further, where any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, the condition specified that it should not be formed by transfer to a new business of plant and machinery used for any purpose shall be deemed to have been complied with.

(iii) It manufactures or produces any article or thing (except those specified in the Eleventh Schedule) or operates a cold storage plant, in any part of India.

However, in the case of an SSI, restriction regarding goods specified in the Eleventh Schedule shall not apply.

(iv) In case of a manufacturing industrial unit, it should employ 10 or more workers (if manufacture is carried on with the aid of power), or 20 or more workers (if manufacture is carried on without the use of power).

**Quantum and period of deduction:** The amount of deduction for an industrial undertaking in Jammu and Kashmir will be 100% of the profits and gains derived from such industrial undertaking for the initial 5 years and thereafter 25% of such profits and gains (in case of a company, the rate is 30%)

The total period of deduction should not exceed 10 consecutive assessment years provided the industrial undertaking begins manufacture or production of articles or things or operation of cold storage plant between 1-4-1993 and 31-3-2012. Where the industrial undertaking is a co-operative society, the deduction will be available for 12 assessment years (instead of 10), including the initial assessment year.

A negative list has also been provided in Part C of the Thirteenth Schedule to specify the commodities which should not be manufactured or produced by such undertakings. The list includes Cigarettes/cigars of tobacco, manufactured tobacco and substitutes, distilled/brewed alcoholic drinks and aerated branded beverages and their concentrates.

**2) An undertaking which begins commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks [Sub-section (9)]**

**Conditions:** In order to claim deduction under the section, the undertaking should be
engaged in commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks.

The following further conditions should be fulfilled –

(i) In case of an undertaking engaged in commercial production of mineral oil where such operations are carried out in any part of India, it begins commercial production on or after 1.4.1997.

**Note** - Commercial production of mineral oil should have commenced on or before 31.3.2017. No deduction would be available under section 80-IB where the commercial production of mineral oil commences on or after 1.4.2017.

The above deduction for commercial production of mineral oil will not be available for blocks licensed under a contract awarded after 31.3.2011 under the New Exploration Licensing Policy announced by the Government of India vide Resolution No. O-19018/22/95-ONG.DO.VL, dated 10th February, 1999 or in pursuance of any law for the time being in force or by the Central or a State Government in any other manner.

(ii) In case of an undertaking engaged in refining of mineral oil, it begins refining of mineral oil on or after 1-10-1998 but not later than 31.3.2012.

(iii) In case of an undertaking engaged in commercial production of natural gas in licensed blocks –

(a) the blocks are licensed under the VIII Round of bidding for award of exploration contracts ("NELP-VIII") under the New Exploration Licensing Policy announced by the Government of India vide Resolution No.O-19018/22/95-ONG.DO.VL, dated 10th February, 1999; or

(b) the blocks are licensed under the IV Round of bidding for award of exploration contracts for Coal Bed Methane blocks

and begins commercial production of natural gas on or after 1st April, 2009.

**Note** - Commercial production of natural gas in licensed blocks should have commenced on or before 31.3.2017. No deduction would be available under section 80-IB where the commercial production of natural gas commences on or after 1.4.2017.

**Note** – All blocks licensed under a single contract, which has been awarded –

(1) under the New Exploration Licencing Policy announced by the Government of India vide Resolution No.O-19018/22/95-ONG.DO.VL, dated 10.2.1999 or

(2) in pursuance of any law for the time being in force or

(3) by Central or a State Government in any other manner

to be treated as a single “undertaking”
Quantum and period of deduction: The deduction will be allowed at 100% of the profits and gains from such business for 7 consecutive assessment years including the initial assessment year i.e. the assessment year relevant to the previous year in which the undertaking commences the commercial production or refining of mineral oil.

(3) An undertaking deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains [Sub-section (11A)]

Conditions: In order to claim deduction, the undertaking should fulfill the following conditions:

(i) It should be deriving profits from the business of processing, preservation and packaging of fruits or vegetables or meat or meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains.

(ii) It should begin to operate such business on or after 1.4.2001.

(iii) It should begin operates such business on or after 1.4.2009 in case of an undertaking deriving profit from the business of processing, preservation and packaging of meat or meat products or poultry or marine or dairy products.

Quantum and period of deduction: The amount of deduction shall be 100% of the profits and gains derived from such business for 5 assessment years beginning with the initial assessment year i.e. the assessment year relevant to the previous year in which the undertaking begins such business. Thereafter, the deduction allowable is 25%. In the case of a company, the rate of 25% shall be substituted by 30%. The total period of deduction should not exceed 10 consecutive assessment years.

(4) An undertaking operating and maintaining a hospital anywhere in India, other than the excluded area [Sub-section (11C)]

Conditions: In order to claim deduction,

(i) Hospital is to be set up in other than the excluded areas. Excluded area means the area comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhi Nagar and the city of Secunderabad.

(ii) The hospital should be constructed and should start functioning between 1.4.08 to 31.3.2013.
The construction of the hospital should be in accordance with the regulations or bye-laws of the local authority. The hospital shall be deemed to have been constructed on the date on which a completion certificate in respect of such construction is issued by the local authority concerned.

(iii) It should have at least 100 beds for patients.

(iv) For claiming this benefit, it is necessary that the audit report signed and verified by a Chartered Accountant certifying that deduction has been correctly claimed should be filed along with the company’s return of income.

**Quantum and period of deduction:** The amount of deduction shall be 100% of the profits and gains derived from business of operating and maintaining a hospital for a period of 5 consecutive assessment years beginning with the initial assessment year i.e., the assessment year relevant to the previous year in which the business of the hospital starts functioning.

**Other Provisions**

1. **Eligible business to be considered as the only source of income:** For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

2. **Audit of accounts:** The accounts of the eligible business for the relevant previous year should be audited by a chartered accountant and the assessee should furnish the audit report in the prescribed form, duly signed and verified by such accountant along with the return of income.

3. **Transfer of goods/services between eligible business and other business of the assessee:** Where any goods held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods, then, the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

   For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

   (i) the price that such goods or services would ordinarily fetch in the open market; or

   (ii) the arm’s length price as defined under section 92F, where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA.
(4) **Deduction not to exceed profits of eligible business:** The deduction claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year, no deduction in respect of such profits will be allowed under any other section under this Chapter under the heading "Deductions in respect of certain incomes".

(5) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:** Where it appears to the Assessing Officer that the assessee derives more than ordinary profits from the eligible business due to close connection between him and any other person, or due to any other reason, the Assessing Officer may consider such profits as may be reasonable for the purpose of computing deduction under this section. The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IB and any other person is so arranged that the transaction produces excessive profits to the eligible business.

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 92BA, then, the amount of profit of such transaction shall be determined having regard to arm's length price as defined under section 92F and not as per the reasonable profit from such transaction.

(6) **Central Government empowered to deny deduction to any class of eligible undertaking or business:** The section empowers the Central Government to declare any class of industrial undertaking or business as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette.

(7) **Deduction in case of amalgamation or demerger:** In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company, if the amalgamation/demerger had not taken place.
(5) Deductions in respect of profits and gains from housing projects [Section 80-IBA]

(i) **Objective:**
In order to provide impetus to affordable housing sector to achieve the larger objective of 'Housing for All', new section 80-IBA has been inserted.

(ii) **Quantum of deduction:**
Where the gross total income of an assessee includes any profits and gains derived from the business of developing and building housing projects, an amount equal to 100% of the profits and gains derived from such business is allowable as deduction under section 80-IBA, subject to fulfilment of certain conditions.

(iii) **Conditions to be fulfilled for claim of deduction:**
(a) the project is approved by the competent authority after 1st June, 2016 but on or before 31st March, 2019;

(b) the project is completed within a period of **five** years from the date of approval by the competent authority:

However, in a case where the approval in respect of a housing project is obtained more than once, the project shall be deemed to have been approved on the date on which the building plant of such housing project was first approved by the competent authority and the project shall be deemed to have been completed when a certificate of completion of project as a whole is obtained in writing from the competent authority.

(c) the **carpet** area of the shops and other commercial establishments included in the housing project does not exceed 3% of the aggregate **carpet** area;

(d) where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual;

(e) **Conditions relating to size of plot of land, residential units etc.**

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<th>(4)</th>
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<td>(i)</td>
<td>Within the cities of</td>
<td>Not less than</td>
<td>Not more than 30</td>
<td>Not less than 90% of the floor area ratio</td>
</tr>
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</table>

[Table showing conditions relating to location, size of plot, carpet area, and floor area ratio]

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(f) The project is the only housing project on the plot of land [referred to in column (3)].

(g) the assessee maintains separate books of account in respect of the housing project.

(iv) **No deduction for person executing the housing project as a works contract:**

An assessee who merely executes the housing project as a works-contract awarded by any person (including the Central Government or the State Government) would not be eligible for deduction under this section.

(v) **Consequence of non-completion of housing project within 5 years:**

In a case where the housing project is not completed within the period of five years from the date of approval by the competent authority and in respect of which a deduction has been claimed and allowed under this section, the total amount of deduction so claimed and allowed in one or more previous years, shall be deemed to be the income of the assessee chargeable under the head “Profits and gains of business or profession” of the previous year in which the period for completion so expires.

(vi) **No deduction under any other provision of the Act in respect of such profits:**

Where any amount of profits and gains derived from the business of developing and building housing projects is claimed and allowed under this section for any assessment year, deduction to the extent of such profit and gains shall not be allowed under any other provision of this Act.

