

FINANCE BILL, 2000

PROVISIONS RELATING TO DIRECT TAXES

The provisions in the Finance Bill, 2000, in the sphere of direct taxes relate to the following matters:-

- (i) Prescribing the rates of income-tax on incomes liable to tax for the assessment year 2000-2001; the rates at which tax including the surcharge will be deductible at source during the financial year 2000-2001 from interest (including interest on securities), dividends, winnings from lotteries or cross-word puzzles, winnings from horse races, and other categories of income liable to deduction of tax at source under the Income-tax Act; rates for computation of "advance tax", deduction of income-tax from 'Salaries' and charging of income-tax on current incomes in certain cases for the financial year 2000-2001.
- (ii) Amendment of the Income-tax Act, 1961, inter alia, with a view to promoting venture projects and investments therein, housing, providing measures for social welfare, providing incentives for infrastructure development including urban infrastructure, industrialization, shipping industry, entertainment industry, measures for development of capital markets, business reorganization, measures to accelerate economic development, widening of tax base, rationalization and simplification of certain provisions and taxpayer friendly measures.
- (iii) Amendment of the Wealth-tax Act, 1957.
- (iv) Amendment of the Interest-tax Act, 1974.
- (v) Amendment of the Finance (No.2) Act, 1998.
- (vi) Amendment of the Finance Act, 1999.

2. Subject to certain exceptions, which have been indicated while dealing with the relevant provisions, the Bill follows the principle that changes in the provisions of the tax laws, should ordinarily be made operative prospectively in relation to current incomes and not in relation to incomes of past years. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs:-

INCOME-TAX

I. Rates of income-tax in respect of incomes liable to tax for the assessment year 2000-2001.

In respect of incomes of all categories of taxpayers (corporate as well as non-corporate) liable to tax for the assessment year 2000-2001, the rates of income-tax have been specified in Part I of the First Schedule to the Bill and are the same as those laid down in Part III of the First Schedule to the Finance Act, 1999, for the purposes of computation of "advance tax", deduction of tax at source from "Salaries" and charging of tax payable in certain cases during the financial year 1999-2000. It is also specified that the tax so computed in the case of all assesseees (except non-residents and foreign companies) will be enhanced by a surcharge of ten per cent. In the case of individuals, Hindu undivided families, association of persons and body of individuals, the surcharge would be payable only by persons having total income above Rs. 60,000/-.

II. Rates for deduction of income-tax at source during the financial year 2000-2001 from income other than "Salaries".

The rates for deduction of income-tax at source during the financial year 2000-2001 from incomes other than "Salaries", have been specified in Part II of the First Schedule to the Bill. These rates apply to income by way of interest on securities, interest other than "interest on securities", insurance commission, winnings from lotteries and cross-word puzzles, winnings from horse races and income of non-residents (including non-resident Indians). These rates are broadly the same as those specified in Part II of the First Schedule to the Finance Act, 1999, for the purposes of deduction of income-tax at source during the financial year 1999-2000. It is also specified that the tax so computed for deduction at source in the case of companies, co-operative societies, firms and local authorities (except foreign companies) will be enhanced by a surcharge of ten per cent. In the case of individuals, Hindu undivided families, association of persons and body of individuals, the surcharge would be payable at the following rates :-

Total income below Rs.60,000/-	NIL
Total income exceeding Rs.60,000/- but not exceeding Rs.1,50,000/-	10% of tax payable after rebate under Chapter VIII-A.
Total income exceeding Rs.1,50,000/-	15% of tax payable after rebate under Chapter VIII-A.

III. Rates for deduction of income-tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the financial year 2000-2001.

The rates for deduction of income-tax at source from "Salaries" during the financial year 2000-2001 and also for computation of "advance tax" payable during that year in the case of all categories of tax payers have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for charging income-tax during the financial year 2000-2001 on current incomes in cases where accelerated assessments have to be made, e.g., provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during that financial year or assessment of persons who are likely to transfer property to avoid tax, etc. The salient features of the rates specified in the said Part III are indicated in the following paragraphs:-

A. Individuals, Hindu undivided families, etc.

Paragraph A of Part III of the First Schedule specifies the rates of income-tax in the case of individuals, Hindu undivided families, association of persons, etc.

