

CTR ENCYCLOPAEDIA ON INDIAN TAX LAWS

CIRCULAR NO. 772 DT. 23RD DECEMBER, 1998

Explanatory Notes on provisions of the—Finance (No.2) Act, 1998

23/12/1998

1. INTRODUCTION

1.1. The Finance (No. 2) Act, 1998 as passed by the Parliament, received the assent of President on the 1st August, 1998 and has been enacted as Act No. 21 of 1998. This circular explains the substance of the provisions of the Act relating to direct taxes.

2. CHANGES MADE BY THE FINANCE (NO. 2) ACT, 1998

2.1. The Finance (No. 2) Act, 1998 (hereinafter referred to as the 'Act'), has,—

- amended sections 2, 10, 16, 17, 24, 32, 35, 35A, 35AB, 35D, 37, 41, 42, 43, 43B, 44AA, 47, 47A, 54H, 69C, 72A, 80G, 80HHD, 80HHE, 80-IA, 80P, 115AD, 116, 119, 139, 139A, 143, 154, 158BA, 158BB, 158BE, 177, 189, 192, 245N, 245R, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 260, 261, 264, 267, 271, 271A, 272A, 275, 285B, 287, 295 and First Schedule of the Income-tax Act, 1961;
- inserted new sections 33ABA, 50A, 71B, 80GG, 80HHBA, 80JJA, 80JJAA, 145A, 245RR, 246A, 260A and 260B in the Income-tax Act, 1961;
- substituted new sections for sections 80DD, 80DDA and 271F of the Income-tax Act, 1961;
- amended sections 2, 5, 24, 25, 28 and 29 of the Wealth-tax Act, 1957;
- inserted new sections 23A and 27A in the Wealth-tax Act, 1957;
- amended section 3 of the Gift-tax Act, 1958;
- amended sections 3, 15, 16 and 20 of the Interest-tax Act, 1974;
- amended sections 3, 6, 21, 22 and 23 of the Expenditure-tax Act, 1987;
- amended section 37 of the Export-Import Bank of India Act, 1981; and
- introduced Kar Vivad Samadhan Scheme, 1998.

3. PROVISIONS IN BRIEF

3.1. The provisions of the Act 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 1998-99; the rates at which tax will be deductible at source in the financial year 1998-99 from interest (including interest on securities), winnings from lotteries or crossword puzzles, winnings from horse races, insurance commission and other categories of income liable for tax deduction at source under the Income-tax Act; rates for computing 'advance tax', deduction of income-tax from "Salaries" and charging of income-tax on

20. Disallowance of illegal expenses

20.1. Section 37 of the Income-tax Act is amended to provide that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purposes of business or profession and no deduction or allowance shall be made in respect of such expenditure. This amendment will result in disallowance of the claims made by certain assesseees in respect of payments on account of protection money, extortion, hafta, bribes, etc. as business expenditure. It is well decided that unlawful expenditure is not an allowable deduction in computation of income.

20.2. This amendment will take effect retrospectively from 1st April, 1962 and will, accordingly, apply in relation to the assessment year 1962-63 and subsequent years.