(vii) **Meaning of certain terms:**

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<th>Term</th>
<th>Meaning</th>
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<tr>
<td>Carpet area</td>
<td>Net usable floor area of an apartment</td>
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<td></td>
<td>Excluding –</td>
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<tr>
<td></td>
<td>• The area covered by the external walls,</td>
</tr>
</tbody>
</table>
### DEDUCTIONS FROM GROSS TOTAL INCOME

#### (b) Competent authority
The authority empowered by the Central Government to approve the building plan by or under any law for the time being in force.

#### (c) Floor area ratio
The quotient obtained by dividing the total covered area of plinth area on all the floors by the area of the plot of land.

#### (d) Housing project
A project consisting predominantly of residential units with such other facilities and amenities as the competent authority may approve subject to the provisions of this section.

#### (e) Residential unit
An independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.

### (6) Special provisions in respect of certain undertakings or enterprises in certain special category States [Section 80-IC]

#### (i) Applicability:
This section allows tax holiday to the new undertakings or existing undertakings on their substantial expansion in the states of Himachal Pradesh and Uttaranchal.

#### (ii) Meaning of “substantial expansion”:
It means increase in the investment in plant and machinery by at least 50% of the book value of the plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken.

#### (iii) Rate of deduction:
The tax holiday in the states of Himachal Pradesh and Uttaranchal will be 100% for the first five assessment years and 25% (30% in the case of a company) for the next five assessment years.
(iv) **Eligible business:**

Undertakings or enterprises which manufacture or produce from 7.1.03 and ending before 1.4.2012 in the state of Himachal Pradesh or Uttaranchal –

- any article or thing, not being any article or thing specified in the 13th Schedule (namely, tobacco, aerated beverages, pollution causing paper and paper products etc.) in
  - any export processing zone or
  - integrated infrastructure development centre or
  - industrial growth centre or
  - industrial estate or
  - industrial park or
  - software technology park or
  - industrial areas or
  - theme park

as notified by the Board or,

- any article or thing specified in the 14th Schedule

(v) **No deduction under any other section of Chapter VIA of the Act in respect of such profits:**

No benefit to these undertakings will be available under any of the sections in Chapter VIA in relation to the profits and gains of such undertakings.

(vi) **Maximum permissible deduction:**

While computing the total period of 10 years the period for which the benefit under section 80IB has already been availed, if any, shall also be included.

(vii) **Other Conditions:**

(a) It is not formed by splitting up, or the reconstruction of, an existing business.

**Exception:** However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as
the following:

(i) Flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
(ii) riot or civil disturbance, or
(iii) accidental fire or explosion, or
(iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.

(b) It is not formed by the transfer to a new business of any plant or machinery previously used for any other purpose.

Exceptions: However, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:

(1) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;
(2) such machinery or plant is imported into India;
(3) no deduction in respect of depreciation of such plant or machinery has been allowed or is allowable under the provisions of the Income-tax Act, 1961 to any person at any time prior to the date of installation by the assessee.

Further, where any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, the condition specified that it should not be formed by transfer to a new business of plant and machinery used for any purpose shall be deemed to have been complied with.

(viii) Eligible business to be considered as the only source of income: For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

(ix) Audit of accounts: The accounts of the eligible business for the relevant previous year should be audited by a chartered accountant and the assessee should furnish the audit report in the prescribed form, duly signed and verified by such accountant along with the return of income.

(x) Transfer of goods/services between eligible business and other business of the assessee: Where any goods held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for
such transfer does not correspond with the market value of the goods, then, the profits and
gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional
difficulties, the Assessing Officer may compute the profits on such reasonable basis as he
may deem fit.

For this purpose, the market value, in relation to any goods or services transferred between
the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm’s length price as defined under section 92F, where the transfer of such goods
or services is a specified domestic transaction referred to in section 92BA.

(xii) **Assessing Officer empowered to make adjustment in case any transaction produces
excessive profits to eligible business:** Where it appears to the Assessing Officer that the
assessee derives more than ordinary profits from the eligible business due to close
connection between him and any other person, or due to any other reason, the Assessing
Officer may consider such profits as may be reasonable for the purpose of computing
deduction under this section. The Assessing Officer is empowered to make an adjustment
while computing the profit and gains of the eligible business on the basis of the reasonable
profit that can be derived from the transaction, in case the transaction between the assessee
carrying on the eligible business under section 80-IC and any other person is so arranged
that the transaction produces excessive profits to the eligible business.

If the aforesaid arrangement between the assessee carrying on the eligible business and any
other person is a specified domestic transaction referred to in section 92BA, then, the amount
of profit of such transaction shall be determined having regard to arm’s length price as
defined under section 92F and not as per the reasonable profit from such transaction.

(xiii) **Central Government empowered to deny deduction to any class of eligible undertaking
or business:** The section empowers the Central Government to declare any class of
industrial undertaking or business as not being entitled to deduction under this section. The
denial of exemption shall be with effect from such date as may be specified in the notification
issued in the Official Gazette.
(xiv) Deduction in case of amalgamation or demerger: In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company, if the amalgamation/demerger had not taken place.

(7) Tax holiday in respect of profits and gains from eligible business of certain undertakings in North-Eastern States [Section 80-IE]

(i) Applicability:

This section provides for an incentive to an undertaking which has during the period between 1st April, 2007 and 1st April, 2017, begun or begins, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) -

(1) to manufacture or produce any eligible article or thing;

(2) to undertake substantial expansion to manufacture or produce any eligible article or thing;

(3) to carry on any eligible business.

(ii) Meaning of certain terms:

<table>
<thead>
<tr>
<th>Terms</th>
<th>Meaning</th>
</tr>
</thead>
</table>
| (a) Eligible article or thing | the article or thing other than  
- goods falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 which pertains to tobacco and manufactured tobacco substitutes;  
- pan masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985;  
- plastic carry bags of less than 20 microns; and  
- goods falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 produced by petroleum oil or gas refineries |
| (b) Substantial expansion | Increase in the investment in the plant and machinery by at least 25% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken |
### Eligible Business

<table>
<thead>
<tr>
<th>(c)</th>
<th>Business of -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- hotel (not below two star category);</td>
</tr>
<tr>
<td></td>
<td>- adventure and leisure sports including ropeways;</td>
</tr>
<tr>
<td></td>
<td>- providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds;</td>
</tr>
<tr>
<td></td>
<td>- running an old-age home;</td>
</tr>
<tr>
<td></td>
<td>- operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training;</td>
</tr>
<tr>
<td></td>
<td>- running information technology related training centre;</td>
</tr>
<tr>
<td></td>
<td>- manufacturing of information technology hardware; and</td>
</tr>
<tr>
<td></td>
<td>- Bio-technology.</td>
</tr>
</tbody>
</table>

#### (iii) Quantum of deduction and period:

Where the gross total income of an assessee includes any profits and gains derived by such an undertaking, a deduction of 100% of the profits and gains derived from such business for 10 consecutive assessment years commencing with the initial assessment year shall be allowed in computing the total income of the assessee. Initial assessment year means the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles or things, or completes substantial expansion.

#### (iv) No deduction under any other section of Chapter VIA of section 10AA of the Act in respect of such profits:

No benefit to these undertakings will be available under any of the sections in Chapter VIA or in section 10AA in relation to the profits and gains of such undertakings.

#### (v) Maximum permissible deduction:

While computing the total period of 10 years the period for which the benefit under section 80IB(4) or section 80-IC has already been availed, if any, shall also be included.

#### (vi) Other Conditions:

(a) It is not formed by splitting up, or the reconstruction of, an existing business.

**Exception:** However, this condition shall not apply in the case of an undertaking which is formed as a result of reconstruction, re-establishment or revival of the business of any undertaking which has been discontinued in any previous year due to extensive damage or destruction of any building, machinery, plant or furniture owned by the...
assessee and used for the purposes of such business. Further, the reason for damage or destruction is due to any natural calamity or other unforeseen circumstances such as the following:

(i) flood, typhoon, hurricane, cyclone, earthquake or other natural calamity, or
(ii) riot or civil disturbance, or
(iii) accidental fire or explosion, or
(iv) enemy action or action taken in combat,

and such business is re-established or revived within 3 years from the end of such previous year.

(b) It is not formed by the transfer to a new business of any plant or machinery previously used for any other purpose.

Exceptions: However, any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:—

(1) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;
(2) such machinery or plant is imported into India;
(3) no deduction in respect of depreciation of such plant or machinery has been allowed or is allowable under the provisions of the Income-tax Act, 1961 to any person at any time prior to the date of installation by the assessee.

Further, where any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, the condition specified that it should not be formed by transfer to a new business of plant and machinery used for any purpose shall be deemed to have been complied with.

(vii) Eligible business to be considered as the only source of income: For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

(viii) Audit of accounts: The accounts of the eligible business for the relevant previous year should be audited by a chartered accountant and the assessee should furnish the audit report in the prescribed form, duly signed and verified by such accountant along with the return of income.
(ix) **Transfer of goods/services between eligible business and other business of the assessee:** Where any goods held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods, then, the profits and gains of the eligible business shall be computed as if the transfer was made at market value.

However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

For this purpose, the market value, in relation to any goods or services transferred between the eligible business and any other business carried on by the assessee, shall mean –

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm’s length price as defined under section 92F, where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA.

