

CHAPTER III

DIRECT TAXES

Income-tax

- Amendment of section 2. **3.** In section 2 of the Income-tax Act, with effect from the 1st day of April, 2006,—
- (a) in clause (7), in sub-clause (a), for the words “assessment of his income”, the words “assessment of his income or assessment of fringe benefits” shall be substituted; 25
- (b) after clause (23A), the following clause shall be inserted, namely:—
- ‘(23B) “fringe benefits” means any fringe benefits referred to in section 115WB;’;
- (c) in clause (42A), in the proviso, after the words, brackets, figures and letter “clause (23D) of section 10”, the words “or a zero coupon bond” shall be inserted; 30
- (d) in clause (43), after the words “the aforesaid date”, the words, figures and letters “and in relation to the assessment year commencing on the 1st day of April, 2006, and any subsequent assessment year includes the fringe benefit tax payable under section 115WA” shall be inserted;
- (e) in clause (47), after sub-clause (iv), the following sub-clause shall be inserted, namely:— 35
- “(iva) the maturity or redemption of a zero coupon bond; or”;
- (f) after clause (47) and the *Explanation* relating thereto, the following shall be inserted, namely:—
- ‘(48) “zero coupon bond” means a bond—
- (a) issued by any infrastructure capital company or infrastructure capital fund or public sector company on or after the 1st day of June, 2005; 40
- (b) in respect of which no payment and benefit is received or receivable before maturity or redemption from infrastructure capital company or infrastructure capital fund or public sector company; and
- (c) which the Central Government may, by notification in the Official Gazette, specify in this behalf. 45
- Explanation.*—For the purposes of this clause, the expressions “infrastructure capital company” and “infrastructure capital fund” shall have the same meanings respectively assigned to them in clauses (a) and (b) of *Explanation 1* to clause (23G) of section 10.’.
- Amendment of section 10. **4.** In section 10 of the Income tax Act, with effect from the 1st day of April, 2006,— 50
- (a) in clause (4), in sub-clause (ii), the second proviso shall be omitted;
- (b) in clause (6BB), for the words, figures and letters “entered into after the 31st day of March, 2005”, the words, figures and letters “entered into after the 30th day of September, 2005” shall be substituted;

(c) in clause (10D), in sub-clause (c), in the second proviso, for the words, brackets, figures and letter “Explanation to sub-section (2A) of section 88”, the words, brackets, figures and letters “Explanation to sub-section (3) of section 80C or the Explanation to sub-section (2A) of section 88, as the case may be” shall be substituted;

5 (d) in clause (15), in sub-clause (iv), in item (fa), the words, figures and letters “before the 1st day of April, 2005” shall be omitted;

(e) in clause (15A), in the proviso, for the words, figures and letters “the 1st day of April, 2005”, the words, figures and letters “the 1st day of October, 2005” shall be substituted.

10 **5.** In section 10A of the Income-tax Act, in sub-section (1A), after clause (ii), the following proviso shall be inserted with effect from the 1st day of April, 2006, namely:— Amendment of section 10A.

“Provided that no deduction under this section shall be allowed to any undertaking, which begins to manufacture or produce articles or things or computer software after the 31st day of March, 2009, in any Special Economic Zone.”.

15 **6.** In section 16 of the Income-tax Act, clause (i) shall be omitted with effect from the 1st day of April, 2006. Amendment of section 16.

7. In section 17 of the Income-tax Act, in clause (2), for sub-clause (vi), the following sub-clause shall be substituted, with effect from the 1st day of April, 2006, namely:— Amendment of section 17.

“(vi) the value of any other fringe benefit or amenity (excluding the fringe benefits chargeable to tax under Chapter XII-H) as may be prescribed:”.

20 **8.** In section 32 of the Income-tax Act, in sub-section (1),— Amendment of section 32.