No change is proposed in the rate structure. However, the tax payable would be enhanced by a surcharge for purposes of the Union at the rate of ten per cent. of the tax payable (after allowing rebate under Chapter VIII-A) in cases of persons having total income exceeding Rs. 60,000/- but not exceeding Rs. 1,50,000/-. The tax payable would be enhanced by a surcharge for purposes of the Union at the rate of fifteen per cent. of the tax payable (after allowing rebate under Chapter VIII-A) in cases of persons having total income exceeding Rs. 1,50,000/-. No surcharge would be payable by persons having incomes of Rs.60,000/- or below. Marginal relief would be provided to ensure that the additional amount of income-tax payable, including surcharge, on the excess of income over Rs.60,000/- is limited to the amount by which the income is more than Rs.60,000/-. Marginal relief would also be provided to ensure that the additional amount of income-tax payable, including surcharge, on the excess of income over Rs.1,50,000/- is limited to the amount by which the income is more than Rs.1,50,000/-.

The Table below gives the income slabs and the rates of income-tax. Column (a) specifies the rates given in Paragraph A of Part I of the First Schedule to the Bill; and column (b) specifies the rates given in Paragraph A of Part III of the First Schedule to the Bill.

TABLE

(a)		(b)	
Income slab	Rates as specified in Part-I of First Schedule to the Bill (i.e., existing rates)	Income slab	Rates as specified in Part-III of First Schedule to the Bill (i.e., proposed rates)
Upto Rs.50,000/-	Nil	Upto Rs.50,000/-	Nil
Rs.50,001/- to Rs.60,000/-	10%	Rs.50,001/- to Rs.60,000/-	10%
Rs.60,001/- to Rs.1,50,000/-	20% [#]	Rs.60,001/- to Rs.1,50,000/-	20% [#]
Above Rs.1,50,000/-	30% [#]	Above Rs.1,50,000/-	30% ^{\$}

[#] Persons in this slab would be required to pay ten per cent. surcharge on the total income-tax payable after rebate under Chapter VIII-A.

^{\$} Persons in this slab would be required to pay fifteen per cent. surcharge on the total income-tax payable after rebate under Chapter VIII-A.

The impact of levy of surcharge in the case of individuals, HUFs, etc. at different income levels would be as under :-

Total income (Rs.)	Existing Tax liability (Rs.)	New Tax liability (Rs.)	Additional liability increased (Rs.)	Percentage increase (%)
50,000	Nil	Nil	Nil	Nil
55,000	500	500	Nil	Nil
60,000	1,000	1,000	Nil	Nil
60,100	1,100 [*]	1,100 [*]	Nil	Nil
60,120	1,120 [*]	1,120 [*]	Nil	Nil
60,130	1,129	1,129	Nil	Nil
60,150	1,133	1,133	Nil	Nil
65,000	2,200	2,200	Nil	Nil
75,000	5,500	5,500	Nil	Nil
1,00,000	9,900	9,900	Nil	Nil
1,50,000	20,900	20,900	Nil	Nil
1,50,100	20,933	21,000 [@]	67	0.32
1,50,500	21,065	21,400 [@]	335	1.59
1,51,000	21,230	21,900 [@]	670	3.16
1,51,400	21,362	22,300 [@]	938	4.39
1,51,450	21,379	22,350 [@]	971	4.54
1,51,460	21,382	22,354	972	4.55
1,52,000	21,560	22,540	980	4.55
2,00,000	37,400	39,100	1,700	4.55
3,00,000	70,400	73,600	3,200	4.55
4,00,000	1,03,400	1,08,100	4,700	4.55
5,00,000	1,36,400	1,42,600	6,200	4.55

^{*} Marginal relief would be provided to ensure that the additional income-tax payable, including surcharge, on the excess of income over Rs.60,000/- is limited to the amount by which the income is more than Rs.60,000/-.

[@] Marginal relief would be provided to ensure that the additional income-tax payable, including surcharge, on the excess of income over Rs.1,50,000/- is limited to the amount by which the income is more than Rs.1,50,000/-.

