

**2015  
JANUARY**

**P. K. LUHARUKA & CO.**  
CHARTERED ACCOUNTANTS  
MONTHLY NEWSLETTER  
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THIS ISSUE GIVES AN UPDATE ON ASPECTS ON WHICH THE CBDT, CBEC, RBI, WEST BENGAL STATE GOVERNMENT AND MINISTRY OF CORPORATE AFFAIRS THINK NEED CHANGES OR CLARIFICATIONS, A FEW RELEVANT CASE LAWS RELATING TO INCOME TAX AND A DUE DATES CALENDAR FOR THE MONTH OF JANUARY.

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### DIRECT TAXES

CBDT issues a circular containing the rates of deduction of income tax from the payment of income chargeable under the head of “Salaries” during the financial year, 2014-15 and explains certain related provisions of the Act and Income Tax Rules, 1962. (Attached Circular No. 17/2014 dated, 10<sup>th</sup> December, 2014)

### INDIRECT TAXES

- a. CBEC while amending sub-rule 2 of Rule 5A, included among others Cost Accountant or a Chartered Accountant nominated under Sec 72A of the Finance Act, 1994 for the scrutiny, for the purposes of the said rule. (Attached Notification No. 23/2014-Service Tax dated, 05<sup>th</sup> December, 2014)
- b. CBEC issues a clarification regarding inclusion of cases filed in the Settlement Commission in the “Call Book”. The clarification was related to cases admitted by the commission, multiple noticees and Cases that shall be taken out of the “Call Book” (Attached Circular No. 992/16/2014-CX, dated, 26<sup>th</sup> December, 2014)
- c. The Central Government hereby exempts all goods, subject to certain conditions, falling under the First Schedule of the Tariff, donated or purchased out of cash donations, for the relief and rehabilitation of the people affected by the floods in the State of Jammu & Kashmir for the duty of excise leviable thereon. (Attached Notification No. 25/2014-Central Excise dated, 11<sup>th</sup> December, 2014)
- d. CBEC hereby resolves the issue of facing difficulty in obtaining Deemed export benefits as the ARE-3 is not certified by the Central Excise Authorities, in case of Re-warehousing of goods imported and/or procured indigenously by EOU/EHTP/STP/BTP units-reg. (Attached Circular No. 16/2014-Customs, dated, 18<sup>th</sup> December, 2014)
- e. CBEC hereby determines the rate of exchange of conversion of foreign currency into Indian Currency or vice – versa w.e.f. 19<sup>th</sup> December, 2014. (Attached Notification No. 116/2014-Customs (N.T.), dated, 18<sup>th</sup> December, 2014)

### COMPANY LAW

The Ministry of Corporate Affairs vide the Companies (Cost Records & Audit) Amendment Rules, 2014 amends the Companies (Cost Records & Audit) Rules, 2014. Through this amendment the ministry has specified the limit for applicability of maintaining cost records and mandatory Cost Audit. Limit for maintenance of cost records are based on previous year’s overall turnover while for audit limit is based on overall turnover along with aggregate turnover of the individual product/s or service/s for which cost records are to be maintained. (Attached Notification dated 31<sup>st</sup> December, 2014)

### RESERVE BANK OF INDIA

- a. RBI, in its Notification dated 15.12.2014, stated that it has decided to extend business hours of the RTGS system to facilitate customer and inter-bank transactions as also to facilitate other market obligations to settle in the RTGS system. Accordingly RTGS business hours have been advanced to 8:00 hours from 9.00 hours and closing time of RTGS has been extended to 20.00 hours on week days. RTGS business window will be open from 8.00 hours to 15.30 hours on Saturdays. (Attached Notification Dated 15<sup>th</sup> December, 2014)
- b. RBI, in its Press Release dated 29.12.14, provided the highlights of the Financial Stability Report December'14. It stated that weak global front may prolong easy monetary stance of the Advanced Economies but on the domestic front improved growth outlook, fall in inflation and political stability have significantly abated the macroeconomic vulnerabilities. (Attached Press Release dated 29<sup>th</sup> December, 2014)

### MEMBERS

ICAI extends the last date "for complying with the CPE hours requirement for the Calendar Year 2014" from 31<sup>st</sup> December, 2014 to 31<sup>st</sup> March, 2015.

### WEST BENGAL STATE LAWS

The last date for submitting VAT Audit Report/Statement in Form 88/88A for F.Y. 2013-14 is extended up to 31st March, 2015.

### CASE LAWS

- a. A writ petition is not like an appeal where the assessee has a statutory right to require the Court to entertain the challenge. A writ will be maintained only if the notice is clearly without jurisdiction & not otherwise – **Nickunj Eximp Enterprises Pvt. Ltd. vs. ACIT. (Bombay High Court)**
- b. Income-tax returns are confidential and cannot be disclosed under RTI Act except where disclosure is in public interest and outweighs possible harm to the assessee – **Naresh Trehan vs. Rakesh Kumar Gupta (Delhi High Court)**
- c. Penalty u/s 271(1)(c) & 273(2)(a) cannot be mechanically levied. Cogent reasons have to be given – **Amrut Tubewell Company vs. ACIT (Gujarat High Court)**

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**P. K. Luharuka & Co.,**  
**Chartered Accountants Due Dates Calendar**  
01 January 2015 – 31 January 2015

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**January 2015**

Mo Tu We Th Fr Sa Su

				1	2	3	4
<a href="#">5</a>	<a href="#">6</a>	<a href="#">7</a>	8	9	<a href="#">10</a>	11	
12	13	14	<a href="#">15</a>	16	17	18	
19	20	<a href="#">21</a>	22	<a href="#">23</a>	24	25	
<a href="#">26</a>	27	28	29	30	31		

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**Details**

**06 January 2015**



**Subject** Due Date of payment (latest by 8 P.M.) of Service Tax for services deemed to be provided as per rules in the month of December in case of assesseees, other than individual or proprietorship firm or partnership firm (GAR 7 Challan)



**Subject** Due Date of payment (latest by 8 P.M.) of Service Tax for services deemed to be provided as per rules in the quarter of October-December in case of individuals or proprietorship firms or partnership firms (GAR 7 Challan)



**Subject** Due Date of payment of Central Excise Duties for the previous month - For non SSI Units - GAR-7 Challan

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**07 January 2015**



**Subject** Due Date of deposit of TDS where income or amount is paid or credited in the month of December (Challan No./ ITNS. 281)



**Subject** Due Date of Monthly payment of TCS in December u/s 206C

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**Subject** Submission of copy of declaration forms (Form 15G and form 15H) received for non deduction of TDS under section 197A before the Chief Commissioner or Commissioner

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#### 10 January 2015



**Subject** Due Date of ER- 3 for SSI assesseees for the quarter October - December



**Subject** Due Date of ER-1 for Non-SSI assesseees and ER-2 for EOU units for the month of December

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#### 15 January 2015



**Subject** Due Date for filing Quarterly Statement of TDS/TCS deposited in Q3 of current FY (Form 24Q & 26Q)



**Subject** Due Date of Payment of PF for the month of December (plus grace period of 5 days)

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#### 21 January 2015



**Subject** Due Date of Payment of ESI for the month of December

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#### 23 January 2015



**Subject** Netaji's Birthday

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#### 26 January 2015



**Subject** Happy Republic Day

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**F.No. 275/192/2014-IT(B)**  
Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes

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North Block, New Delhi  
Dated 10<sup>th</sup> December, 2014

**SUBJECT: INCOME-TAX DEDUCTION FROM SALARIES DURING THE FINANCIAL YEAR 2014-15 UNDER SECTION 192 OF THE INCOME-TAX ACT, 1961.**

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Reference is invited to Circular No.08/2013 dated 25.10.2013 whereby the rates of deduction of income-tax from the payment of income under the head "Salaries" under Section 192 of the Income-tax Act, 1961 (hereinafter 'the Act'), during the financial year 2013-14, were intimated. The present Circular contains the rates of deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2014-15 and explains certain related provisions of the Act and Income-tax Rules, 1962 (hereinafter the Rules). The relevant Acts, Rules, Forms and Notifications are available at the website of the Income Tax Department- [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in).