(x) **Deduction not to exceed profits of eligible business:** The deduction claimed and allowed under this section shall not exceed the profits and gains of the eligible business. Further, where deduction is claimed and allowed under this section for any assessment year, no deduction in respect of such profits will be allowed under any other section under this Chapter under the heading “Deductions in respect of certain incomes”.

(xi) **Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:** Where it appears to the Assessing Officer that the assessee derives more than ordinary profits from the eligible business due to close connection between him and any other person, or due to any other reason, the Assessing Officer may consider such profits as may be reasonable for the purpose of computing deduction under this section. The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IE and any other person is so arranged that the transaction produces excessive profits to the eligible business.

If the aforesaid arrangement between the assessee carrying on the eligible business and any other person is a specified domestic transaction referred to in section 92BA, then, the amount of profit of such transaction shall be determined having regard to arm’s length price as defined under section 92F and not as per the reasonable profit from such transaction.

(xii) **Central Government empowered to deny deduction to any class of eligible undertaking or business:** The section empowers the Central Government to declare any class of industrial undertaking or business as not being entitled to deduction under this section. The denial of exemption shall be with effect from such date as may be specified in the notification issued in the Official Gazette.
(xiii) **Deduction in case of amalgamation or demerger:** In the case of any amalgamation or demerger, by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company, deduction under this section will be available as follows:

(a) No deduction will be available to the amalgamating company or the demerged company, as the case may be, in the year of amalgamation/demerger.

(b) The provisions of this section will apply to the amalgamated/resulting company as they would have applied to the amalgamating/demerged company, if the amalgamation/demerger had not taken place.

### SUMMARY OF DEDUCTIONS IN RESPECT OF CERTAIN INCOMES: SECTIONS 80-IA to 80-IE

<table>
<thead>
<tr>
<th>Section</th>
<th>Eligible Business</th>
<th>Year of Commencement of eligible business</th>
<th>Period of Deduction</th>
<th>Quantum of Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-IA</td>
<td>(1) (i) Developing or (ii) Operating and maintaining or (iii) Developing, operating and maintaining any Infrastructure facility</td>
<td>On or after 1(^{st}) April 1995 but not later than 1(^{st}) April 2017</td>
<td>Infrastructure Facility of road, or a bridge or a rail system or a highway project or a water supply project: 10 consecutive assessment years out of 20 years beginning from the year in which the enterprise develops or begins to operate the eligible business.</td>
<td>Telecommunication services: 100% for first 5 assessment years and 30% for further five assessment years. Other eligible businesses: 100% of the profits and gains derived from such business.</td>
</tr>
<tr>
<td></td>
<td>(2) Telecom undertakings</td>
<td>On or after 1(^{st}) April 1995 but on or before 31(^{st}) March 2005</td>
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</tr>
<tr>
<td></td>
<td>(3) Industrial parks / Special Economic Zones (SEZs)</td>
<td></td>
<td>Industrial parks: Notified by the Central Government for the period on or after 1(^{st}) April 1997 and ending on 31(^{st}) March 2011.</td>
<td></td>
</tr>
<tr>
<td>SEZs: Notified by the Central Government for the period from 1st April 1997 to 31st March 2006 and ending on 31st March 2017.</td>
<td>Businesses: 10</td>
<td></td>
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<tr>
<td>Direct Tax Laws:</td>
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<tr>
<td>SEZs: Notified</td>
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<td>by the Central Government for the period on or after 1st April 1997 and ending on 31st March 2006.</td>
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<tr>
<td>Business:</td>
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<tr>
<td>10 consecutive assessment years out of 15 years beginning from the year in which the enterprise develops or begins to operate the eligible business.</td>
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<tr>
<td>Power undertakings: Generation or distribution:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Set up between 1st April 1993 and 31st March 2017.</td>
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<tr>
<td>Transmission or distribution:</td>
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<tr>
<td>Start transmission during the period from 1st April 1999 and ending on 31st March 2017.</td>
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<tr>
<td>Renovation and modernisation of existing network:</td>
<td></td>
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<tr>
<td>Undertakes substantial renovation and modernisation during the period on or after 1st April 2004 and ending on 31st March 2017.</td>
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</tr>
<tr>
<td>(5)</td>
<td>Undertaking owned by an Indian Company set up for Reconstruction or revival of a power generating plant</td>
<td>Company formed on or before 30th November, 2005 and begins to generate or transmit or distribute power before 31st March 2011.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80-IAB</td>
<td>Development of Special Economic Zones(SEZs)</td>
<td>Develops SEZ, notified on or after 1st April 2005 but before 1st April 2017.</td>
<td>10 consecutive assessment years out of 15 years beginning from the year in SEZ has been notified.</td>
<td></td>
</tr>
<tr>
<td>80-IAC</td>
<td>A business which involves innovation, development, deployment and commercialization of new products, processes or services driven by technology or intellectual property</td>
<td>The company or LLP is incorporated during the period 1.4.2016 - 31.3.2019</td>
<td>3 consecutive assessment years out of 7 years beginning from the year in which company or LLP, incorporated.</td>
<td></td>
</tr>
<tr>
<td>80-IB</td>
<td>An industrial undertaking including a small scale industrial undertaking (SSI) in Jammu and Kashmir</td>
<td>Begins to manufacture or production of any article or thing or operate cold storage plant during the period 1-4-1993 and 31-3-2012.</td>
<td>Not exceeding 10 consecutive assessment years (12 assessment years in case of co-operative society).</td>
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<td></td>
<td></td>
<td></td>
<td>100% of the profits and gains derived from such business.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>100% of the profits and gains derived from such business.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100% of the profits and gains derived from such industrial undertaking for the initial 5 years and thereafter 25% (30% in case of company) of such profits and gains.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Activities</td>
<td>Start Date</td>
<td>Period Allowance</td>
<td>Rate (%)</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
<td>-----------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>2</td>
<td>Commercial production or refining of mineral oil or commercial production of natural gas in licensed blocks</td>
<td>On or after 1st April, 1997 but not later than 31.3.2017</td>
<td>7 consecutive assessment years including the initial assessment year</td>
<td>100% of the profits and gains from such business</td>
</tr>
<tr>
<td>3</td>
<td>Processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of foodgrains</td>
<td>On or after 1st April, 2009 but not later than 31.3.2017</td>
<td>10 consecutive assessment years beginning with the initial assessment year</td>
<td>100% of the profits and gains derived from such business for 5 assessment years beginning with the initial assessment year. 25% (30% in case of company) for remaining 5 years</td>
</tr>
<tr>
<td>4</td>
<td>Operating and maintaining a hospital</td>
<td>On or after 1.4.2001</td>
<td>5 consecutive assessment years beginning</td>
<td>100% of the profits and gains derived</td>
</tr>
</tbody>
</table>
### Deductions from Gross Total Income

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Period</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-IBA</td>
<td>Developing and building housing projects</td>
<td>period 1.4.08 to 31.3.2013</td>
<td>with the initial assessment year</td>
<td>from business of operating and maintaining a hospital</td>
</tr>
<tr>
<td>80-IC</td>
<td>New undertakings or existing undertakings on their substantial expansion in the states of Himachal Pradesh and Uttaranchal</td>
<td>Project is approved after 1st July 2016 but on or before 31st March 2019</td>
<td>10 assessment years commencing with the initial assessment years</td>
<td>100% for the first five assessment years and 25% (30% in the case of a company) for the next five assessment years.</td>
</tr>
<tr>
<td>80-IE</td>
<td>Undertaking begun or begins, in any of the North-Eastern States (i.e., the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) - (1) to manufacture or produce any eligible article or thing; (2) to undertake substantial expansion to manufacture or produce any eligible article or thing; (3) to carry on any eligible business.</td>
<td>between 1st April, 2007 and ending before 1st April, 2017</td>
<td>10 consecutive assessment years commencing with the initial assessment year</td>
<td>100% of the profits and gains derived from such business</td>
</tr>
</tbody>
</table>
(8) Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste [Section 80JJA]

(i) **Eligible business:** The deduction is allowable where the gross total income of an assessee includes any profits and gains derived from the business of collecting and processing or treating of bio-degradable waste -

(1) for generating power, or
(2) producing bio-fertilizers, bio-pesticides or other biological agents, or
(3) for producing bio-gas, or
(4) making pellets or briquettes for fuel or organic manure.

(ii) **Quantum of deduction and period:** The deduction allowable under this section is an amount equal to the whole of such profits and gains for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the business commences.