B. Co-operative societies

In the case of co-operative societies the rates of income-tax have been specified in Paragraph B of Part III of the First Schedule to the Bill. These rates are the same as those specified in the corresponding Paragraph of Part I of the First Schedule to the Bill. However, the tax payable would be enhanced by a surcharge for the purposes of the Union at the rate of ten per cent. of tax payable.

C. Firms

In the case of firms, the rate of income-tax has been specified in Paragraph C of Part III of the First Schedule to the Bill. This rate remains at 35 per cent. However, the tax payable by resident firms would be enhanced by a surcharge for purposes of the Union at the rate of ten per cent. of the tax payable.

D. Local authorities

In the case of local authorities, the rate of income-tax has been specified in Paragraph D of Part III of the First Schedule to the Bill. This rate is the same as that specified in the corresponding Paragraph of Part I of the First Schedule to the Bill. However, the tax payable would be enhanced by a surcharge for purposes of the Union at the rate of ten per cent. of the tax payable.

E. Companies

In the case of companies, the rate of income-tax has been specified in Paragraph E of Part III of the First Schedule to the Bill. There is no change in the existing rates of 35 per cent. for domestic companies and 48 per cent. for foreign companies. However, in the case of domestic companies, the tax payable would be enhanced by a surcharge at the rate of ten per cent. of the tax payable.

[Clause 2 & First Schedule]

STIMULUS FOR ECONOMIC GROWTH

Measures for incentives to Venture Capital

It is proposed to insert a new clause (23FB) in Section 10 to provide that any income of a venture capital company or a venture capital fund from any investments made in a venture capital undertaking will not be included in computing the total income.

The venture capital company or the venture capital fund would require to be registered under the Securities and Exchange Board of India Act, 1992 and regulations issued by the Securities and Exchange Board of India (SEBI), with the approval of the Central Government by way of notification in the Official Gazette.

It is proposed to define "venture capital company" to mean a company which has been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992 and regulations made thereunder and which fulfils the conditions as may be specified with the approval of the Central Government, by the SEBI, by a notification in the Official Gazette in this regard.

It is proposed to define "venture capital fund" to mean a fund operating under a trust deed registered under the provisions of the Registration Act, 1908, and which has been granted a certificate of registration under the Securities and Exchange Board of India Act, 1992 and regulations made thereunder and which fulfils the conditions as may be specified, with the approval of the Central Government, by the SEBI, by a notification in the Official Gazette in this regard.

The expression "venture capital undertaking" is proposed to be defined to mean a domestic company whose shares are not listed in a recognised Stock Exchange in India and which is engaged in the business for providing services, production or manufacture of an article or a thing but does not include such activities or sectors, which are specified, with the approval of the Central Government by the SEBI in the Official Gazette in this regard.

Consequent to the above amendment, it is proposed to insert a sunset clause in the existing section 10(23FA), so as to provide that the exemption in respect of any income by way of dividends or long term capital gains of a venture capital fund or a venture capital company from investments made by way of equity shares in a venture capital undertaking, shall not be available to any investment made after 31st March, 2000. Such investment will qualify for exemption under the newly inserted clause (23FB) in section 10.

The proposed amendments will take effect from 1st April, 2001, and will accordingly, apply in relation to assessment year 2001-2002 and subsequent years.

It is also proposed to introduce a levy at the flat rate of tax at twenty per cent. on the income distributed by a venture capital company or a venture capital fund by inserting a new Chapter XII-F. This tax, levied under section 115U, would be the final tax payable by a venture capital company or a venture capital fund.

It is further proposed that a venture capital company or a venture capital fund will be liable to pay income-tax at the rate of twenty per cent. in respect of any income which is not distributed to its investors within such period as may be specified, with the approval of the Central Government, by the SEBI, by a notification in the Official Gazette in this behalf.

It is also proposed to provide that the person responsible for making payment of the income distributed by the venture capital company or a venture capital fund and the venture capital company or a venture capital fund, as the case may be, shall be liable to file a statement in the prescribed form and manner giving details of income distributed to investors, tax paid thereon and other relevant details.

It is also proposed to insert a new section 115V to provide that if the tax under section 115U is not paid within fourteen days of distribution of the income, then interest will be charged at the rate of 1.5% per month for the delayed period.