**2. RATES OF INCOME-TAX AS PER FINANCE (No. 2) ACT, 2014:**

As per the Finance (No. 2) Act, 2014, income-tax is required to be deducted under Section 192 of the Act from income chargeable under the head "Salaries" for the financial year 2014-15 (i.e. Assessment Year 2015-16) at the following rates:

**2.1 Rates of tax**

**A. Normal Rates of tax:**

Sl No	Total Income	Rate of tax
1	Where the total income does not exceed Rs. 2,50,000/-.	Nil
2	Where the total income exceeds Rs. 2,50,000 but does not exceed Rs. 5,00,000/-.	10 per cent of the amount by which the total income exceeds Rs. 2,50,000/-
3	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 25,000/- plus 20 per cent of the amount by which the total income exceeds Rs. 5,00,000/-.
4	Where the total income exceeds Rs. 10,00,000/-.	Rs. 1,25,000/- plus 30 per cent of the amount by which the total income exceeds Rs. 10,00,000/-

**B. Rates of tax for every individual, resident in India, who is of the age of sixty years or more but less than eighty years at any time during the financial year:**

Sl No	Total Income	Rate of tax
1	Where the total income does not exceed Rs. 3,00,000/-	Nil
2	Where the total income exceeds Rs. 3,00,000 but does not exceed Rs. 5,00,000/-	10 per cent of the amount by which the total income exceeds Rs. 3,00,000/-
3	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-	Rs. 20,000/- plus 20 per cent of the amount by which the total income exceeds Rs. 5,00,000/-.
4	Where the total income exceeds Rs. 10,00,000/-	Rs. 1,20,000/- plus 30 per cent of the amount by which the total income exceeds Rs. 10,00,000/-

**C. In case of every individual being a resident in India, who is of the age of eighty years or more at any time during the financial year:**

Sl No	Total Income	Rate of tax
1	Where the total income does not exceed Rs. 5,00,000/-	Nil
2	Where the total income exceeds Rs. 5,00,000 but does not exceed Rs. 10,00,000/-	20 per cent of the amount by which the total income exceeds Rs. 5,00,000/-
3	Where the total income exceeds Rs. 10,00,000/-	Rs. 1,00,000/- plus 30 per cent of the amount by which the total income exceeds Rs. 10,00,000/-

**2.2 Surcharge on Income tax:**

The amount of income-tax shall be increased by a surcharge @10% of the income-tax on payments to an individual taxpayer, **if the total income of the individual exceeds Rs 1 crore during FY 2014-15 (AY 2015-16)**. However the amount of Surcharge shall not exceed the amount by which the individual's total income exceeds Rs 1 crore and if surcharge so arrived at, exceeds such amount (assessee's total income minus one crore) then it will be restricted to the amount of total income minus Rupees one crore.

**2.3.1 Education Cess on Income tax:**

The amount of income-tax including the surcharge if any, shall be increased by Education Cess on Income Tax at the rate of **two percent** of the income-tax.

**2.3.2 Secondary and Higher Education Cess on Income-tax:**

An additional education cess is chargeable at the rate of **one percent** of income-tax including the surcharge if any, but not including the education cess on income-tax as in 2.3.1.

**3. SECTION 192 OF THE INCOME-TAX ACT, 1961: BROAD SCHEME OF TAX DEDUCTION AT SOURCE FROM "SALARIES":**

**3.1 Method of Tax Calculation:**

Every person who is responsible for paying any income chargeable under the head "Salaries" shall deduct income-tax on the estimated income of the assessee under the head "Salaries" for

the financial year 2014-15. The income-tax is required to be calculated on the basis of the rates given above, subject to the provisions related to requirement to furnish PAN as per sec 206AA of the Act, and shall be deducted at the time of each payment. No tax, however, will be required to be deducted at source in any case unless the estimated salary income including the value of perquisites, for the financial year exceeds Rs. 2,50,000/- or Rs.3,00,000/- or Rs. 5,00,000/-, as the case may be, depending upon the age of the employee. *(Some typical illustrations of computation of tax are given at Annexure-I).*

### **3.2 Payment of Tax on Perquisites by Employer:**

An option has been given to the employer to pay the tax on non-monetary perquisites given to an employee. The employer may, at its option, make payment of the tax on such perquisites himself without making any TDS from the salary of the employee. However, the employer will have to pay the tax at the time when such tax was otherwise deductible i.e. at the time of payment of income chargeable under the head “salaries” to the employee.

#### **3.2.1 Computation of Average Income Tax:**

For the purpose of making the payment of tax mentioned in para 3.2 above, tax is to be determined at the average of income tax computed on the basis of rate in force for the financial year, on the income chargeable under the head "salaries", including the value of perquisites for which tax has been paid by the employer himself.

#### **3.2.2 Illustration:**

The income chargeable under the head “salaries” of an employee below sixty years of age for the year inclusive of all perquisites is Rs.4,50,000/-, out of which, Rs.50,000/- is on account of non-monetary perquisites and the employer opts to pay the tax on such perquisites as per the provisions discussed in para 3.2 above.

#### **STEPS:**

Income Chargeable under the head “Salaries” inclusive of all perquisites	Rs. 4,50,000/-
Tax on Total Salary (including Cess)	Rs. 20,600/-
Average Rate of Tax $[(20,600/4,50,000) \times 100]$	4.57%
Tax payable on Rs.50,000/= (4.57% of 50,000)	Rs. 2285/-
Amount required to be deposited each month	Rs. 190 ((Rs. 2285/12)

The tax so paid by the employer shall be deemed to be TDS made from the salary of the employee.

### **3.3 Salary From More Than One Employer:**

Section 192(2) deals with situations where an individual is working under more than one employer or has changed from one employer to another. It provides for deduction of tax at source by such employer (as the tax payer may choose) from the aggregate salary of the employee, who is or has been in receipt of salary from more than one employer. The employee is now required to furnish to the present/chosen employer details of the income under the head "Salaries" due or received from the former/other employer and also tax deducted at source therefrom, **in writing and duly verified by him and by the former/other employer**. The present/chosen employer will be required to deduct tax at source on the aggregate amount of salary (including salary received from the former or other employer).



### **3.4 Relief When Salary Paid in Arrear or Advance:**

**3.4.1** Under section 192(2A) where the assessee, being a Government servant or an employee in a company, co-operative society, local authority, university, institution, association or body is entitled to the relief under **Section 89(1)** he may furnish to the person responsible for making the payment referred to in Para (3.1), such particulars in **Form No. 10E duly verified by him**, and thereupon the person responsible, as aforesaid, shall compute the relief on the basis of such particulars and take the same into account in making the deduction under Para(3.1) above.

**3.4.2** With effect from 1/04/2010 (AY 2010-11), no such relief shall be granted in respect of any amount received or receivable by an assessee on his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or in the case of a public sector company referred to in section 10(10C)(i) (read with Rule 2BA), a scheme of voluntary separation, if an exemption in respect of any amount received or receivable on such voluntary retirement or termination of his service or voluntary separation has been claimed by the assessee under section 10(10C) in respect of such, or any other, assessment year.

### **3.5 Information regarding Income under any other head:**

(i) Section 192(2B) enables a taxpayer to furnish particulars of income under any head other than "Salaries" (not being a loss under any such head other than the loss under the head "Income from house property") received by the taxpayer for the same financial year and of any tax deducted at source thereon. The particulars may now be furnished in a **simple statement**, which is properly signed and verified by the taxpayer in the manner as prescribed under Rule 26B(2) of the Rules and shall be annexed to the simple statement. The form of verification is reproduced as under:

**I, ..... (name of the assessee), do declare that what is stated above is true to the best of my information and belief.**

It is reiterated that the DDO can take into account any loss only under the head "Income from house property". Loss under any other head cannot be considered by the DDO for calculating the amount of tax to be deducted.