(9) Deduction in respect of employment of new employees [Section 80JJAA]

(i) **Quantum of deduction:**
Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

(ii) **Conditions to be fulfilled:**
The deduction would be allowed only subject to fulfilment of the following conditions:

- The business should not be formed by splitting up, or the reconstruction, of an existing business.
- The business is not acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation.
- The report of the accountant, giving the prescribed particulars, has to be furnished along with ROI.
(iii) **Meaning of certain terms:**

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning bullying</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a)</strong> Additional employee cost</td>
<td>Total emoluments paid or payable to additional employees employed during the previous year.</td>
</tr>
<tr>
<td>In the case of an existing business</td>
<td>The additional employee cost shall be Nil, if—</td>
</tr>
<tr>
<td></td>
<td>(a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year;</td>
</tr>
<tr>
<td></td>
<td>(b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account.</td>
</tr>
<tr>
<td>In the first year of a new business</td>
<td>The emoluments paid or payable to employees employed during that previous year shall be deemed to be the additional employee cost.</td>
</tr>
<tr>
<td><strong>(b)</strong> Additional employee</td>
<td>An employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year.</td>
</tr>
<tr>
<td>Exclusions from the definition:</td>
<td></td>
</tr>
<tr>
<td>(a) an employee whose total emoluments are more than ₹25,000 per month; or</td>
<td></td>
</tr>
<tr>
<td>(b) an employee for whom the entire contribution is paid by the Government under the Employees’ Pension Scheme notified in accordance with the provisions of the Employees’ Provident Funds and Miscellaneous Provisions Act, 1952; or</td>
<td></td>
</tr>
<tr>
<td>(c) an employee employed for a period of less than 240 days during the previous year.</td>
<td></td>
</tr>
<tr>
<td>In case of an assessee engaged in the business of manufacturing of apparel, an employee employed for a period of less than 150 days during the previous year; or</td>
<td></td>
</tr>
<tr>
<td>(e) an employee who does not participate in the recognised provident fund.</td>
<td></td>
</tr>
<tr>
<td><strong>(c)</strong> Emoluments</td>
<td>any sum paid or payable to an employee in lieu of his employment by whatever name called.</td>
</tr>
</tbody>
</table>
Exclusions from the definition:

(a) any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and

(b) any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.

Illustration 18

Mr. A has commenced the business of manufacture of computers on 1.4.2017. He employed 350 new employees during the P.Y.2017-18, the details of whom are as follows –

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>Date of employment</th>
<th>Regular/Casual</th>
<th>Total monthly emoluments per employee (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 75</td>
<td>1.4.2017</td>
<td>Regular</td>
<td>24,000</td>
</tr>
<tr>
<td>(ii) 125</td>
<td>1.5.2017</td>
<td>Regular</td>
<td>26,000</td>
</tr>
<tr>
<td>(iii) 50</td>
<td>1.8.2017</td>
<td>Casual</td>
<td>25,500</td>
</tr>
<tr>
<td>(iv) 100</td>
<td>1.9.2017</td>
<td>Regular</td>
<td>24,000</td>
</tr>
</tbody>
</table>

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y.2018-19, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 2.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of apparel on 1.4.2017?

Solution

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds ₹ 1 crore and he has employed “additional employees” during the P.Y.2017-18.

If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000
Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

**Working Note:**

**Number of additional employees**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. of workmen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees employed during the year</td>
<td>350</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
</tr>
<tr>
<td>Casual employees employed on 1.8.2017 who do not participate in recognized provident fund</td>
<td>50</td>
</tr>
<tr>
<td>Regular employees employed on 1.5.2017, since their total monthly emoluments exceed ₹ 25,000</td>
<td>125</td>
</tr>
<tr>
<td>Regular employees employed on 1.9.2017 since they have been employed for less than 240 days in the P.Y.2017-18.</td>
<td>100</td>
</tr>
</tbody>
</table>

**Number of “additional employees”** 75

**Note** - Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2017 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2017 do not qualify as additional employees for the P.Y.2017-18, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2017 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2017-18 is deemed to be the additional employee cost.

**II If Mr. A is engaged in the business of manufacture of apparel**

If Mr. A is engaged in the business of manufacture of apparel, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2017, since they have been employed for more than 150 days in the previous year 2017-18.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

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(10) **Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre [Section 80LA]**

(i) **Eligible assessee:**

This section is applicable to the following assessees -

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11.90 DIRECT TAX LAWS

(a) a scheduled bank having an Offshore Banking Unit in a SEZ; or
(b) any bank, incorporated by or under the laws of a country outside India, and having an
Offshore Banking Unit in a SEZ; or
(c) a Unit of an International Financial Services Centre (IFSC).

(ii) Eligible income for deduction:
The deduction will be allowed on account of the following income included in the gross total income of such assesses -
(a) income from an Offshore Banking Unit in a SEZ; or
(b) income from the business referred to in section 6(1) of the Banking Regulation Act, 1949, with -
   (1) an undertaking located in a SEZ or
   (2) any other undertaking which develops, develops and operates or develops, operates and maintains a SEZ; or
   (c) income from any Unit of the IFSC from its business for which it has been approved for setting up in such a Centre in a SEZ.

(iii) Quantum of deduction and Period:
The deduction allowable from such income is -
(a) 100% of such income for 5 consecutive assessment years beginning with the assessment year relevant to the previous year in which –
   (1) the permission under section 23(1)(a) of the Banking Regulation Act, 1949 was obtained; or
   (2) the permission or registration under the SEBI Act, 1992 was obtained; or
   (3) the permission or registration under any other relevant law was obtained.
(b) Thereafter, 50% of such income for the next 5 consecutive assessment years.

(iv) Conditions:
The following conditions have to be fulfilled for claiming deduction under this section -
(a) The report of a Chartered Accountant in the prescribed form certifying that the deduction has been correctly claimed in accordance with the provisions of this section, should be submitted along with the return of income.
(b) A copy of the permission obtained under section 23(1)(a) of the Banking Regulation Act, 1949 should also be furnished along with the return of income.
(11) Deduction in respect of income of co-operative societies [Section 80P]

(i) **Applicability:**

Under this section, certain specified income of a co-operative society would be allowed as a deduction, provided such income is included in the gross total income of the society.

(ii) **Eligible income for deduction and quantum of deduction:**

**Deduction in respect of profit attributable to certain specified activities**

100% deduction shall be allowed in respect of profits and gains attributable to any one or more of the following activities to a co-operative society engaged in -

1. carrying on the business of banking or providing credit facilities to its members; or
2. a cottage industry; or
3. the marketing of the agricultural produce grown by its members; or
4. the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture or for the purpose of supplying them to its members; or
5. the processing without the aid of power, of the agricultural produce of its members; or
6. the collective disposal of the labour to its member; or fishing and other allied pursuits, such as catching, curing, processing, preserving, storing and marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to their members.

However, the exemption in respect of this type of income will be available only in the case of those co-operative societies which, under their rules and by-laws, restrict the voting rights to

1. members who contribute their labour force or who actually carry on the fishing or other allied activities,
2. the co-operative credit societies which provide financial assistance to the society and
3. the State Government.

**Deduction in respect of profit of primary co-operative societies**

100% of the profits and gains of the business would be allowed as deduction from the gross total income of the co-operative society in case of a primary co-operative society engaged in supplying milk, oilseeds, fruits or vegetables raised or grown by its members to –

- a federal co-operative society engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, or
- the Government or a local authority or
- a Government company as defined in section 617 of the Companies Act, 1956 or a corporation established by or under a Central, State or Provincial Act (engaged in supplying milk, oilseeds, fruits or vegetables, as the case may be, to the public),

**Deduction in respect of other activities**

A co-operative society which is engaged in activities other than to those mentioned above either independently of, or in addition to, all or any of the activities so specified, is eligible for deduction upto ₹ 50,000 to the extent of its business income arising from other activities. The limit is ₹ 1,00,000 in the case of consumer co-operative societies.

For this purpose, consumer co-operative society means a society for the benefit of the consumers.

**Deduction in respect of Interest or dividend income**

Any income arising to a co-operative society by way of any interest and dividends derived from its investments with any other co-operative society is deductible in full under this section.

**Deduction in respect of letting-out income for certain purpose**

The income derived by a co-operative society from the letting out of godowns or warehouses for storage, processing or facilitating the marketing of commodities is fully allowable as deduction.

**Deduction in respect of interest on securities and income from house property to certain co-operative societies**

Any income arising to a co-operative society by way of ‘Interest on securities’ or ‘Income from house property’ (chargeable under section 22) is fully deductible under this section where the gross total income of the co-operative society does not exceed ₹ 20,000 and it is not a housing society or an urban consumer’s society or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power. Thus, a majority of small co-operative societies would not have to pay any income-tax.

(iii) **Meaning of urban consumers’ co-operative society:**

It means a society for the benefit of the consumers within the limits of a municipal corporation, municipality, municipal committee, notified area committee, town area or cantonment.

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³ As defined in section 2(45) of the Companies Act, 2013
(iv) **Deduction under other section of Chapter VI-A of the Act:**

Where the co-operative society is also entitled to the deduction available under section 80-IA, the deduction under this section shall be allowed with reference to the gross total income as reduced by the deduction allowable under section 80-IA.

(v) **Non-eligible co-operative societies:**

The benefit under section 80P has been withdrawn in respect of all co-operative banks, other than primary agricultural credit societies (i.e. as defined in Part V of the Banking Regulation Act, 1949) and primary co-operative agricultural and rural development banks (i.e. societies having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities). This is for the purpose of treating co-operative banks at par with other commercial banks, which do not enjoy similar tax benefits. The scope of the definition of ‘income’ as given in section 2(24) has accordingly been widened to include within its ambit, the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members.

(vi) **Regional Rural Banks not eligible for deduction under section 80P:**

The CBDT has, through Circular No. 6/2010 dated 20.9.2010, reiterated that Regional Rural Banks are not eligible for deduction under section 80P of the Income-tax Act, 1961 from the assessment year 2007-08 onwards. It has also been clarified that the Circular No. 319 dated 11-1-1982 deeming any Regional Rural Bank to be cooperative society stands withdrawn for application with effect from A.Y.2007-08.