It is also proposed to insert a new section 115W to provide that if any person responsible for making payment of the income distributed by the venture capital company or a venture capital fund and the venture capital company or a venture capital fund, as the case may be, fails to pay the income-tax under section 115U to the credit of the Central Government, then he or it shall be deemed to be an assessee in default in respect of the amount of tax payable and all the provisions of this Act for the collection and recovery of income-tax shall apply.

The proposed amendments will take effect from 1st June, 2000.

Consequential amendment is also proposed in section 10(33) of the Income-tax Act so as to provide that income from a venture capital company or a venture capital fund referred to in the newly inserted Chapter XII-F of the Income-tax Act will not be included while computing the total income of an investor.

The proposed amendment will take effect from the 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clauses 5(d), 5(e), 5(g) and 54]

INCENTIVES FOR INFRASTRUCTURE DEVELOPMENT AND INDUSTRIALIZATION

Solid Waste Management and Water Treatment Systems provided Tax Holiday for development of Urban Infrastructure

Under the existing provisions of the Income-tax Act, a five year tax holiday and a deduction of 30% in the subsequent five years (within a period of initial fifteen years), is allowed to a company or a consortium of companies, operating and maintaining infrastructure facilities in the nature of roads, highways, bridges, airports, ports, rail system or any other public facility of a similar nature. Water supply projects, irrigation projects, sanitation and sewerage systems also form part of infrastructure facilities under these provisions.

The country needs large investments in the areas of urban infrastructure, including public health. In order to attract commercial enterprises to operate such facilities, the Bill proposes to extend the benefit of tax holiday to other infrastructure facilities, namely, water treatment and solid waste management systems.

The proposed amendment will take effect from the 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 35]

Infrastructure Capital Funds

Clause (23G) of section 10 provides that any income of an infrastructure capital fund or an infrastructure capital company by way of interest, dividends (other than dividends referred to in section 115-O) and long term capital gains from investments made by way of equity or long-term finance in an approved enterprise wholly engaged in the business of (i) developing, (ii) maintaining and operating or (iii) developing, maintaining and operating an infrastructure facility shall not be included in computing the total income.

To provide impetus for infrastructure development, the scope of the term 'infrastructure facility' as defined in sub-section (4) of Section 80-IA is proposed to be enlarged so as to include 'solid waste management' and 'water treatment' within its scope. As a consequence, income derived by infrastructure capital fund or infrastructure capital company from investments in any enterprise wholly engaged in the development of these infrastructure facilities would be exempt from tax.

The proposed amendment will take effect from 1st April, 2001, and will accordingly, apply in relation to assessment year 2001-2002 and subsequent years.

The clauses (a) and (b) of the Explanation 1 to the clause 10 (23G) have also been proposed to be amended so as to bring the definition of infrastructure capital company and infrastructure capital fund in conformity with the said clause. These amendments are consequential to the amendment of section 10 (23G) by the Finance Act, 1999.

The proposed amendment will take effect retrospectively from 1st April, 2000, and will accordingly, apply in relation to assessment year 2000-2001 and subsequent years. [Clause 5(f)]

Tax exemption to certain bonds issued by local authorities

The local authorities, such as municipal corporations, municipal authorities, etc. need large amounts of funds to finance urban infrastructure projects such as potable water supply, sanitation and sewerage, drainage, solid waste management, roads, bridges and flyovers, urban transport, etc.

Clause (15) of section 10 exempts interest payable in certain cases. To enable the local authorities to have access to funds for financing urban infrastructure projects, it is proposed to accord a tax-free status to the interest on such bonds issued by such authorities, each year. These bonds are proposed to be specified by the Central Government, by way of notification in the Official Gazette.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 5(b)]

Charitable Trusts allowed to invest funds in long-term finance for urban infrastructure

Under the existing provisions of clause (ix) of sub-section (5) of section 11, deposits with or investment in any bonds issued by a public company formed or registered in India, with the main object of carrying on the business of providing long-term finance for construction of houses in India for residential purposes, is included as an eligible investment for trusts.