### **3.6 Computation of income under the head "Income from house property":**

While taking into account the loss from House Property, the DDO shall ensure that the employee files the declaration referred to above and encloses therewith a computation of such loss from house property. Following details shall be obtained and kept by the employer in respect of loss claimed under the head "Income from house property" separately for each house property:

- a) Gross annual rent/value
- b) Municipal Taxes paid, if any
- c) Deduction claimed for interest paid, if any
- d) Other deductions claimed
- e) Address of the property
- f) Amount of loan, if any; and
- g) Name and address of the lender (loan provider)

#### **3.6.1 Conditions for Claim of Deduction of Interest on Borrowed Capital for Computation of Income From House Property [Section 24(b)]:**

Section 24(b) of the Act allows deduction from income from houses property on interest on borrowed capital as under:-

- (i) the deduction is allowed only in case of house property which is owned and is in the occupation of the employee for his own residence. However, if it is actually not occupied by the employee in view of his place of the employment being at other place, his residence in that other place should not be in a building belonging to him.
- (ii) the quantum of deduction allowed as per table below:

Sl No	Purpose of borrowing capital	Date of borrowing capital	Maximum Deduction allowable
1	Repair or renewal or reconstruction of the house	Any time	Rs. 30,000/-
2	Acquisition or construction of the house	Before 01.04.1999	Rs. 30,000/-
3	Acquisition or construction of the house	On or after 01.04.1999	Rs. 1,50,000/- (upto AY 2014-15) <b>Rs. 2,00,000/- (w. e. f. AY 2015-16)</b>

In case of Serial No. 3 above

- (a) The acquisition or construction of the house should be completed within 3 years from the end of the FY in which the capital was borrowed. **Hence it is necessary for the DDO to have the completion certificate of the house property against which deduction is claimed either from the builder or through self-declaration from the employee.**
- (b) Further any prior period interest for the FYs upto the FY in which the property was acquired or constructed (as reduced by any part of interest allowed as deduction under any other section of the Act) shall be deducted in equal installments for the FY in question and subsequent four FYs.
- (c) The employee has to furnish before the DDO a certificate from the person to whom any interest is payable on the borrowed capital specifying the amount of interest payable. In case a new loan is taken to repay the earlier loan, then the certificate should also **show the details of Principal and Interest of the loan so repaid.**

### **3.7 Adjustment for Excess or Shortfall of Deduction:**

The provisions of Section 192(3) allow the deductor to make adjustments for any excess or shortfall in the deduction of tax already made during the financial year, in subsequent deductions for that employee within that financial year itself.

### **3.8 Salary Paid in Foreign Currency:**

For the purposes of deduction of tax on salary payable in foreign currency, the value in rupees of such salary shall be calculated at the “**Telegraphic transfer buying rate**” of such currency as on the date on which tax is required to be deducted at source ( see Rule 26).

## **4. PERSONS RESPONSIBLE FOR DEDUCTING TAX AND THEIR DUTIES:**

4.1. As per section 204(i) of the Act, in case of payments other than payments by the Central Government or the State Government, the "persons responsible for paying" for the purpose of Section 192 means the employer himself or if the employer is a Company, the Company itself including the Principal Officer thereof. Further, as per Section 204(iv), in case the credit, or as the case may be, the payment is made by or on behalf of Central Government or State Government,

the DDO or any other person by whatever name called, responsible for crediting, or as the case may be, paying such sum is the "persons responsible for paying" for the purpose of Section 192.

4.2. The tax determined as per para 9 should be deducted from the salary u/s 192 of the Act.

#### **4.3. Deduction of Tax at Lower Rate:**

If the jurisdictional TDS officer of the Taxpayer issues a certificate of No Deduction or Lower Deduction of Tax under section 197 of the Act, in response to the application filed before him in Form No 13 by the Taxpayer; then the DDO should take into account such certificate and deduct tax on the salary payable at the rates mentioned therein.(see **Rule 28AA**). The Unique Identification Number of the certificate is required to be reported in Quarterly Statement of TDS (Form 24Q)

#### **4.4. Deposit of Tax Deducted:**

Rule 30 prescribes time and mode of payment of tax deducted at source to the account of Central Government.

##### **4.4.1. Due dates for payment of TDS:**

Prescribed time of payment/deposit of TDS to the credit of Central Government account is as under:

##### **a) In case of an Office of Government:**

Sl No.	Description	Time up to which to be deposited.
1	Tax deposited without Challan [Book Entry]	SAME DAY
2	Tax deposited with Challan	7 <sup>TH</sup> DAY NEXT MONTH
3	Tax on perquisites opt to be deposited by the employer.	7 <sup>TH</sup> DAY NEXT MONTH

##### **b) In any case other than an Office of Government**

Sl No.	Description	Time up to which to be deposited.
1	Tax deducted in March	30 <sup>TH</sup> APRIL NEXT FINANCIAL YEAR
2	Tax deducted in any other month	7 <sup>TH</sup> DAY NEXT MONTH
3	Tax on perquisites opted to be deposited by the employer	7 <sup>TH</sup> DAY NEXT MONTH

However, if a DDO applies before the jurisdictional Additional/Joint Commissioner of Income Tax to permit quarterly payments of TDS under section 192, the Rule 30(3) allows for payments on quarterly basis and as per time given in Table below:

Sl. No.	Quarter of the financial year ended on	Date for quarterly payment
1	30 <sup>th</sup> June	7 <sup>th</sup> July
2	30 <sup>th</sup> September	7 <sup>th</sup> October
3	31 <sup>st</sup> December	7 <sup>th</sup> January
4	31 <sup>st</sup> March	30 <sup>th</sup> April next Financial Year

#### **4.4.2 Mode of Payment of TDS**

##### **4.4.2.1 Compulsory filing of Statement by PAO, Treasury Officer, etc in case of payment of TDS by Book Entry:**

In the case of an office of the Government, where tax has been paid to the credit of the Central Government *without the production of a challan* [**Book Entry**], the Pay and Accounts Officer or the Treasury Officer or the Cheque Drawing and Disbursing Officer or any other person by

whatever name called to whom the deductor reports about the tax deducted and who is responsible for crediting such sum to the credit of the Central Government, shall-

- (a) submit a statement in **Form No. 24G** within ten days from the end of the month to the agency authorized by the Director General of Income-tax (Systems) [*TIN Facilitation Centres currently managed by M/s National Securities Depository Ltd*] in respect of tax deducted by the deductors and reported to him for that month; and
- (b) intimate the number (hereinafter referred to as the **Book Identification Number or BIN**) generated by the agency to each of the deductors in respect of whom the sum deducted has been credited. BIN consists of receipt number of Form 24G, DDO sequence number in Form No. 24G and date on which tax is deposited.

The procedure of furnishing Form 24G is detailed in Annexure III. PAOs/DDOs should go through the FAQs in Annexure IV to understand the correct process to be followed. The ZAO/PAO of Central Government Ministries is responsible for filing of Form No. 24G on monthly basis. The person responsible for filing Form No. 24G in case of State Govt. Departments is shown at Annexure V.

The procedure of furnishing Form 24G is detailed in Annexure IV. PAOs/DDOs should go through the FAQs therein to understand the correct process to be followed.

#### **4.4.2.2 Payment by an Income Tax Challan:**

- (i) In case the payment is made by an Income Tax Challan, the amount of tax so deducted shall be deposited to the credit of the Central Government by remitting it, within the time specified in Table in para 4.4.1 above, into any office of the Reserve Bank of India or branches of the State Bank of India or of any authorized bank;
- (ii) In case of a company and a person (other than a company), to whom provisions of section 44AB are applicable, the amount deducted shall be **electronically remitted** into the Reserve Bank of India or the State Bank of India or any authorised bank accompanied **by an electronic income-tax challan** (Rule125).