This is consequent to the amendment in section 80P by the Finance Act, 2006, providing specifically that w.e.f. 1-4-2007, the provisions of section 80P will not apply to any co-operative bank other than a Primary Agricultural Credit Society or a Primary Cooperative Agricultural and Rural Development Bank. The same has been further clarified by this circular.

(12) **Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 80QQB]**

(i) **Eligible assessee:** This deduction is available to an individual resident in India, being an author including a joint author, the gross total income of whom includes any income, derived by him in the exercise of his profession, on account of any lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book or of royalty or copyright fees in respect of such book.

(ii) **Quantum of deduction:** Deduction equal to the amount of such income derived as author or ₹ 3,00,000, whichever is less, would be allowed.

(iii) **Income received in lumpsum or otherwise:** This income may be received either by way of a lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book.
(iv) **Nature of work:** Such book should be a work of literary, artistic or scientific nature, or of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.

However, this deduction shall not be available in respect of royalty income from textbook for schools, guides, commentaries, newspapers, journals, pamphlets and other publications of similar nature.

(v) **No other deduction allowed under the Act:** Where an assessee claims deduction under this section, no deduction in respect of the same income may be claimed under any other provision of the Income-tax Act, 1961.

(vi) **Amount of eligible income:** For the purpose of calculating the deduction under this section, the amount of eligible income (before allowing expenses attributable to such income) shall not exceed 15% of the value of the books sold during the previous year. However, this condition is not applicable where the royalty or copyright fees is receivable in lump sum in lieu of all rights of the author in the book.

(vii) **Furnish a certificate:** For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment, setting forth such particulars as may be prescribed.

(viii) **Income earned outside India:** Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section.

(ix) **Meaning of competent authority:** The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

**13) Deduction in respect of royalty on patents [Section 80RRB]**

(i) **Eligible assessee:** This deduction shall be available only to a resident individual who is registered as the true and first inventor in respect of an invention under the Patents Act, 1970, including the co-owner of the patent.

(ii) **Quantum of deduction:** This section allows deduction to a resident individual in respect of income by way of royalty of a patent registered on or after 1.4.03 up to an amount of ₹ 3 lakhs.

This deduction shall be restricted to the royalty income including consideration for transfer of rights in the patent or for providing information for working or use thereof in India.
The deduction shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use.

(iii) **Income earned outside India:** In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months or extended period as is allowed by the competent authority (Reserve Bank of India). For claiming this deduction the assessee shall be required to furnish a certificate in the prescribed form signed by the prescribed authority, along with the return of income.

(iv) **No other deduction allowed under the Act:** No deduction in respect of such income will be allowed under any other provision of the Income-tax Act, 1961.

(v) **Consequences of subsequent revocation of patent:** Where the patent is subsequently revoked or the name of the assessee was excluded from the patents register as patentee in respect of that patent, the deduction allowed during the period shall be deemed to have been wrongly allowed and the assessment shall be rectified under the provisions of section 155.

The period of 4 years for rectification shall be reckoned from the end of the previous year in which the order of the revocation of the patent is passed.

### 11.4 DEDUCTIONS IN RESPECT OF OTHER INCOME

#### Deduction in respect of interest on deposits in savings accounts [Section 80TTA]

(i) **Eligible assessee and Quantum of deduction:** Section 80TTA provides that in case the gross total income of an assessee, being an individual or a Hindu Undivided Family, includes any income by way of an interest on deposits in a saving account (not being time deposits, which are deposits repayable on expiry of fixed periods), deduction up to ₹ 10,000 in aggregate shall be allowed while computing the total income of such assessee. Such deduction shall be allowed in case the saving account is maintained with:

1. 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);
2. a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
3. a post office.

(ii) **No deduction to the partner of a firm or a member of the AOP in respect of interest income on saving bank deposits held on behalf of firm/AOP:** However, if the aforesaid income is derived from any deposit in a savings account held by, or on behalf of, a firm, an AOP/BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.
(iii) **Deduction allowable only in respect of interest income on saving bank deposits:** In effect, the deduction under this section shall be allowed only in respect of the income derived in form of the interest on the saving bank deposit (other than time deposits) made by the individual or Hindu Undivided Family directly.

**Illustration 19**

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2018. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2018-19 from the following particulars:

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependant parents. The insurance policy was taken on 15.07.2014 and the sum assured on life of his dependant parents is ₹ 1,25,000.

(ii) Life insurance premium of ₹ 25,000 paid for the insurance of life of his major son who is not dependant on him. The sum assured on life of his son is ₹ 1,75,000 and the life insurance policy was taken on 30.3.2012.

(iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2014 and the sum assured is ₹ 2,00,000.

(iv) Premium of ₹ 22,000 paid by cheque for health insurance of self and his wife.

(v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for health check-up for his parents, who are senior citizens.

(vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(vii) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

**Solution**

**Computation of total income of Mr. Gurnam for the Assessment Year 2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from salary</td>
<td></td>
<td></td>
<td>5,50,000</td>
</tr>
<tr>
<td>Interest on saving bank deposit</td>
<td></td>
<td></td>
<td>14,500</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td></td>
<td></td>
<td>5,64,500</td>
</tr>
</tbody>
</table>
**DEDUCTIONS FROM GROSS TOTAL INCOME**

<table>
<thead>
<tr>
<th>Less: Deduction under Chapter VI-A</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under section 80C (See Note 1)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance premium paid for life insurance of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- major son</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- self ₹ 22,500 restricted to 10% of ₹ 2,00,000</td>
<td>20,000</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td><strong>Under section 80D (See Note 2)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium paid for health insurance of self and wife by cheque</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment made for health check-up:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Self ₹ 1,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- His Parents ₹ 4,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>₹ 6,000 restricted to 5,000</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Under section 80E</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For payment of interest on loan taken from bank for MBA course of his daughter</td>
<td>6,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Under section 80TTA (See Note 4)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on savings bank account ₹ 14,500 restricted to 10,000</td>
<td>10,000</td>
<td>88,500</td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>₹ 4,76,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

(1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependant or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependant parents of Mr. Gurnam.

In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 25,000 is allowable in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 1,75,000. However, in respect of premium paid for life insurance of Mr. Gurnam's parents, no deduction is allowable as per section 80C.
insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

(2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Therefore, in the present case, deduction of ₹ 22,000 is allowed in respect of premium paid for health insurance of self and wife. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is ₹23,500 (₹22,000 + ₹ 1,500), which is less than ₹ 25,000. Further, deduction up to a maximum of ₹ 5,000 is allowable in respect of health check-up of self and his parents. This implies that ₹ 3,500 is allowable for health check-up of parents which falls within the additional limit of ₹30,000 for mediclaim premium and expenditure on preventive health check-up of parents who are senior citizens.

(3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.

(4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee’s gross total income, subject to a maximum of ₹ 10,000. Therefore, a deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

**11.5 OTHER DEDUCTIONS**

**Deduction in the case of a person with disability [Section 80U]**

(1) Section 80U harmonizes the criteria for defining disability as existing under the Income-tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.

(2) **Eligible assessee and quantum of deduction:** This section is applicable to a resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability. A deduction of ₹ 75,000 in respect of a person with disability and ₹ 1,25,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section.
The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

(3) **Furnish a certificate:** The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed.

Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.
Question 1

Mr. Srinivasan, aged 61 years, furnishes the following particulars for the year ending 31.03.2018:

(a) Life Insurance Premium paid – ₹ 15,000, actual capital sum of the policy assured for ₹ 1,20,000. The insurance policy was taken on 01.04.2011;

(b) Contribution to Public Provident Fund – ₹ 40,000 in the name of father;

(c) Tuition fee payment – ₹ 8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing PHD in Kellogg University, USA – ₹ 2.50 Lacs;

(d) Housing loan principal repayment – ₹ 32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2018;

(e) Principal repayment of housing loan taken from a relative – ₹ 70,000. The property is self-occupied situated at Pune;

(f) Deposit under Senior Citizens Savings Scheme – ₹ 15,000;

(g) Five-year deposits in an account under Post Office Time Deposit Scheme – ₹ 50,000;

(h) Investment in National Savings Certificate – ₹ 70,000;

Compute the deduction eligible under appropriate provisions of section 80C for A.Y. 2018-19.

Answer

**Computation of eligible deduction under section 80C for A.Y. 2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance Premium <em>(See Note 1)</em></td>
<td>15,000</td>
</tr>
<tr>
<td>Contribution to Public Provident fund <em>(See Note 2)</em></td>
<td>Nil</td>
</tr>
<tr>
<td>Tuition fee of 2 sons for graduation course <em>(See Note 3)</em></td>
<td>16,000</td>
</tr>
<tr>
<td>Housing loan principal repayment <em>(See Notes 4 &amp; 5)</em></td>
<td>Nil</td>
</tr>
<tr>
<td>Senior Citizen Savings Scheme deposit <em>(See Note 6)</em></td>
<td>15,000</td>
</tr>
<tr>
<td>Post Office Time Deposit Scheme <em>(See Note 6)</em></td>
<td>50,000</td>
</tr>
<tr>
<td>Investment in National Savings Certificate</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td><strong>1,66,000</strong></td>
</tr>
</tbody>
</table>

Eligible deduction under section 80C restricted to ₹ 1,50,000.
Notes:

1. Any amount of life insurance premium paid in excess of the specified percentage of actual capital sum assured shall be ignored for the purpose of deduction under section 80C. In the given case, since the insurance policy has been issued before 1.04.2012, therefore, premium paid upto 20% of actual capital sum assured i.e., ₹ 24,000 shall be allowed as deduction. Hence, the premium of ₹ 15,000 paid during the year is allowable as deduction under section 80C.