It is proposed to insert a new clause in the sub-section so as to provide that investment in public companies formed and registered in India with the main object of carrying on the business of providing long-term finance for urban infrastructure would also be specified as one of the eligible modes of investment. [Clause 8]

Tax holiday in respect of undertakings set up in industrially backward States and industrially backward Districts extended upto 31.3.2002

Under the existing provisions of section 80-IB of the Income-tax Act, 1961, a deduction is allowed, in computing the taxable income, in respect of profits derived from a new industrial undertaking, or a ship or the business of a hotel.

For encouraging industrialization in industrially backward States, the Finance Act, 1993, had provided for a five year tax holiday for industrial undertakings set up in industrially backward States specified in the Eighth Schedule, which started manufacture or production on or after the 1st day of April, 1993. After the first five years, deduction of 30% in the case of companies (25% in the case of other assesseees) is allowed for the subsequent five years. The undertakings which start manufacture or production after 31st March, 2000 in industrially backward States shall cease to be entitled to the two-tier benefit. Similarly, a five year tax holiday is available to

undertakings set up in notified industrially backward districts, which begin manufacture or production after 1.10.94 but on or before 31.3.2000.

The Bill proposes to extend the tax holiday to undertakings set up in industrially backward States, as specified in the Eighth Schedule which start manufacture or production even after 31.3.2000 but before 31.3.2002. It is also proposed to similarly extend the tax holiday to undertakings set up in industrially backward districts upto 31.3.2002.

The proposed amendments will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clauses 36(b) and 36(c)]

Fiscal benefit for new small scale industries

Under the existing provisions of section 80-IB, the small scale units commencing production between 1st April, 1995, and 31st March, 2000 are allowed a deduction of 25% of the profits (30% for companies) for a period of ten years. In the wake of liberalization, the small scale sector needs fiscal support so that it can face competition. The Bill proposes to amend section 80-IB to provide continuance of existing concessions to small scale units commencing production even after 31st of March, 2000. Units set up on or before 31.3.2002 shall be eligible for the benefit.

This amendment will take effect from 1st April, 2001, and will, accordingly apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 36(a)]

Incentives for shipping industry

Under the existing provisions of section 33AC, a Government company or a public company carrying on the business of operation of ships is allowed deduction of an amount not exceeding 50% of profits derived from the business of operation of ships, subject to certain conditions.

In order to enable the shipping industry to go in for fleet expansion, acquisition and modernization, the Bill proposes to enhance the existing deduction upto whole of the profits derived from such business for a period of five years.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment years 2001-2002 to 2005-2006. [Clause 14]

MEASURES FOR DEVELOPMENT OF CAPITAL MARKET

Exemption of income of Investor Protection Fund

The Stock Exchanges are required to set up an Investor Protection Fund (IPF) in accordance with the directives of Ministry of Finance and Securities and Exchange Board of India (SEBI). The Fund is set up exclusively to compensate the investors who may suffer a loss in the event of a broker defaulting in the stock exchange concerned.

Under the existing provisions, Section 10(23E) provides that the income of notified Exchange Risk Administration Fund set up by Public Financial Institutions is exempt from income-tax.

On similar lines, it is proposed that income of Investor Protection Funds set up by recognised Stock Exchanges of India will not be included while computing the total income.

However, where any amount standing to the credit of the fund and not charged to income-tax during any previous year is shared, wholly or partly with a recognised stock exchange, the amount shared shall be deemed to be the income of the previous year in which such amount is so shared.

The proposed amendment will take effect from 1st day of April, 2001, and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 5(c)]

Concessional rate of tax on long-term capital gains on securities extended to units of Unit Trust of India and units of Mutual Funds

Under the existing provisions contained in the proviso to sub-section (1) of section 112 of the Income-tax Act, tax on long-term capital gains arising out of transfer of listed securities shall not exceed 10% of the capital gains before allowing adjustment for Cost Inflation Index. The definition of securities follows the definition given in clause (h) of section 2 of the Securities Contract (Regulation) Act, 1956. The status of units of Unit Trust of India and units of Mutual Funds is not clear under the above definition.

It is, therefore, proposed to amend the proviso to sub-section (1) of section 112 to provide that long-term capital gains arising from transfer of units of Unit Trust of India and units of Mutual Funds specified under section 10(23D) of the Income-tax Act along with securities as defined in Securities Contract (Regulation) Act, 1956 shall not exceed 10% of the capital gains before allowing adjustment for Cost Inflation Index.