The amount shall be ***construed as electronically remitted*** to the Reserve Bank of India or to the State Bank of India or to any authorized bank, if the amount is remitted by way of:

- (a) internet banking facility of the Reserve Bank of India or of the State Bank of India or of any authorized bank; or
- (b) debit card. {**Notification No.41/2010** dated 31<sup>st</sup> May 2010}

#### **4.5 Interest, Penalty & Prosecution for Failure to Deposit Tax Deducted:**

**4.5.1** If a person fails to deduct the whole or any part of the tax at source, or, after deducting, fails to pay the whole or any part of the tax to the credit of the Central Government within the prescribed time, he shall be liable to action in accordance with the provisions of section 201 and shall be deemed to be an assessee-in-default in respect of such tax and liable for **penal action u/s 221** of the Act. Further Section 201(1A) provides that such person shall be liable to pay **simple interest**

- (i) at the rate of 1% for every month or part of the month on the amount of such tax from the date on which such tax was deductible to the date on which such tax is deducted; and
- (ii) at the rate of one and one-half percent for every month or part of a month on the amount of such tax from the date on which such tax was deducted to the date on which such tax is actually paid.

Such interest, if chargeable, **is mandatory in nature** and has to be paid before furnishing of quarterly statement of TDS for respective quarter.

**4.5.2** Section 271C inter alia lays down that if any person fails to deduct whole or any part of tax at source or fails to pay the whole or part of tax under the second proviso to section 194B, he shall be liable to pay, by way of **penalty**, a sum equal to the amount of tax not deducted or paid by him.

**4.5.3** Further, section 276B lays down that if a person fails to pay to the credit of the Central Government within the prescribed time, as above, the tax deducted at source by him or tax payable by him under the second proviso to section 194B, he shall be **punishable with rigorous imprisonment for a term which shall be between 3 months and 7 years, along with fine.**

#### **4.6 Furnishing of Certificate for Tax Deducted (Section 203):**

**4.6.1** Section 203 requires the DDO to furnish to the employee a certificate in Form 16 detailing the amount of TDS and certain other particulars. Rule 31 prescribes that Form 16 should be furnished to the employee by 31<sup>st</sup> May after the end of the financial year in which the income was paid and tax deducted. Even the banks deducting tax at the time of payment of pension are required to issue such certificates. **Revised Form 16 annexed to Notification No 11 dated 19-02-2013 is enclosed.** The certificate in Form 16 shall specify

- (a) Valid permanent account number (PAN) of the deductee;
- (b) Valid tax deduction and collection account number (TAN) of the deductor;
- (c)
  - (i) Book identification number or numbers (BIN) where deposit of tax deducted is without production of challan in case of an office of the Government;
  - (ii) Challan identification number or numbers (CIN\*) in case of payment through bank.

*(\*Challan identification number (CIN) means the number comprising the Basic Statistical Returns (BSR) Code of the Bank branch where the tax has been deposited, the date on which the tax has been deposited and challan serial number given by the bank.)*

- (d) Receipt numbers of all the relevant quarterly statements of TDS (24Q). The receipt number of the quarterly statement is of 8 digit.

**Further as per Circular 04/2013 dated 17-04-2013** all deductors (including Government deductors who deposit TDS in the Central Government Account through book entry) shall issue the Part A of Form No. 16, by generating and subsequently downloading it through TRACES Portal and after duly authenticating and verifying it, in respect of all sums deducted on or after the 1st day of April, 2012 under the provisions of **section 192** of Chapter XVII-B. Part A of Form No 16 shall have a unique TDS certificate number. 'Part B (Annexure)' of Form No. 16 shall be prepared by the deductor manually and issued to the deductee after due authentication and verification alongwith the Part A of the Form No. 16.

If the DDO fails to issue these certificates to the person concerned, as required by section 203, he will be liable to pay, by way of **penalty, under section 272A(2)(g)**, a sum which shall be Rs.100/- for every day during which the failure continues.

*It is, however, clarified that there is no obligation to issue the TDS certificate in case tax at source is not deductible/deducted by virtue of claims of exemptions and deductions.*

[Note: TRACES is a web-based application of the Income - tax Department that provides an interface to all stakeholders associated with TDS administration. It enables viewing of challan status, downloading of NSDL Conso File, Justification Report and Form 16 / 16A as well as viewing of annual tax credit statements (Form 26AS). Each deductor is required to Register in the Traces portal. Form 16/16A issued to deductees should mandatorily be generated and downloaded from the TRACES portal].

**Certain essential points regarding the filing of the Statement and obtaining TDS certificates are mentioned below:**

(a) TDS certificate (Form16) would be generated for the deductee only if Valid PAN is correctly mentioned in the Annexure II of Form 24Q in Quarter 4 filed by the deductor. Moreover, employers are advised to ensure in Form 16 that the status of “matching” with respect to “Form 24G/OLTAS” is ‘F’. If the status of matching other than ‘F’, kindly take necessary action promptly to rectify the same. It is pertinent to mention here that certain facilities have been provided to the deductors at website [www.tdscpc.gov.in/](http://www.tdscpc.gov.in/) including online correction of statements (Form 24Q).

(b) The employer should quote the **gross amount of salary** (including any amount exempt under section 10 and the deductions under chapter VI A) in column 321 (Amount paid/credited) of Annexure I of Form 24Q as per NSDL RPU (hereafter Return Preparation Utility).

(c) The employer should quote the amount of salary excluding any amount exempt under section 10 in column 337 (Total amount of salary) of Annexure II of Form 24Q as per NSDL RPU.

(d) TDS on Income (including loss from House Property) under any Head other than the head ‘Salaries’ offered for TDS (shown in column 341) can be shown in column 353 (Reported amount of TDS by previous employer, as per NSDL RPU).

(e) Employer is advised to quote Total Taxable Income (Column 346) in Annexure II without rounding-off and TDS should be deducted and reported accordingly i.e. without rounding-off of TDS also.

Example:

<b>Total Taxable Income</b>	<b>Total Taxable Income (Rounded Off)</b>	<b>TDS to be Deducted (Incl. cess)</b>	<b>TDS Deducted/ Reported after rounding-off of income (Incl. cess)</b>	<b>Short Deduction</b>
1350094	1350090	236929.05	236927.80	Rs. 1.25

4.6.2. If an assessee is employed by more than one employer during the year, each of the employers shall issue Part A of the certificate in Form No. 16 pertaining to the period for which such assessee was employed with each of the employers and *Part B may be issued by each of the employers or the last employer at the option of the assessee.*

#### 4.6.3. **Authentication by Digital Signatures:**

(i) Where a certificate is to be furnished in Form No. 16, the deductor may, at his option, use **digital signatures** to authenticate such certificates.

(ii) In case of certificates issued under clause (i), the deductor shall ensure that

(a) the conditions prescribed in para 4.6.1 above are complied with;

- (b) once the certificate is digitally signed, the contents of the certificates are not amenable to change; and
- (c) the certificates have a control number and a log of such certificates is maintained by the deductor.

- ❖ The digital signature is being used to authenticate most of the e-transactions on the internet as transmission of information using digital signature is failsafe. It saves time specially in organisations having large number of employees where issuance of certificate of deduction of tax with manual signature is time consuming (Circular no 2 of 2007 dated 21.05.2007)

#### **4.6.4. Furnishing of particulars pertaining to perquisites, etc (Section 192(2C)):**

4.6.4.1 As per section 192(2C), the responsibility of providing correct and complete particulars of perquisites or profits in lieu of salary given to an employee is placed on the person responsible for paying such income i.e., the person responsible for deducting tax at source. The form and manner of such particulars are prescribed in Rule 26A, Form 12BA (Annexure II) and Form 16 of the Rules. Information relating to the nature and value of perquisites is to be provided by the employer in Form 12BA in case salary paid or payable is above Rs.1,50,000/-. In other cases, the information would have to be provided by the employer in Form 16 (PART B) itself.