2. In the case of an individual, contribution to PPF can be made in his name or in the name of his spouse or children to qualify for deduction under section 80C. As the contribution was made in the name of his father, deduction is not allowable.

3. Tuition fee paid is eligible for deduction under section 80C for a maximum of two children. Therefore, ₹ 16,000 shall be allowed as deduction. Tuition fee paid to an educational institution situated outside India is not eligible for deduction.

4. In order to claim the principal repayment on loan borrowed for house property as deduction, the construction of such property should have been completed and should be chargeable to tax under the head "Income from house property". In the given case, since the property is under construction, principal repayment does not qualify for deduction.

5. Repayment of principal on housing loan is not allowed as deduction in case the loan is borrowed from friends, relatives etc. In order to qualify for deduction, the loan should have been obtained from Central Government / State Government / bank / specified employer / institution.

6. The following investments are also eligible for deduction under section 80C:-
   (1) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
   (2) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

Question 2

X Ltd. has two units, unit 'N' and unit 'Y'. Unit 'N' engaged in the business of power generation installed a windmill in March, 2017 and had a profit of ₹ 100 lakhs in Assessment Year 2017-18. X Ltd. claimed depreciation of ₹ 120 lakhs on windmill against the profit of ₹ 100 lakhs from power generation business which was eligible for deduction under section 80-IA. Unit 'Y', engaged in manufacturing of wires, non-eligible business, had a profit of ₹ 70 lakhs for Assessment Year 2018-19.

The loss of ₹ 20 lakhs, i.e., balance depreciation not set off pertaining to unit 'N' was set-off against the profits of unit 'Y' carrying on non-eligible business, by the assessee, X Ltd. The Assessing Officer was of the view that depreciation relating to a business eligible for deduction under section 80-IA cannot be set-off against non-eligible business income. Hence, unabsorbed depreciation should be carried forward to the subsequent year to be set off against eligible business income of the assessee of that year.
Give your views on the correctness of the action of the Assessing Officer.

Answer

In CIT v. Swarnagiri Wire Insulations Pvt. Ltd. (2012) 349 ITR 245, the Karnataka High Court observed that it is a generally accepted principle that the deeming provision of a particular section cannot be breathed into another section. Therefore, the deeming provision contained in section 80-IA(5) cannot override the provisions of section 70(1).

In this case, X Ltd. had incurred loss in eligible business (power generation) on account of claiming depreciation of ₹ 120 lacs. Hence, section 80-IA becomes insignificant, since there is no profit from which this deduction can be claimed.

It is, thereafter, that section 70(1) comes into play, whereby an assessee is entitled to set off the losses from one source against income from another source under the same head of income. Accordingly, X Ltd. is entitled to the benefit of set off of loss of ₹ 20 lacs (representing balance depreciation not set-off) pertaining to Unit N engaged in eligible business of power generation against profit of ₹ 70 lacs of Unit Y carrying on non-eligible business. Therefore, the net profit of ₹ 50 lacs would be taxable in the A.Y.2018-19.

However, once set-off is allowed under section 70(1) against income from another source under the same head, a deduction to such extent is not possible in any subsequent assessment year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off under section 70(1) has to be first deducted while computing profits eligible for deduction under section 80-IA in the subsequent year. Accordingly, in the A.Y.2019-20, the net profits of Unit N has to be reduced by ₹ 20 lacs for computing the profits eligible for deduction under section 80-IA in that year.

The action of the Assessing Officer in not permitting set-off of loss of eligible business against profits of non-eligible business in this case is, therefore, not correct.

Question 3

From the following details, compute the total income of Mr. A, Mr. B and Mr. C for A.Y.2018-19 –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (computed)</td>
<td>₹ 9,25,000</td>
<td>₹ 10,45,000</td>
<td>₹ 11,15,000</td>
</tr>
<tr>
<td>Interest income (on fixed deposits)</td>
<td>₹ 75,000</td>
<td>₹ 85,000</td>
<td>₹ 95,000</td>
</tr>
</tbody>
</table>

The particulars of their other investments/payments made during the P.Y.2017-18 are given hereunder –
<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Deposit in Public Provident Fund (PPF) by Mr. A</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(2) Life insurance premium paid by Mr. C, the details of which are as follows -</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured (₹)</th>
<th>Insurance premium paid during 2017-18 (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 14/5/2011</td>
<td>Self</td>
<td>1,25,000</td>
<td>15,000</td>
</tr>
<tr>
<td>(ii) 11/6/2012</td>
<td>Spouse</td>
<td>1,25,000</td>
<td>15,000</td>
</tr>
<tr>
<td>(iii) 31/7/2013</td>
<td>Handicapped Son (section 80U disability)</td>
<td>2,00,000</td>
<td>32,000</td>
</tr>
</tbody>
</table>

(3) Payment of medical insurance premium by the following persons to insure their health:

<table>
<thead>
<tr>
<th>Payer</th>
<th>Amount in ₹</th>
<th>Mode of payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. A (aged 55 years)</td>
<td>30,000</td>
<td>Account payee cheque</td>
</tr>
<tr>
<td>Mr. B (aged 52 years)</td>
<td>15,000</td>
<td>Cash</td>
</tr>
<tr>
<td>Mr. C (aged 48 years)</td>
<td>20,000</td>
<td>Crossed cheque</td>
</tr>
</tbody>
</table>

(4) Mr. B paid interest on loan taken for the purchase of house in which he currently resides. He is claiming benefit of self-occupation under section 23(2) in respect of this house. He does not own any other house.  2,20,000

(5) Contribution by Mr. A by cheque to National Children’s Fund during the year.  30,000

(6) Mr. B makes the following donations during the P.Y.2017-18 -

<table>
<thead>
<tr>
<th>Donation</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation to BJP by crossed cheque</td>
<td>50,000</td>
</tr>
<tr>
<td>Donation to Electoral trust by cash</td>
<td>50,000</td>
</tr>
</tbody>
</table>
### Answer

**Computation of total income for A.Y.2018-19**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>₹9,25,000</td>
<td>₹10,45,000</td>
<td>₹11,15,000</td>
</tr>
<tr>
<td>Income from house property [See Note 4]</td>
<td></td>
<td>(₹2,00,000)</td>
<td></td>
</tr>
<tr>
<td>Income from other sources (Interest)</td>
<td>₹75,000</td>
<td>₹85,000</td>
<td>₹95,000</td>
</tr>
<tr>
<td><strong>(A) Gross total income</strong></td>
<td>₹10,00,000</td>
<td>₹9,30,000</td>
<td>₹12,10,000</td>
</tr>
<tr>
<td><strong>Less: Deductions under Chapter VIA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under section 80C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit in PPF (restricted to maximum ₹1,50,000) [See Note 3]</td>
<td>₹1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC premium paid [See Note 1]</td>
<td></td>
<td></td>
<td>₹57,500</td>
</tr>
<tr>
<td>Principal repayment of housing loan (restricted to ₹1,50,000) [See Note 4]</td>
<td></td>
<td>₹1,50,000</td>
<td></td>
</tr>
<tr>
<td>Under section 80D</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical insurance premium [See Note 2]</td>
<td>₹25,000</td>
<td>Nil</td>
<td>₹20,000</td>
</tr>
<tr>
<td>Under section 80G</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to National Children’s Fund [See Note 5]</td>
<td>₹30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under section 80GGC [See Note 6]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation to BJP by crossed cheque</td>
<td></td>
<td>₹50,000</td>
<td></td>
</tr>
<tr>
<td>Cash donation to Electoral Trust</td>
<td></td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td><strong>(B) Total deduction under Chapter VIA</strong></td>
<td>₹2,05,000</td>
<td>₹2,00,000</td>
<td>₹77,500</td>
</tr>
<tr>
<td><strong>(C) Total Income (A) – (B)</strong></td>
<td>₹7,95,000</td>
<td>₹7,30,000</td>
<td>₹11,32,500</td>
</tr>
</tbody>
</table>
Notes:

(1) **Deduction u/s 80C in respect of life insurance premium paid by Mr. C**

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured</th>
<th>Insurance premium paid during 2017-18</th>
<th>Restricted to % of sum assured</th>
<th>Deduction u/s 80C</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/5/2011</td>
<td>Self</td>
<td>1,25,000</td>
<td>15,000</td>
<td>20%</td>
<td>15,000</td>
</tr>
<tr>
<td>11/6/2012</td>
<td>Spouse</td>
<td>1,25,000</td>
<td>15,000</td>
<td>10%</td>
<td>12,500</td>
</tr>
<tr>
<td>31/7/2013</td>
<td>Handicapped Son (section 80U disability)</td>
<td>2,00,000</td>
<td>32,000</td>
<td>15%</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>57,500</strong></td>
</tr>
</tbody>
</table>

(2) **Medical Insurance Premium**

(i) Medical insurance premium of ₹ 30,000 paid by account payee cheque by Mr. A is allowed as a deduction under section 80D, subject to a maximum of ₹ 25,000.

(ii) Medical insurance premium paid by cash is not allowable as deduction. Hence, Mr. B is not eligible for deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid in cash.

(iii) Mr. C is eligible for deduction of ₹ 20,000 under section 80D in respect of medical insurance premium paid by crossed cheque.