The proposed amendment will take effect retrospectively from 1st day of April, 2000. [Clause 46]

TAX INCENTIVES TO PROMOTE HOUSING

Encouragement for Housing Projects

Under the existing provisions of section 80-IB of the Income-tax Act, 1961, deduction is allowed in computing the taxable income, in respect of profits derived from approved housing projects where the assessee commences development and construction of housing project on or after the 1st day of April, 1998 and completes the same before the 31st day of March, 2001.

To continue imparting stimulus for building new dwelling units, it is proposed that housing projects which are approved by 31.3.2001 and are completed before 31.3.2003, shall be able to claim the existing benefit of the provision.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 36(d)]

Extension of scope of section 54F

Section 54F of the Income-tax Act exempts levy of tax on long-term capital gains arising from transfer of any long-term capital asset (not being a residential house), if invested in a residential house. There is, however, a stipulation that the above exemption cannot be availed of, if there is a house in existence on the date of transfer or if the person goes for a second house within the stipulated period. The above condition stands in the way of a large number of taxpayers from availing of the deduction under section 54F. The existing house may be a small house or a tenanted house which is difficult to sell in view of the stringent tenancy laws or a house which cannot be sold because of non-availability of buyers or slump in market prices. Therefore, it is proposed to amend section 54F of the Income-tax Act to provide that the deduction under this section may be available to an individual or Hindu undivided family as long as he has one and not more than one house existing on the date of transfer. Other conditions would remain the same.

The proposed amendment will take effect from 1st day of April, 2001 and will, accordingly, apply to the assessment year 2001-2002 and subsequent years. [Clause 25]

Extension of the terminal date in respect of the enhanced deduction of interest on loans taken to acquire or construct self-occupied house property

By the Finance Act, 1999, deduction available for interest on capital borrowed for construction or acquisition of a self-occupied house property was enhanced to Rs.75,000/- if the loan is taken on or after 01.4.1999 and the construction or acquisition of the house in question is completed before 01.4.2001. This terminal date is proposed to be extended to 31.3.2003 to make it co-terminus with the relevant provisions of section 80-IB where tax holiday is being extended to housing projects which are approved till 31.3.2001 and completed by 31.3.2003.

The proposed amendment will take effect from 01.4.2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clause 11]

Limit of repayment of housing loan qualifying for rebate raised to Rs.20,000/-

Under the existing provisions of section 88, contributions made in specified savings are allowed a tax rebate of twenty per cent. on the amount invested or the sum of Rs.60,000/- (or Rs.70,000/- if investment is made in infrastructure bonds), whichever is less. Repayment of loan amount for purchase or construction of a residential house is allowed upto Rs.10,000/-.

It is proposed to raise the limit of repayment, qualifying for rebate, in sub-section (5) of the provision, from Rs.10,000/- to Rs.20,000/-.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 43]

TAX INCENTIVES TO ENTERTAINMENT INDUSTRY

Export benefits extended to non-corporate entities

Under the existing provisions of section 80 HHH, corporate assessee engaged in the business of export or transfer of film software, television software, music software and television news software including telecast rights are entitled to a deduction of profits, received in convertible foreign exchange.

It is proposed to extend the benefit by way of retrospective amendment to assesseees other than companies.

The proposed amendment will be effective retrospectively from 1st April, 2000 and will, accordingly, apply in relation to the assessment year 2000-2001 and subsequent years. [Clause 34]

Increase in the limit for submission of statements by the film producers

Under section 285B, producer of cinematographic films is obliged to furnish within 30 days from the end of the financial year or from the date of completion of the film, whichever is earlier, a statement containing particulars of all payments over Rs.25,000/- in the aggregate made by him or due from him to each person engaged by him.

In response to the demands from the film industry, the Bill proposes to raise the monetary limit from Rs.25,000/- to Rs.50,000/-.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 67]

INCENTIVES FOR DEVELOPMENT OF HUMAN RESOURCES

Deduction in respect of repayment of loan taken by a student for pursuing higher studies

Section 80-E of the Income-tax Act provides relief to students taking loan for higher studies. The repayment of the amount of loan taken for graduate or post-graduate courses in any branch of engineering, medicine or management is allowed as a deduction from the gross total income upto a maximum amount of rupees twenty-five thousand in a year. The first year in which the deduction is available is the year in which the person starts repaying the loan. The deduction is allowed for a maximum period of eight years or till the principal of such loans together with interest is liquidated.