4.6.4.2 An employer, who has paid the tax on perquisites on behalf of the employee as per the provisions discussed in para 3.2 of this circular, shall furnish to the employee concerned, a certificate to the effect that tax has been paid to the Central Government and specify the amount so paid, the rate at which tax has been paid and certain other particulars in the amended Form 16.

4.6.4.3 The obligation cast on the employer under Section 192(2C) for furnishing a statement showing the value of perquisites provided to the employee is a **crucial responsibility of the employer**, which is expected to be discharged in accordance with law and rules of valuation framed there under. Any false information, fabricated documentation or suppression of requisite information will entail consequences thereof provided under the law. The certificates in Forms 16 and/or Form 12BA specified above, shall be furnished to the employee by 31st May of the financial year immediately following the financial year in which the income was paid and tax deducted. If he fails to issue these certificates to the person concerned, as required by section 192(2C), he will be liable to pay, by way of **penalty, under section 272A(2)(i)**, a sum which shall be Rs.100/- for every day during which the failure continues.

*As per Section 139C of the Act, the Assessing Officer can require the taxpayer to produce Form 12BA alongwith Form 16, as issued by the employer.*

#### **4.7 Mandatory Quoting of PAN and TAN:**

4.7.1 Section 203A of the Act makes it obligatory for all persons responsible for deducting tax at source to obtain and quote the Tax deduction and collection Account No (TAN) in the challans, TDS-certificates, statements and other documents. Detailed instructions in this regard are available in this Department's Circular No.497 [F.No.275/118/ 87-IT(B) dated 9.10.1987]. If a person fails to comply with the provisions of section 203A, he will be liable to pay, by way of penalty, under section 272BB, a sum of ten thousand rupees. Similarly, as per Section 139A(5B), it is obligatory for persons deducting tax at source to quote PAN of the persons from whose income tax has been deducted in the statement furnished u/s 192(2C), certificates furnished u/s 203 and all statements prepared and delivered as per the provisions of section 200(3) of the Act.

4.7.2 All tax deductors are required to file the TDS statements in **Form No.24Q (for tax deducted from salaries)**. As the requirement of filing TDS certificates alongwith the return of income has been done away with, the lack of PAN of deductees is creating difficulties in giving credit for the tax deducted. Tax deductors are, therefore, advised to procure and quote correct PAN details of all deductees in the TDS statements for salaries in Form 24Q. Taxpayers are also liable to furnish their correct PAN to their deductors. Non-furnishing of PAN by the deductee (employee) to the deductor (employer) will result in deduction of TDS at higher rates u/s 206AA of the Act mentioned in para 4.8 below.

#### **4.8 Compulsory Requirement to furnish PAN by employee (Section 206AA):**

4.8.1 Section 206AA in the Act makes furnishing of PAN by the employee compulsory in case of receipt of any sum or income or amount, on which tax is deductible. **If employee (deductee) fails to furnish his/her PAN** to the deductor, the deductor has been made responsible to make TDS at higher of the following rates:

- i) at the rate specified in the relevant provision of this Act; or
- ii) at the rate or rates in force; or
- iii) at the rate of twenty per cent.

The deductor has to determine the tax amount in all the three conditions and apply the higher rate of TDS. *However, where the income of the employee computed for TDS u/s 192 is below taxable limit, no tax will be deducted.* But where the income of the employee computed for TDS u/s 192 is above taxable limit, the deductor will calculate the **average rate of income-tax based on rates in force as provided in sec 192**. If the tax so calculated is below 20%, deduction of tax will be made at the rate of 20% and in case the average rate exceeds 20%, tax is to deducted at the average rate. **Education cess @ 2% and Secondary and Higher Education Cess @ 1% is not to be deducted, in case the tax is deducted at 20% u/s 206AA of the Act.**

#### **4.9 Statement of deduction of tax under section 200(3) [Quarterly Statement of TDS]:**

**4.9.1** The person deducting the tax (employer in case of salary income), is required to file duly verified Quarterly Statements of TDS in **Form 24Q** for the periods [details in Table below] of each financial year, to the TIN/facilitation Centres authorized by DGIT (System's) which is currently managed by M/s National Securities Depository Ltd (NSDL). Particulars of e-TDS Intermediary at any of the TIN Facilitation Centres are available at <http://www.incometaxindia.gov.in> and <http://tin-nsdl.com> portals. ***The requirement of filing an annual return of TDS has been done away with w.e.f. 1.4.2006.*** The quarterly statement for the last quarter filed in Form 24Q (as amended by Notification No. S.O.704(E) dated 12.5.2006) shall be treated as the annual return of TDS. Due dates of filing this statement quarterwise is as in the Table below:

**TABLE: Dates of filing Quarterly Statements E-TDS Return 24Q**

Sl No	Return for Quarter ending	Due date for Government Offices	Due date for Other Deductors
1	30th June	31st July	15th July
2	30th September	31st October	15th October
3	31st December	31st January	15th January
4	31st March	15th May	15th May



**4.9.2** The statements referred above may be furnished in paper form or electronically under digital signature or alongwith verification of the statement in Form 27A of verified through an electronic process in accordance with the procedures, formats and standards specified by the Director General of Income-tax (Systems). The procedure for furnishing the e-TDS/TCS statement is detailed at Annexure VI.

**4.9.3** All Returns in Form 24Q are required to be furnished in electronically except in case where the number of **deductee records is less than 20 and deductor is not an office of Government, or a company or a person who is required to get his accounts audited under section 44AB of the Act.** [Notification No. 11 dated 19.02.2013].

**4.9.4 Fee for default in furnishing statements (Section 234E):**

If a person fails to deliver or caused to be delivered a statement within the time prescribed in section 200(3) in respect of tax deducted at source on or after 1.07.2012 he shall be liable to pay, **by way of fee** a sum of Rs. 200 for every day during which the failure continues. However, the amount of such fee shall not exceed the amount of tax which was deductible at source. This fee is **mandatory in nature** and to be paid before furnishing of such statement.

**4.9.5 Rectification of mistake in filing TDS Statement:**

A DDO can also file a **correction statement** for rectification of any mistake or to add, delete or update the information furnished in the statement delivered earlier.

**4.9.6 Penalty for failure in furnishing statements or furnishing incorrect information (section 271H):**

If a person fails to deliver or caused to be delivered a statement within the time prescribed in section 200(3) or furnishes an incorrect statement, in respect of tax deducted at source on or after 1.07.2012, he shall be liable to pay, by way of penalty a sum which shall not be less than Rs. 10,000/- but which may extend to Rs 1,00,000/-. However, the penalty shall not be levied if the person proves that after paying TDS with the fee and interest, if any, to the credit of Central Government, he had delivered such statement before the expiry of one year from the time prescribed for delivering the statement.

**4.9.7** At the time of preparing statements of tax deducted, the deductor is required to:

- (i) mandatorily quote his tax deduction and collection account number (**TAN**) in the statement;
- (ii) mandatorily quote his permanent account number (**PAN**) in the statement except in the case where the deductor is an office of the Government( including State Government). In case of Government deductors **“PANNOTREQD”** to be quoted in the e-TDS statement;
- (iii) mandatorily quote **PAN** of all deductees;
- (iv) furnish particulars of the tax paid to the Central Government including book identification number or challan identification number, as the case may be.
- (v) furnish particular of amounts paid or credited on which tax was not deducted in view of the issue of certificate of no deduction of tax u/s 197 by the assessing officer of the payee.