(3) The maximum amount eligible for deduction under section 80C shall not exceed ₹ 1,50,000. Further, the investment limit in PPF also increased to ₹ 1,50,000. Since Mr. A has no other investment under section 80C during the P.Y. 2017-18, Mr. A would be eligible for deduction of ₹ 1,50,000 in respect of PPF.

(4) **Deduction in respect of interest and principal repayment of housing loan**

Mr. B is eligible for a maximum deduction of ₹ 2,00,000 under section 24 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of “Nil” annual value. Therefore, ₹ 2,00,000 would represent his loss from house property.

Further, the maximum amount eligible for deduction under section 80C should not exceed ₹ 1,50,000. Since, Mr. B has no other investment under section 80C during the previous year 2017-18, he would be eligible for deduction of ₹ 1,50,000 in respect of principal repayment of housing loan.

(5) Contribution to National Children’s Fund qualifies for 100% deduction under section 80G. Therefore, Mr. A is entitled to 100% deduction of the sum of ₹ 30,000 contributed by him by way of cheque to National Children’s Fund.

(6) Mr. B is eligible for deduction under section 80GGC in respect of donation to a political party made otherwise than by way of cash. However, cash donations to electoral trust do not qualify for deduction under section 80GGC.
Question 4

Following issues have been raised by Navi Limited in connection with its eligibility for claiming deduction under section 80-IB for your consideration and advice for the assessment year 2018-19:

(i) It operates two separate industrial units. One unit is eligible for deduction under section 80-IB, while the other unit is not eligible for such deduction. If the eligible unit has profit and the other unit has loss, should it claim deduction after setting off the loss of the other unit against profit of the eligible unit?

(ii) Its profit from one unit includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction on these items of income?

Answer

(i) Section 80-IB(13) provides that the provisions contained in section 80-IA(5) shall, so far as may be, apply to the eligible business under section 80-IB. Accordingly, for the purpose of computing the deduction under section 80-IB, the profits and gains of an eligible business shall be computed as if such eligible business was the only source of income of the assessee.

Therefore, Navi Limited should claim deduction under section 80-IB on profit from the eligible unit without setting off loss suffered in the other unit. It may be noted that the aggregate deduction under Chapter VI-A, however, cannot exceed the gross total income of the assessee.

(ii) Under section 80-IB, where the gross total income of an assessee includes any profits and gains derived from an industrial undertaking referred to in the section, there shall be allowed, in computing the total income of the assessee, a deduction from such profits and gains at the specified percentage and for such number of years as specified in the section. In CIT vs. Sterling Foods (1999) 237 ITR 579 (SC) and Liberty India vs. CIT (2009) 317 ITR 218 (SC), it was held that sale of import entitlement and duty drawback cannot be construed as income derived from industrial undertaking. Therefore, such income cannot be included in computing income for the purpose of deduction under section 80-IB.

Interest income derived by an undertaking on delayed collection of sale proceeds shall be treated as income derived from the industrial undertaking, and therefore, the same would be eligible for deduction under section 80-IB. [Phatela Cotgin Industries Private Limited vs CIT (2008) 303 ITR 411 (P & H)].

Question 5

PQR Co-operative Bank, a co-operative society, having its area of operation confined to Gubbi Taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities, has received the following amounts during the year ending 31.3.2018:
DEDUCTIONS FROM GROSS TOTAL INCOME

(i) Interest amounting to ₹ 1,00,000 from its members on loans advanced to them.
(ii) Interest amounting to ₹ 1,50,000 on deposits with other co-operative societies.
(iii) Rent amounting to ₹ 2,00,000 from letting out its godowns for storage of commodities.

PQR Co-operative Bank seeks your advice in the matter of taxability of the above amounts and the eligibility for deduction, if any, in respect thereof for the assessment year 2018-19.

Answer

Sub-clause (viia) to section 2(24) includes within the scope of definition of income, the profits and gains of any business of banking (including providing credit facilities) carried on by a co-operative society with its members. Hence, the interest of ₹ 1,00,000 received by PQR Co-operative Bank on loans advanced to its members constitutes its income.

Further, interest received amounting to ₹ 1,50,000 on deposits with other co-operative societies and rent amounting to ₹ 2,00,000 received from letting out its godowns for storage of commodities also constitute the income of the co-operative bank.

Sub-section (4) of section 80P provides that section 80P shall not apply to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

Explanation to section 80P(4) defines a primary co-operative agricultural and rural development bank to mean a society having its area of operation confined to a taluk and the principal object of which is to provide for long-term credit for agricultural and rural development activities.

PQR Co-operative Bank is a primary co-operative agricultural and rural development bank as defined in the said Explanation since it is a co-operative society having its area of operation confined to Gubbi Taluk and its principal object is to provide long-term credit for agricultural and rural development activities. Therefore, it is eligible for deduction under section 80P.

Interest of ₹ 1,00,000 received by the bank on loans advanced to its members is eligible for deduction in full under section 80P(2)(a)(i).

Interest of ₹ 1,50,000 received by the bank from deposits with other co-operative societies qualifies for deduction in full under section 80P(2)(d).

Rent of ₹ 2,00,000 received by the bank from letting out its godowns for storage of commodities is eligible for deduction in full under section 80P(2)(e).
11.108  DIRECT TAX LAWS

SIGNIFICANT SELECT CASES

1. Can the Commissioner reject an application for grant of approval under section 80G(5) on the ground that the trust has failed to apply 85% of its income for charitable purposes?

*CIT v. Shree Govindbhai Jethalal Nathavani Charitable Trust (2015) 373 ITR 619 (Guj)*

Facts of the case: The assessee trust filed an application in Form 10G for grant of approval under section 80G(5)\(^4\). It also filed copies of trust deed and registration certificate dated 18\(^{th}\) August, 2011 with the approving authority. As per the trust deed, the main objects of the trust are educational, social activities, etc. In order to verify the facts stated in the application, the trust was asked to produce books of account, relevant vouchers, donation book and minutes in original. On perusal of the books for financial year 2011-12, it was found that the trust had not applied 85% of its income and therefore, the Commissioner rejected the application of the assessee seeking approval under section 80G(5) and Rule 11AA of the Income-tax Rules, 1962.

Tribunal’s view: On appeal, the Tribunal noted the decision of Punjab and Haryana High Court in the case of *CIT v. O.P. Jindal Global University (2013) 38 Taxmann 366*, in which it was held that at the time of granting approval of exemption under section 80G, only the objects of the trust are required to be examined and the aspect of application of funds can be examined by the Assessing Officer at the time of framing the assessment. Consequently, the Tribunal held that the Commissioner has erred in refusing to grant recognition to the trust under section 80G(5).

High Court’s Observations: The High Court was of the view that the issue in the present case is now not *res integra* in view of the decision of the Division Bench of this Court in the case of *N.N. Desai Charitable Trust v. CIT (2000) 246 ITR 452 (Guj)*. In that case, the Division Bench observed that, while considering the application for the purpose of section 80G, the authority cannot act as an assessing authority and the enquiry should be confined to finding out if the institution satisfies the prescribed conditions. The Division Bench also made the following observations:

(i) Section 80G does not relate to assessment of the trust or the institution whose income is not liable to be included in the computation of taxable income under various provisions of the Act. Primarily, section 80G is related to giving deduction in respect of donations made by a person to such trusts and institutions.

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\(^4\) Section 80G(5)(i) provides that donation to any institution or fund would qualify for deduction thereunder only if it is established in India for a charitable purpose and derives such income which would not be liable to inclusion in its total income under the provisions of sections 11 and 12 or section 10(23AA)/(23C).
(ii) There are two distinct concepts. The first is whether an institution or fund is such whose income is not liable to be included in the computation of total income, has to be determined on the basis of its status or character. The second is the actual assessment of income, which necessarily takes place in future after donation is received by the donee, on fulfilment of other conditions about application of income by the eligible trusts, which in the very nature of things can operate only after receipt of income. The two are different concepts.

(iii) The liability to assessment is neither affected on account of grant of recognition under section 80G nor on whether the donor ultimately gets deduction in respect of such donation. Once a trust is registered under section 12AA, its income from property includes donation which is covered by section 11(1)(d) or under section 12. Such donations are deemed to be income from property, which are not to be included in the total income under section 11 or section 12. The enquiry under section 80G, hence, cannot go beyond that.

(iv) The scope of enquiry cannot include an enquiry as to whether, at the close of the previous year, the donee-trust will actually be able to apply 85% of its income because non-fulfillment of some conditions by the donee-trust as regards application or accumulation cannot be ascertained \textit{in praesenti}, when the donation is made. The question of whether the trust will be able to apply 85% of its income can be determined only from the facts existing at the close of the assessment year.

The High Court also noted that similar views were expressed by the Punjab and Haryana High Court in the case of \textit{CIT v. O. P. Jindal Global University (2013) 38 Taxmann.com 366}.

\textbf{High Court’s Decision:} The High Court, thus, concurred with the decision of the Tribunal setting aside the order passed by the Commissioner refusing to grant registration under section 80G(5) to the assessee-trust due to the reason that it has not applied 85% of its income for charitable purposes.

2. Can unabsorbed depreciation of a business of an industrial undertaking eligible for deduction under section 80-IA be set off against income of another non-eligible business of the assessee?