(a) for clause (iia), the following clause shall be substituted with effect from the 1st day of April, 2006, namely:—

25 (iia) in the case of any new machinery or plant (other than ships and aircraft), which has been acquired and installed after the 31st day of March, 2005, by an assessee engaged in the business of manufacture or production of any article or thing, a further sum equal to twenty per cent. of the actual cost of such machinery or plant shall be allowed as deduction under clause (ii):

Provided that no deduction shall be allowed in respect of—

30 (A) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person; or

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

(C) any office appliances or road transport vehicles; or

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

10 of 1949.

40 (b) in clause (iii), in the Explanation, in clause (2), for the words “an Indian company”, the words, brackets, letter and figures “an Indian company or in a scheme of amalgamation of a banking company, as referred to in clause (c) of section 5 of the Banking Regulation Act, 1949 with a banking institution as referred to in sub-section (15) of section 45 of the said Act, sanctioned and brought into force by the Central Government under sub-section (7) of section 45 of that Act, of any asset by the banking company to the banking institution” shall be substituted.

45 **9.** In section 33AC of the Income-tax Act, in sub-section (4), for the words “such sale proceeds”, the words, brackets, letter and figure “so much of such sale proceeds which represent the amount credited to the reserve account and utilised for the purposes mentioned in clause (c) of sub-section (3)” shall be substituted and shall be deemed to have been substituted with effect from the 1st day of April, 2004. Amendment of section 33AC.

50 **10.** In section 35 of the Income-tax Act, in sub-section (2AB), in clause (5), for the figures, letters and words “31st day of March, 2005”, the figures, letters and words “31st day of March, 2007” shall be substituted with effect from the 1st day of April, 2006. Amendment of section 35.

Amendment of section 35DDA.	11. In section 35DDA of the Income-tax Act, in sub-section (1), for the words “at the time of his voluntary retirement”, the words “in connection with his voluntary retirement” shall be substituted and shall be deemed to have been substituted with effect from the 1st day of April, 2004.	
Amendment of section 36.	12. In section 36 of the Income-tax Act, in sub-section (1), with effect from the 1st day of April, 2006,— (a) after clause (iii), the following shall be inserted, namely:— ‘(iii) the <i>pro rata</i> amount of discount on a zero coupon bond having regard to the period of life of such bond calculated in the manner as may be prescribed. <i>Explanation.</i> —For the purposes of this clause, the expressions— (i) “discount” means the difference between the amount received or receivable by the infrastructure capital company or infrastructure capital fund or public sector company issuing the bond and the amount payable by such company or fund or public sector company on maturity or redemption of such bond; (ii) “period of life of the bond” means the period commencing from the date of issue of the bond and ending on the date of the maturity or redemption of such bond; (iii) “infrastructure capital company” and “infrastructure capital fund” shall have the same meanings respectively assigned to them in clauses (a) and (b) of <i>Explanation 1</i> to clause (23G) of section 10;’ (b) after clause (xii), the following shall be inserted, namely:— ‘(xiii) any amount of banking cash transaction tax paid by the assessee during the previous year on the taxable banking transactions entered into by him. <i>Explanation.</i> —For the purposes of this clause, the expressions “banking cash transaction tax” and “taxable banking transaction” shall have the same meanings respectively assigned to them under Chapter VII of the Finance Act, 2005.’	5 10 15 20
Amendment of section 40.	13. In section 40 of the Income-tax Act, in clause (a), after sub-clause (ib), the following sub-clause shall be inserted with effect from the 1st day of April, 2006, namely:— “(ic) any sum paid on account of fringe benefit tax under Chapter XII-H;”.	25
Amendment of section 43.	14. In section 43 of the Income-tax Act, in clause (5), with effect from the 1st day of April, 2006,— (A) in the proviso,— (i) in clause (c), the word “or” shall be inserted at the end; (ii) after clause (c), as so amended, the following clause shall be inserted, namely:— “(d) an eligible transaction in respect of trading in derivatives referred to in clause (aa) of section 2 of the Securities Contracts (Regulation) Act, 1956 carried out in a recognised stock exchange;”; (B) after the proviso, the following <i>Explanation</i> shall be inserted, namely:— ‘ <i>Explanation.</i> —For the purposes of this clause, the expressions— (i) “eligible transaction” means any transaction,— (A) carried out electronically on screen-based systems through a stock broker or sub-broker or such other intermediary registered under section 12 of the Securities and Exchange Board of India Act, 1992 in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 and the rules, regulations or bye-laws made or directions issued under those Acts or by banks or mutual funds on a recognised stock exchange; and (B) which is supported by a time stamped contract note issued by such stock broker or sub-broker or such other intermediary to every client indicating in the contract note the unique client identity number allotted under any Act referred to in sub-clause (A) and permanent account number allotted under this Act; (ii) “recognised stock exchange” means a recognised stock exchange as referred to in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956 and which fulfils such conditions as may be prescribed and notified by the Central Government for this purpose.’	30 42 of 1956. 35 40 45 42 of 1956.
Amendment of section 47.	15. In section 47 of the Income-tax Act, after clause (via), the following clause shall be inserted, namely:— ‘(vii) any transfer, in a scheme of amalgamation of a banking company with a banking institution sanctioned and brought into force by the Central Government under sub-section (7) of section 45	50