**4.9.8** It may be noted that under the new TDS procedure, TAN of the deductor/ PAN of the deductee and receipt number of TDS statement filed by the deductor act as unique identifier for granting online credit of TDS to the deductee. Hence due care should be taken in filling these particulars. Due care should also be taken in indicating correct CIN/ BIN in TDS statements.

#### **4.10 TDS on Income from Pension:**

In the case of pensioners who receive their pension (not being Family Pension paid to a spouse) from a nationalized bank, the instructions contained in this circular shall apply in the same manner as they apply to salary-income. The deductions from the amount of pension under section 80C on account of contribution to Life Insurance, Provident Fund, NSC etc., if the pensioner furnishes the relevant details to the banks, may be allowed. **Necessary instructions in this regard were issued by the Reserve Bank of India to the State Bank of India and other nationalized Banks vide RBI's Pension Circular(Central Series) No.7/C.D.R./1992 (Ref. CO: DGBA: GA (NBS) No.60/GA.64 (11CVL)-/92) dated the 27th April 1992, and, these instructions should be followed by all the branches of the Banks, which have been entrusted with the task of payment of pensions.** Further all branches of the banks are bound u/s 203 to issue certificate of tax deducted in Form 16 to the pensioners also vide CBDT circular no. 761 dated 13.1.1998.

#### **4.11. Matters pertaining to the TDS made in case of Non Resident:**

4.11.1 Where Non-Residents are deputed to work in India and taxes are borne by the employer, if any refund becomes due to the employee after he has already left India and has no bank account in India by the time the assessment orders are passed, the refund can be issued to the employer as the tax has been borne by it [**Circular No. 707 dated 11.07.1995**].

4.11.2 In respect of non-residents, the salary paid for services rendered in India shall be regarded as income earned in India. It has been specifically provided in the Act that any salary payable for rest period or leave period which is both preceded or succeeded by service in India and forms part of the service contract of employment will also be regarded as income earned in India.

### **5. COMPUTATION OF INCOME UNDER THE HEAD "SALARIES"**

#### **5.1 INCOME CHARGEABLE UNDER THE HEAD "SALARIES":**

(1) The following income shall be chargeable to income-tax under the head "Salaries":

- (a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not;
- (b) any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him.
- (c) any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

(2) For the removal of doubts, it is clarified that where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due.

Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "Salary".

#### **5.2 DEFINITION OF "SALARY", "PERQUISITE" AND "PROFIT IN LIEU OF SALARY" (SECTION 17):**

5.2.1 "Salary" includes:-

- i. wages, fees, commissions, perquisites, profits in lieu of, or, in addition to salary, advance of salary, annuity or pension, gratuity, payments in respect of encashment of leave etc.
- ii. the portion of the annual accretion to the balance at the credit of the employee participating in a recognized provident fund as consists of {Rule 6 of Part A of the Fourth Schedule of the Act}:
  - a) contributions made by the employer to the account of the employee in a recognized provident fund in excess of 12% of the salary of the employee,
  - b) interest credited on the balance to the credit of the employee in so far as it is allowed at a rate exceeding such rate as may be fixed by Central Government. [w.e.f. 01-09-2010 rate is fixed at 9.5% - Notification No SO 1046(E) dated 13-05-2011]
- iii. the contribution made by the Central Government or any other employer to the account of the employee under the New Pension Scheme as notified vide Notification F.N. 5/7/2003-ECB&PR dated 22.12.2003 (enclosed as Annexure VII) referred to in section 80CCD (para 5.5.3 of this Circular).

*It may be noted that, since salary includes pension, tax at source would have to be deducted from pension also, unless otherwise so required. However, no tax is required to be deducted from the commuted portion of pension to the extent exempt under section 10 (10A).*

*Family Pension is chargeable to tax under head "Income from other sources" and not under the head "Salaries". Therefore, provisions of section 192 of the Act are not applicable. Hence no TDS is required to be made on family pension.*

### **5.2.2 Perquisite includes:**

- I. The value of rent free accommodation provided to the employee by his employer;
- II. The value of any concession in the matter of rent in respect of any accommodation provided to the employee by his employer;
- III. The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases:
  - i) By a company to an employee who is a director of such company;
  - ii) By a company to an employee who has a substantial interest in the company;
  - iii) By an employer (including a company) to an employee, who is not covered by (i) or (ii) above and whose income under the head "Salaries" (whether due from or paid or allowed by one or more employers), exclusive of the value of all benefits and amenities not provided by way of monetary payment, exceeds Rs.50,000/-.

[What constitutes concession in the matter of rent have been prescribed in Explanations 1 to 4 below section 17(2)(ii) of the Act]

- IV. Any sum paid by the employer in respect of any obligation which would otherwise have been payable by the assessee.
- V. Any sum payable by the employer, whether directly or through a fund, other than a recognized provident fund or an approved superannuation fund or other specified funds u/s 17, to effect an assurance on the life of an assessee or to effect a contract for an annuity.

VI. The value of **any specified security or sweat equity shares allotted or transferred**, directly or indirectly, **by the employer, or former employer**, free of cost or at concessional rate to the employee and for this purpose,

(a) “specified security” means the securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956 and, where employees’ stock option has been granted under any plan or scheme therefor, includes the securities offered under such plan or scheme;

(b) “sweat equity shares” means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called;

(c) the value of any specified security or sweat equity shares shall be the fair market value of the specified security or sweat equity shares, as the case may be, on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from the assessee in respect of such security or shares;

(d) “fair market value” means the value determined in accordance with the method as may be prescribed (refer Rule 3(9) of the IT Rules);

(e) “option” means a right but not an obligation granted to an employee to apply for the specified security or sweat equity shares at a predetermined price;

VII. The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees; and

VIII The **value of any other fringe benefit** or amenity as prescribed in Rule 3.

**5.2.2A** Rules for valuation of such benefit or amenity as given in Rule 3 are as under : -

**I. Residential Accommodation provided by the employer [Rule 3(1)]:-**

"Accommodation" includes a house, flat, farm house or part thereof, hotel accommodation, motel, service apartment, guest house, a caravan, mobile home, ship or other floating structure.

**A.** For valuation of the perquisite of **rent free unfurnished accommodation**, all employees are divided into two categories:

(i) For employees of the Central and State governments the value of perquisite shall be **equal to the licence fee charged for such accommodation as reduced by the rent actually paid by the employee. Employees of autonomous, semi-autonomous institutions, PSUs/PSEs & subsidiaries, Universities, etc. are not covered under this method valuation.**

(ii) For all others, i.e., those salaried taxpayers not in employment of the Central government and the State government, the valuation of perquisite in respect of accommodation would be at prescribed rates, as discussed below:

a) Where the accommodation provided to the employee is **owned by the employer**:

Sl No	Cities having population as per the 2001 census	Perquisite
1	Exceeds 25 lakh	15% of salary
2	Exceeds 10 lakhs but does not exceed 25 lakhs	10% of salary
3	For other places	7.5 % of salary

b) Where the accommodation so provided is **taken on lease/ rent by the employer**:

The prescribed rate is 15% of the salary or the actual amount of lease rental payable by the employer, whichever is lower, as reduced by any amount of rent paid by the employee. Meaning of 'Salary' for the purpose of calculation of perquisite in respect of Residential Accommodation:

- a. Basic Salary;
- b. Dearness Allowance, or Dearness Pay if it enters into the computation of superannuation or retirement benefit of the employees;
- c. Bonus;
- d. Commission;
- f. All other taxable allowances (excluding the portion not taxable); and
- g. Any monetary payment which is chargeable to tax (by whatever name called).

Salary from all employers shall be taken into consideration in respect of the period during which an accommodation is provided. Where on account of the transfer of an employee from one place to another, he is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value for a period not exceeding 90 days and thereafter the value of perquisite shall be charged for both such accommodation.