\textbf{Facts of the case:} The assessee was in the business of manufacture of wires. It installed a windmill for power generation. The assessee claimed depreciation on windmill against income from power generation, which was eligible for deduction under section 80-IA. The balance depreciation was set off against the profits from manufacturing of wires, being a non-eligible business.
Assessing Officer’s contention: The Assessing Officer contended that depreciation relating to a business eligible for deduction under section 80-IA cannot be set off against non-eligible business income. Therefore, unabsorbed depreciation was to be carried forward to the subsequent year to be set off against the eligible business income of the assessee of that year.

Tribunal’s Observations: The Tribunal observed that the balance depreciation of the eligible business is required to be carried forward for set-off against eligible business income of the next year while determining the profits eligible for deduction under section 80-IA in that year. However, the Tribunal noted that section 80-IA is a beneficial section permitting certain deduction in respect of certain income under Chapter VI-A. A provision granting tax incentive for economic growth should be construed liberally and any restriction placed should also be construed in a reasonable and purposive manner to advance the objects of the provision.

High Court’s Observations and Decision: The High Court observed that it is a generally accepted principle that deeming provision of a particular section cannot be breathed into another section. Therefore, the deeming provision contained in section 80-IA(5) cannot override the provisions of section 70(1). The assessee had incurred loss in eligible business after claiming depreciation. Hence, section 80-IA becomes insignificant, since there is no profit from which this deduction can be claimed. It is thereafter that section 70(1) comes into play, whereby the assessee is entitled to set off the losses from one source against income from another source under the same head of income. The Court, therefore, held that the assessee was entitled to the benefit of set off of loss of eligible business against the profits of non-eligible business. However, once set-off is allowed under section 70(1) against income from another source under the same head, a deduction to such extent is not possible in any subsequent assessment year i.e., the loss (arising on account of balance depreciation of eligible business) so set-off under section 70(1) has to be first deducted while computing profits eligible for deduction under section 80-IA in the subsequent year.

Note – The crux of the above decision can be explained with a simple example. Let us consider a company, X Ltd., having two units, Unit A and Unit B. If Unit A engaged in eligible business (say, power generation) has a profit of ₹ 100 lacs in A.Y.2018-19, before claiming depreciation of ₹ 120 lacs and Unit B engaged in non-eligible business (say, manufacture of wires) has a profit of ₹ 70 lacs, then, as per the above decision, the loss of ₹ 20 lacs (representing balance depreciation not set-off) pertaining to Unit A can be set-off against profit of ₹ 70 lacs of Unit B carrying on non-eligible business. Therefore, the net profit of ₹ 50 lacs would be taxable in the A.Y.2018-19. If in the next year, i.e. A.Y.2019-20, the net profits of Unit A and Unit B are ₹ 200 lacs and ₹ 80 lacs, respectively, then the eligible deduction under section 80-IA for that year would be ₹ 180 lacs (i.e., ₹ 200 lacs minus ₹ 20 lacs, being loss (representing balance depreciation) set-off in the A.Y.2018-19 against other income).
3. Can transport subsidy, interest subsidy and power subsidy received from the Government be treated as profits “derived from” business or undertaking to qualify for deduction under section 80-IB?

*CIT v. Meghalaya Steels Ltd (2016) 383 ITR 217 (SC)*

**Facts of the case:** The assessee-company, engaged in the business of manufacture of steel and ferro silicon, claimed deduction under section 80-IB on the profits and gains of the business/undertaking which included transport subsidy, interest subsidy and power subsidy received from Government.

**Revenue’s Contentions:** The Assessing Officer was of the view that these subsidies were not eligible for deduction under section 80-IB(4) and hence, disallowed the same, contending that the source of the subsidies was the Government and not the business of the assessee, these subsidies have a close and direct nexus with the grants of the Government and not the business of the assessee. Hence, these subsidies, included in the profits, were “attributable to the business” but not “derived from” business to qualify for deduction under section 80-IB. The Commissioner (Appeals) upheld the view of the Assessing Officer. However, the Appellate Tribunal and High Court allowed the deduction in respect of such subsidies.

**Supreme Court’s Observations:** The Supreme Court observed that an important test to determine whether the profits and gains are “derived from” business or an undertaking is that there should be a direct nexus between such profits and gains and the undertaking or business. Such nexus should not be only incidental. As long as profits and gains emanate directly from the business itself, the fact that the immediate source of the subsidies is the Government would make no difference. The profits and gains referred to in section 80-IB has reference to net profit, which can be calculated by deducting from the sale price of an article, all elements of cost which go into manufacturing or selling it. Thus, the profits arrived at after deducting manufacturing costs and selling costs reimbursed to the assessee by the Government, is the profits and gains “derived from” the business of the assessee.

The Supreme Court observed that section 28(iii)(b) specifically states that income from cash assistance, by whatever name called, received or receivable by any person against exports under any scheme of the Government of India, will be income chargeable to income-tax under the head “Profits and gains of business or profession”. The Apex Court further observed that if cash assistance received or receivable against exports schemes are being included as income under the head “Profits and gains of business or profession”, subsidies which go towards reimbursement of cost of production of goods of a particular business would also have to be included under the head “Profits and gains of business or profession”, and not under the head “Income from other sources”.

**Supreme Court’s Decision:** The Supreme Court, accordingly, held that transport subsidy, interest subsidy and power subsidy from Government were revenue receipts which were
rebursed to the assessee for elements of cost relating to manufacture or sale of their products.

Therefore, there is a direct nexus between profits and gains of the undertaking or business, and reimbursement of such subsidies. The subsidies were only in order to reimburse, wholly or partially, costs actually incurred by the assessee in the manufacturing and selling of its products. Accordingly, these subsidies qualify for deduction under section 80-IB.

4. **Can Duty Drawback be treated as profit derived from the business of the industrial undertaking to be eligible for deduction under section 80-IB?**

*CIT v. Orchev Pharma P. Ltd. (2013) 354 ITR 227 (SC)*

**Supreme Court’s Decision:** On this issue, the Supreme Court, following the decision in case of *Liberty India v. CIT* (2009) 317 ITR 218 (SC) held that Duty Drawback receipts cannot be said to be profits derived from the business of industrial undertaking for the purpose of computation of deduction under section 80-IB.

*Note - In the case of Liberty India v. CIT (2009) 317 ITR 218 (SC), the Supreme Court observed that DEPB / Duty drawback are incentives which flow from the schemes framed by the Central Government or from section 75 of the Customs Act, 1962. Section 80-IB provides for the allowing of deduction in respect of profits and gains derived from eligible business. However, incentive profits are not profits derived from eligible business under section 80-IB. They belong to the category of ancillary profits of such undertaking. Profits derived by way of incentives such as DEPB/Duty drawback cannot be credited against the cost of manufacture of goods debited in the profit and loss account and they do not fall within the expression "profits derived from industrial undertaking" under section 80-IB. Hence, Duty drawback receipts and DEPB benefits do not form part of the profits derived from the eligible business for the purpose of the deduction under section 80-IB.*

5. **Does the period of exemption under section 80-IB commence from the year of trial production or year of commercial production? Would it make a difference if sale was effected from out of the trial production?**

*CIT v. Nestor Pharmaceuticals Ltd. / Sidwal Refrigerations Ind Ltd. v. DCIT (2010) 322 ITR 631 (Delhi)*

**Facts of the case:** In this case, the assessee had started trial production in March 1998 whereas commercial production started only in April, 1998. Therefore, the assessee claimed deduction under section 80-IB for the assessment years 1999-2000 to 2003-04, whereas the Assessing Officer denied deduction for A.Y.2003-04 on the ground that the five year period would be reckoned from A.Y.1998-99, since the trial production began in March, 1998.
Tribunal's Observations: The Tribunal observed that not only the trial production had started in March 1998 but there was in fact sale of one water cooler and air-conditioner in the month of March 1998. The explanation of the assessee was that this was done to file the registration under the Excise Act and Sales-tax Act.

High Court's Observations & Decision: The High Court observed that with mere trial production, the manufacture for the purpose of marketing the goods had not started which starts only with commercial production, namely, when the final product to the satisfaction of the manufacturer has been brought into existence and is fit for marketing. However, in this case, since the assessee had effected sale in March 1998, it had crossed the stage of trial production and the final saleable product had been manufactured and sold. The quantum of commercial sale and the purpose of sale (namely, to obtain registration of excise / sales-tax) is not material. With the sale of those articles, marketable quality was established. Therefore, the conditions stipulated in section 80-IB were fulfilled with the commercial sale of the two items in that assessment year, and hence the five year period has to be reckoned from A.Y.1998-99.

Note – Though this decision was in relation to deduction under section 80-IA, as it stood prior to its substitution by the Finance Act, 1999 w.e.f. 1.4.2000, presently, it is relevant in the context of section 80-IB.

6. Can an assessee who has not claimed deduction under section 80-IB in the initial years, start claiming deduction thereunder for the remaining years during the period of eligibility, if the conditions are satisfied?

Praveen Soni v. CIT (2011) 333 ITR 324 (Delhi)

High Court's Decision: On the above issue, the Delhi High Court held that the provisions of section 80-IB nowhere stipulated a condition that the claim for deduction under this section had to be made from the first year of qualification of deduction failing which the claim will not be allowed in the remaining years of eligibility. Therefore, the deduction under section 80-IB should be allowed to the assessee for the remaining years up to the period for which his entitlement would accrue, provided the conditions mentioned under section 80-IB are fulfilled.