- 10 of 1949. of the Banking Regulation Act, 1949, of a capital asset by the banking company to the banking institution.
- Explanation.*— For the purposes of this clause,—
- 10 of 1949. 5 (i) “banking company” shall have the same meaning assigned to it in clause (c) of section 5 of the Banking Regulation Act, 1949;
- 10 of 1949. (ii) “banking institution” shall have the same meaning assigned to it in sub-section (15) of section 45 of the Banking Regulation Act, 1949;’.
- 10 16. In section 49 of the Income-tax Act, in sub-section (1), in clause (iii), in sub-clause (e), after the words, brackets, figures and letter “or clause (via)”, the words, brackets, figures and letters “or clause (via) or clause (viaa)” shall be inserted. Amendment of section 49.
17. In section 54EC of the Income-tax Act, for sub-section (3), the following sub-section shall be substituted with effect from the 1st day of April, 2006, namely:— Amendment of section 54EC.
- “(3) Where the cost of the long-term specified asset has been taken into account for the purposes of clause (a) or clause (b) of sub-section (1),—
- 15 (a) a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88 for any assessment year ending before the 1st day of April, 2006;
- (b) a deduction from the income with reference to such cost shall not be allowed under section 80C for any assessment year beginning on or after the 1st day of April, 2006.”.
18. In section 54ED of the Income-tax Act, for sub-section (3), the following sub-section shall be substituted with effect from the 1st day of April, 2006, namely:— Amendment of section 54ED.
- “(3) Where the cost of the specified equity shares has been taken into account for the purposes of clause (a) or clause (b) of sub-section (1),—
- (a) a deduction from the amount of income-tax with reference to such cost shall not be allowed under section 88 for any assessment year ending before the 1st day of April, 2006;
- 25 (b) a deduction from the income with reference to such cost shall not be allowed under section 80C for any assessment year beginning on or after the 1st day of April, 2006.”.
19. After section 72A of the Income-tax Act, the following section shall be inserted, namely:— Insertion of new section 72AA.
- ‘72AA. Notwithstanding anything contained in sub-clauses (i) to (iii) of clause (1B) of section 2 or section 72A, where there has been an amalgamation of a banking company with any other banking institution under a scheme sanctioned and brought into force by the Central Government under sub-section (7) of section 45 of the Banking Regulation Act, 1949, the accumulated loss and the unabsorbed depreciation of such banking company shall be deemed to be the loss or, as the case may be, allowance for depreciation of such banking institution for the previous year in which the scheme of amalgamation was brought into force and other provisions of this Act relating to set-off and carry forward of loss and allowance for depreciation shall apply accordingly. Provisions relating to carry forward and set-off of accumulated loss and unabsorbed depreciation allowance in scheme of amalgamation of banking company in certain cases.
- 10 of 1949. 30 *Explanation.*—For the purposes of this section,—
- 35 (i) “accumulated loss” means so much of the loss of the amalgamating banking company under the head “Profits and gains of business or profession” (not being a loss sustained in a speculation business) which such amalgamating banking company, would have been entitled to carry forward and set-off under the provisions of section 72 if the amalgamation had not taken place;
- 40 (ii) “banking company” shall have the same meaning assigned to it in clause (c) of section 5 of the Banking Regulation Act, 1949;
- 10 of 1949. (iii) “banking institution” shall have the same meaning assigned to it in sub-section (15) of section 45 of the Banking Regulation Act, 1949;
- 10 of 1949. 45 (iv) “unabsorbed depreciation” means so much of the allowance for depreciation of the amalgamating banking company which remains to be allowed and which would have been allowed to such banking company if amalgamation had not taken place.’.
20. In section 73 of the Income-tax Act, in sub-section (4), for the words “eight assessment years”, the words “four assessment years” shall be substituted with effect from the 1st day of April, 2006. Amendment of section 73.
- 50 21. After section 80B of the Income-tax Act, the following section shall be inserted with effect from the 1st day of April, 2006, namely:— Insertion of new section 80C.

Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.

'80C. (1) In computing the total income of an assessee, being an individual or a Hindu undivided family, there shall be deducted, in accordance with and subject to the provisions of this section, the whole of the amount paid or deposited in the previous year out of his income chargeable to tax, being the aggregate of the sums referred to in sub-section (2), as does not exceed one lakh rupees.

(2) The sums referred to in sub-section (1) shall be any sums paid or deposited in the previous year by the assessee— 5

(i) to effect or to keep in force an insurance on the life of persons specified in sub-section (4);

(ii) to effect or to keep in force a contract for a deferred annuity, not being an annuity plan referred to in clause (xii), on the life of persons specified in sub-section (4):

Provided that such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity; 10

(iii) by way of deduction from the salary payable by or on behalf of the Government to any individual being a sum deducted in accordance with the conditions of his service, for the purpose of securing to him a deferred annuity or making provision for his spouse or children, in so far as the sum so deducted does not exceed one-fifth of the salary; 15

(iv) as a contribution by an individual to any provident fund to which the Provident Funds Act, 1925, applies; 19 of 1925.

(v) as a contribution to any provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette, where such contribution is to an account standing in the name of any person specified in sub-section (4); 20

(vi) as a contribution by an employee to a recognised provident fund;

(vii) as a contribution by an employee to an approved superannuation fund;

(viii) as subscription to any such security of the Central Government or any such deposit scheme as that Government may, by notification in the Official Gazette, specify in this behalf;

(ix) as subscription to any such savings certificate as defined in clause (c) of section 2 of the Government Savings Certificates Act, 1959, as the Central Government may, by notification in the Official Gazette, specify in this behalf; 25 46 of 1959.

(x) as a contribution, in the name of any person specified in sub-section (4), for participation in the Unit-linked Insurance Plan, 1971 (hereafter in this section referred to as the Unit-linked Insurance Plan) specified in Schedule II of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002; 30 58 of 2002.

(xi) as a contribution in the name of any person specified in sub-section (4) for participation in any such unit-linked insurance plan of the LIC Mutual Fund notified under clause (23D) of section 10, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(xii) to effect or to keep in force a contract for such annuity plan of the Life Insurance Corporation or any other insurer as the Central Government may, by notification in the Official Gazette, specify; 35

(xiii) as subscription to any units of any Mutual Fund notified under clause (23D) of section 10 or from the Administrator or the specified company under any plan formulated in accordance with such scheme as the Central Government may, by notification in the Official Gazette, specify in this behalf; 40

(xiv) as a contribution by an individual to any pension fund set up by any Mutual Fund notified under clause (23D) of section 10 or by the Administrator or the specified company, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(xv) as subscription to any such deposit scheme of, or as a contribution to any such pension fund set up by, the National Housing Bank established under section 3 of the National Housing Bank Act, 1987 (hereafter in this section referred to as the National Housing Bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf; 45 53 of 1987.

(xvi) as subscription to any such deposit scheme of—

(a) a public sector company which is engaged in providing long-term finance for construction or purchase of houses in India for residential purposes; or 50

(b) 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,

as the Central Government may, by notification in the Official Gazette, specify in this behalf;