**B** Valuation of the perquisite of **furnished accommodation**- the value of perquisite as determined by the above method (in A) shall be increased by-

- i) 10% of the cost of furniture, appliances and equipments, or
- ii) where the furniture, appliances and equipments have been taken on hire, by the amount of actual hire charges payable

and the value so arrived shall be reduced by any charges paid by the employee himself.

It is added that where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with anybody or undertaking under the control of such Government,-

- (i). the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and
- (ii). the value of perquisite of such an accommodation shall be the amount calculated in accordance with Table in A(ii)(a) above, as if the accommodation is owned by the employer.

**C. Furnished Accommodation in a Hotel:** The value of perquisite shall be determined on the basis of lower of the following two:

1. 24% of salary paid or payable in respect of period during which the accommodation is provided; or
2. Actual charges paid or payable by the employer to such hotel,

for the period during which such accommodation is provided as reduced by any rent actually paid or payable by the employee.

However, nothing in C shall be taxable if following two conditions are satisfied:

1. The hotel accommodation is provided for a total period not exceeding in aggregate 15 days in a previous year, and
2. Such accommodation is provided on an employee's transfer from one place to another place.

It may be clarified that while services provided as an integral part of the accommodation, need not be valued separately as perquisite, any other services over and above that for which the employer makes payment or reimburses the employee shall be valued as a perquisite as per the residual clause. In other words, composite tariff for accommodation will be valued as per the Rules and any other charges for other facilities provided by the hotel will be separately valued under the residual clause.

**D.** However, the value of any accommodation provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site or a dam site or a power generation site or an off-shore site will not be treated as a perquisite if:

- i) such accommodation is located in a "remote area" or
- ii) where it is not located in a "remote area", the accommodation is of a temporary nature having plinth area of not more than 800 square feet and should not be located within 8 kilometers of the local limits of any municipality or cantonment board.

A project execution site here means a site of project up to the stage of its commissioning. A "remote area" means an area located at least 40 kilometers away from a town having a population not exceeding 20,000 as per the latest published all-India census.

## **II Perquisite on Motor car provided by the Employer [ Rule 3(2)]:**

(1) If an employer provides motor car facility to his employee the value of such perquisite shall be:

- a) Nil, if the motor car is used by the employee wholly and exclusively in the performance of his official duties.
- b) Actual expenditure incurred by the employer on the running and maintenance of motor car including remuneration to chauffeur as increased by the amount representing normal wear and tear of the motor car and as reduced by any amount charged from the employee for such use (in case the motor car is exclusively for private or personal purposes of the employee or any member of his household).
- c) Rs. 1800/- (plus Rs. 900/-, if chauffeur is also provided) per month (in case the motor car is used partly in performance of duties and partly for private or personal purposes of the employee or any member of his household if the expenses on maintenance and running of motor car are met or reimbursed by the employer). However, the value of perquisite will be Rs. 2400/-(plus Rs. 900/-, if chauffeur is also provided) per month if the cubic capacity of engine of the motor car exceeds 1.6 litres.
- d) Rs. 600/- (plus Rs. 900/-, if chauffeur is also provided) per month (In case the motor car is used partly in performance of duties and partly for private or personal purposes of the employee or any member of his household if the expenses on maintenance and running of motor car for such private or personal use are fully met by the employee). However, the value of perquisite will be Rs. 900/- (plus Rs. 900/-, if chauffeur is also provided) per month if the cubic capacity of engine of the motor car exceeds 1.6 litres.

(2) If the motor car or any other automotive conveyance is owned by the employee but the actual running and maintenance charges are met or reimbursed by the employer, the method of valuation of perquisite value is different and as below:

- a) where the motor car or any other automotive conveyance is owned by the employee but actual maintenance & running expenses (including chauffeur salary, if any) are met or reimbursed by the employer, no perquisite shall be chargeable to tax if the car is used wholly and exclusively for official purposes. However following compliances are necessary:

- The employer has maintained complete details of the journey undertaken for official purposes;
- The employer gives a certificate that the expenditure was incurred wholly for official duties.

However if the motor car is used partly for official or partly for private purposes then the amount of perquisite shall be the actual expenditure incurred by the employer as reduced by the amounts in c) referred to in (1) above.

Normal wear and tear of the motor shall be taken at 10 % per annum of the actual cost of the motor car.

**III Personal attendants etc. [Rule 3(3)]:** The value of free service of all personal attendants including a sweeper, gardener and a watchman is to be taken at actual cost to the employer. Where the attendant is provided at the residence of the employee, full cost will be taxed as perquisite in the hands of the employee irrespective of the degree of personal service rendered to him. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

**IV Gas, electricity & water for household consumption [Rule 3(4)]:** The value of perquisite in the nature of gas, electricity and water shall be the amount paid by the employer to the agency supplying the gas, electric energy or water. Where the supply is made from the employer's own resources, the manufacturing cost per unit incurred by the employer would be taken for the valuation of perquisite. Any amount paid by the employee for such facilities or services shall be reduced from the perquisite value.

**V Free or concessional education [Rule 3(5)]:** Perquisite on account of free or concessional education for any member of the employee's household shall be determined as the sum equal to the amount of expenditure incurred by the employer in that behalf. However, where such educational institution itself is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, the value of the perquisite to the employee shall be determined with reference to the cost of such education in a similar institution in or near the locality if the cost of such education or such benefit per child exceeds Rs.1000/- p.m. The value of perquisite shall be reduced by the amount, if any, paid or recovered from the employee.

**VI Carriage of Passenger Goods [Rule 3(6)]:** The value of any benefit or amenity resulting from the provision by an employer, who is engaged in the carriage of passengers or goods, to any employee or to any member of his household for personal or private journey free of cost or at concessional fare, in any conveyance owned, leased or made available by any other arrangement by such employer for the purpose of transport of passengers or goods shall be taken to be the value at which such benefit or amenity is offered by such employer to the public as reduced by the amount, if any, paid by or recovered from the employee for such benefit or amenity. This will not apply to the employees of any airline or the railways.

**VII Interest free or concessional loans [Rule 3(7)(i)]:** It is common practice, particularly in financial institutions, to provide interest free or concessional loans to employees or any member of his household. The value of perquisite arising from such loans would be the excess of interest payable at **prescribed interest rate** over interest, if any, actually paid by the employee or any member of his household. The **prescribed interest rate** would be *the rate charged per annum by the State Bank of India as on the 1<sup>st</sup> day of the relevant financial year in respect of loans of same type and for the same purpose advanced by it to the general public.* Perquisite value would be calculated on the basis of the *maximum outstanding monthly balance method.* For

valuing perquisites under this rule, any other method of calculation and adjustment otherwise adopted by the employer shall not be relevant. However, small loans up to Rs. 20,000/- in the aggregate are exempt.

*Loans for medical treatment of diseases specified in Rule 3A are also exempt, provided the amount of loan for medical reimbursement is not reimbursed under any medical insurance scheme. Where any medical insurance reimbursement is received, the perquisite value at the prescribed rate shall be charged from the date of reimbursement on the amount reimbursed, but not repaid against the outstanding loan taken specifically for this purpose.*

**VIII Perquisite on account of travelling, touring, accommodation and any other expenses paid for or reimbursed by the employer for any holiday availed [Rule 3(7)(ii)]:**

The value of perquisite on account of travelling, touring, accommodation and any other expenses paid for or reimbursed by the employer for any holiday availed of by the employee or any member of his household, other than leave travel concession (as per section 10(5) ), shall be the amount of the expenditure incurred by the employer in that behalf. However, any amount recovered from or paid by the employee shall be reduce from the perquisite value so determined.

Where such facility is maintained by the employer, and is not available uniformly to all employees, the value of benefit shall be taken to be the value at which such facilities are offered by other agencies to the public. If a holiday facility is maintained by the employer and is available uniformly to all employees, the value of such benefit would be exempt.

Where the employee is on official tour and the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure with respect to the member of the household shall be a perquisite.