The Bill proposes to raise the limit of deduction from rupees twenty-five thousand to rupees forty thousand.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clause 27]

Incentives to promote sports and games

Under the existing provisions of section 80G of the Income-tax Act, an assessee is allowed a 100% deduction from his total income in respect of donations made by him to certain funds.

For the development of infrastructure for sports and games in the country and for their sponsorship, it is proposed to provide the benefit of 100% deduction to an assessee, being a company, for sums donated to Indian Olympic Association.

The proposed amendment shall take effect from the 1st day of April, 2001 and will, accordingly, apply to assessment year 2001-2002 and subsequent years. [Clause 28]

MEASURES TO WIDEN THE TAX BASE

Definition of "agricultural income"

Under the existing provisions of the Income-tax Act, agricultural income is not included in computing the total income as per the provisions of clause (1) of section 10 of the Income tax Act. The term 'agricultural income' has been defined in sub-section (1A) of section 2 of the Income-tax Act. The provisions of clause (c) of this sub-section include within the definition of agricultural income, any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land or occupied by the cultivator or the receiver of rent-in-kind, or any land with respect to which or its produce any process is carried out to make the produce marketable, if such building is on or in the immediate vicinity of the land and the building is required by the cultivator or the receiver of the rent-in-kind as a dwelling house or as a store house, or other out-building.

It is proposed to insert an Explanation in section 2 (1A) to clarify that any income from such building or land arising from the use of the building or land for any purpose other than agriculture, shall not be included in the definition of "agricultural income". For example, if a person has income from using such building or land for purposes such as letting it out for residential purposes or for the purposes of any business or profession, then, such income shall not be treated as agricultural income.

The proposed amendment shall take effect from the 1st day of April, 2001 and will, accordingly, apply to assessment year 2001-2002 and subsequent years. [Clause 3 (a)]

Power delegated to the Central Government to notify class or classes of persons for whom it will be obligatory to apply for permanent account number (PAN)

Sub-section (1) of section 139A of the Income-tax Act lays down the circumstances where it is mandatory to apply for PAN and also the circumstances where PAN can otherwise be allotted. It is obligatory to apply for PAN under the following circumstances,-

- (i) persons who have taxable income beyond threshold limit of exemption;
- (ii) persons carrying on any business or profession where the total sales or turnover or gross receipts exceed Rs.5 lakhs in any previous year.
- (iii) any person who is in receipt of income derived from property held under trust as provided under section 139 (4A).

In addition, the Assessing Officer may allot PAN to any other person by whom tax is payable. Further, any person may apply to the Assessing Officer for allotment of PAN and the same shall be allotted to him.

With a view to progressively making PAN a common business identification number for other departments such as the Central Board of Excise and Customs and the Director General of Foreign Trade, it is proposed to delegate power to the Central Government to notify class or classes of persons for whom it will be obligatory to apply for PAN, provided tax is payable by them under the Income-tax Act or any tax or duty is payable by them under any other law in force.

The proposed amendment will take effect from the 1st day of June, 2000.

[Clause 55]

WELFARE MEASURES

Rebate of Income-tax in case of senior citizens

Section 88 B of the Income-tax Act provides for a special tax relief in the form of rebate of an amount equal to hundred per cent. of income-tax or an amount of ten thousand rupees, whichever is less, to individual residents in India who attain the age of sixty-five years or more at any time during the previous year.

The rebate to the senior citizens has been provided to help them in meeting the rising cost of old age care and medical expenses.

The Bill proposes to raise the existing tax rebate of rupees ten thousand to rupees fifteen thousand in the case of such individuals while retaining the other requirements of the provision.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clause 44]

Tax rebate for women

To encourage women to become financially independent, it is proposed to insert a new section namely, section 88 C in the Income-tax Act. Under the provision, an assessee being a woman, who has not attained the age of sixty-five in the previous year, shall be entitled to a tax rebate of an amount equal to such income-tax or an amount of rupees five thousand, whichever is less.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to assessment year 2001-2002 and subsequent years. [Clauses 42 and 45]

TAXPAYER FRIENDLY MEASURES

Exemption of amount received on Voluntary Retirement

Under the existing provisions of clause (10C) of section 10 of the Income-tax Act, any amount received by employees of companies,

authorities etc. at the time of their voluntary retirement, in accordance with any scheme or schemes of voluntary retirement, is exempt from income-tax.

The proposed amendment seeks to enlarge the scope of the exemption by extending it to the employees of a public sector company on the termination of their services under a voluntary separation scheme framed in accordance with the guidelines issued in this regard.

Under the existing provisions, the first proviso of section 10(10C) states that the Scheme in relation to companies (other than public sector companies or co-operative societies) is required to be approved by the Chief Commissioner or the Director General of Income-tax. To simplify and expedite the procedure relating to exemption of amounts received under a Voluntary Retirement Scheme framed as per the guidelines, it is proposed to dispense with the requirement of such approval.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 5 (a)]

Requirement of continuance of same business for set off of unabsorbed depreciation dispensed with.

Under the existing provisions contained in sub-section (2) of section 32, carried forward unabsorbed depreciation is allowed to be set off against the profits and gains of business or profession of the subsequent year, subject to the condition that the business or profession for which depreciation allowance was originally computed continues to be carried on in that year. Similar condition in section 72 for the purposes of carry forward and set off of unabsorbed business loss was removed last year.

With a view to harmonize the provisions relating to carry forward and set off of unabsorbed depreciation and unabsorbed business loss, the Bill proposes to dispense with the condition of continuance of same business for the purposes of carry forward and set off of unabsorbed depreciation.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 13]

Charitable Trust not to lose exemption, if funds remain invested for three years in public sector companies on their disinvestment

Under the existing provisions, the income from property held under a trust and used wholly for charitable or religious purposes is exempt from income-tax. This exemption is confined only to that portion of income which is applied for charitable or religious purposes or is accumulated for applying to such purposes, provided such accumulation is not more than 25% of the total income of the trust.

Provisions of sub-section (2) of section 11 provide that the money so accumulated or set apart must be invested or deposited in specified forms or modes, mentioned in sub-section (5) of section 11.

Under the provisions of clause (vii) of sub-section (5) of section 11, investment or deposit in any public sector company is specified as an eligible mode of investment for charitable trusts. The benefit of exemption is not available if a trust holds any shares of a company other than a public sector company. A public sector company may cease to be a public sector company, after disinvestment by the Government.

It is proposed to amend the provisions of this clause so as to provide that an investment or deposit in a public sector company shall continue to be one of the eligible modes of investment for charitable or religious trusts, for a period of three years (in the case of shares), and till the date of maturity of other investment or deposit from the date a public sector company ceases to be a public sector company.

The proposed amendment will take effect from 1st April, 2001 and will accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 8]

Charitable Trusts not to lose exemption if educational or medical facilities provided to specified persons

The existing provisions provide that the income of a charitable or religious trust will not be available if any part of such income or any property of the trust is used or applied directly or indirectly for the benefit of any person such as the author of the trust, trustee or any relative of such persons or any concerns in which such persons have a substantial interest (referred to as a specified person).

It is proposed to insert a new sub-section in section 13 to provide that a trust running an educational institution or a medical institution or a hospital shall not lose the benefit of exemption of any income other than the value of benefits of educational or medical facilities provided to the specified persons, solely on the ground that such benefits have been provided to specified persons.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clauses 9 and 10]

Exemption of interest on external commercial borrowings

Under the existing provisions, Sub-clause (iv) of clause (15) of section 10 of the Income tax Act provides that certain interest income shall not be included in computing the total income of previous year of any person.

It is proposed that section 10(15)(iv) may be amended to provide that the interest paid on delayed repayment of loan or default shall not be exempt while computing the total income. This will deny the benefit of exemption from withholding of tax on interest paid under this sub-clause.

The proposed amendment will take effect from 1st April, 2001 and will, accordingly, apply in relation to the assessment year 2001-2002 and subsequent years. [Clause 5 (b)]