**IX Value of Subsidized / Free food / non-alcoholic beverages provided by employer to an employee[Rule 3(7)(iii)]:**

Value of taxable perquisite is calculated as under:

Expenditure incurred by the employer on the value of food / non-alcoholic beverages including 'paid vouchers which are not transferable and usable only at eating joints'	XXX
Less: Fixed value of a sum of Rs. 50/- per meal	XXX
Less: Amount recovered from the employee	XXX <u>XXX</u>
Balance amount is the taxable as perquisites on the value of food provided to the employees	XXX

Note : Exemption is given in following situations :

1. Tea / snacks provided in working hours.
2. Food & non-alcoholic beverages provided in working hours in remote area or in an offshore installation.

**X Membership fees and Annual Fees [Rule 3(7)(v)]:** Any membership fees and annual fees incurred by the employee (or any member of his household), which is charged to a credit card (including any add-on card) provided by the employer, or otherwise, paid for or reimbursed by the employer is taxable on the following basis:

Amount of expenditure incurred by the employer	XXX
Less : Expenditure on use for official purposes	XXX
Less : Amount, if any, recovered from the employee	XXX <u>XXX</u>
Amount taxable as perquisite	XXX



However if the amount is incurred wholly and exclusively for official purposes it will be exempt if the following conditions are fulfilled

- i) Complete details of such expense, including date and nature of expenditure is maintained by the employer.
- ii) Employer gives a certificate that the same was incurred wholly and exclusively for official purpose.

#### **XI Club Expenditure [Rule 3(7)(vi)]:**

Any annual or periodical fee for Club facility and any expenditure in a club by the employee (or any member of his household), which is paid or reimbursed by the employer is taxable on the following basis:

Amount of expenditure incurred by the employer	XXX
Less : Expenditure on use for official purposes	XXX
Less : Amount, if any, recovered from the employee	XXX <u>XXX</u>
Amount taxable as perquisite	XXX

However if the amount is incurred wholly and exclusively for official purposes it will be exempt if the following conditions are fulfilled

- i) Complete details of such expense, including date and nature of expenditure and its business expediency is maintained by the employer.
- ii) Employer gives a certificate that the same was incurred wholly and exclusively for official purpose.

Note: 1) Health club, sport facilities etc. provided uniformly to all classes of employee by the employer at the employer's premises and expenditure incurred on them are exempt.

2) The initial one-time deposits or fees for corporate or institutional membership, where benefit does not remain with a particular employee after cessation of employment are exempt. Initial fees / deposits, in such case, is not included.

**XII Use of assets [Rule 3(7)(vii)]:** It is common practice for a movable asset (other than those referred in other sub rules of rule 3) owned by the employer to be used by the employee or any member of his household. This perquisite is to be charged at the rate of 10% of the original cost of the asset as reduced by any charges recovered from the employee for such use. However, the use of Computers and Laptops would not give rise to any perquisite.

**XIII Transfer of assets [Rule 3(7)(viii)]:** Often an employee or member of his household benefits from the transfer of movable asset (not being shares or securities) at no cost or at a cost less than its market value from the employer. The difference between the original cost of the movable asset (not being shares or securities) and the sum, if any, paid by the employee, shall be taken as the value of perquisite. In case of a movable asset, which has already been put to use, the original cost shall be reduced by a sum of 10% of such original cost for every completed year of use of the asset. Owing to a higher degree of obsolescence, in case of computers and electronic gadgets, however, the value of perquisite shall be worked out by reducing 50% of the actual cost by the reducing balance method for each completed year of use. Electronic gadgets in this case means data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (i.e. white goods) like washing machines, microwave ovens, mixers, hot plates, ovens etc. Similarly, in case of cars, the value of perquisite shall be worked out by reducing 20% of its actual cost by the reducing balance method for each completed year of use.

#### **XIV Gifts [Rule 3(7)(iv)]:**

The value of any gift or vouchers or token in lieu of which such gift may be received, given by the employer to the employee or member of his household, is taxable as perquisite. However gift, etc less than Rs. 5,000 in aggregate per annum would be exempt.

**XV Medical Reimbursement by the employer exceeding Rs. 15,000/- p.a. u/s 17(2)** is to be taken as perquisite.

It is further clarified that the method regarding valuation of perquisites are given in section 17(2) of the Act and in rule 3 of the Rules. The deductors may look into the above provisions carefully before they determine the perquisite value for deduction purposes.

It is pertinent to mention that benefits specifically exempt u/s 10(13A), 10(5), 10(14), 17 etc. of the Act would continue to be exempt. These include benefits like house rent allowance, leave travel concession, travel expense/allowance on tour and transfer, daily allowance to meet tour expenses as prescribed, medical facilities subject to conditions.

#### **5.2.3 'Profits in lieu of salary' shall include**

- I. the amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or the modification of the terms and conditions relating thereto;
- II. any payment (other than any payment referred to in clauses (10), (10A), (10B), (11), (12) (13) or (13A) of section 10) due to or received by an assessee from an employer or a former employer or from a provident or other fund, to the extent to which it does not consist of contributions by the assessee or interest on such contributions or any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.

"Keyman insurance policy" shall have the same meaning as assigned to it in section 10(10D);

- III. any amount due to or received, whether in lump sum or otherwise, by any assessee from any person—

- (A) before his joining any employment with that person; or
- (B) after cessation of his employment with that person.

#### **5.3 INCOMES NOT INCLUDED UNDER THE HEAD "SALARIES" (EXEMPTIONS)**

Any income falling within any of the following clauses shall not be included in computing the income from salaries for the purpose of section 192 of the Act :-

**5.3.1 Leave Travel Concession (LTC):** The value of any **travel concession or assistance** received by or due to an employee from his employer or former employer for himself and his family, in connection with his proceeding (a) on leave to **any place in India** or (b) after retirement from service, or, after termination of service to any place in India is exempt under Section 10(5) subject, however, to the conditions prescribed in Rule 2B of the Rules.

The following are the important points, to be taken into consideration:

- Number of Trips – The exemption shall be available in respect of 2 journeys performed in the block of 4 calendar years.
- Without performing any journey and incurring expenses thereon, no exemption can be claimed.
- The quantum of exemption will be subject to the following maximum limits for journeys performed on or after 01.10.1997:

Sl No	Journey Performed by	Exemption Limit
1	Air	Air Economy fare of the national carrier (Air India) by the shortest route to the place of destination
2	Places connected by rail and journey performed by any mode other than by air.	First Class Air conditioned rail fare by the shortest route to the place of destination
3	Place of origin and destination or part thereof not connected by rail.	a) Where public transport system exists, first class or deluxe class fare on such transport by the shortest route to the place of destination. b) Where no public transport system exists, first class A/C rail fare, for the distance of the journey by the shortest route, as if the journey has been performed by rail

- This exemption is limited to the actual expenses incurred on the journey which in turn is strictly limited to expenses on air fare, rail fare and bus fare only. No other expenses like local conveyance, sight-seeing expense etc., shall qualify for exemption.
- Where the journey is performed in a circuitous route, the exemption is limited to what is admissible by the shortest route. Likewise, where the journey is performed in a circular form touching different places, the exemption is limited to what is admissible for the journey from the place of origin to the farthest point reached in India, by the shortest route.
- Restriction on children – The exemption will not be available to more than 2 surviving children of an individual born after 01.10.1998. This restriction shall not apply in respect of children born before 01.10.1998 and also in case of multiple births after one child. It may be noted that section 2 (15B) of the Act defines a child as includes a step child and an adopted child of the individual.
- Definition of Family – As per the provisions of the Rules, family means:
  - Spouse and children of the individual.
  - Parents, brothers and sisters who are wholly or mainly dependent on the individual.
- **Foreign Travel – As per the provisions of the Rules, exemption is not allowable in case of travel abroad.**
- Obligation of the employer –The employer has to satisfy the obligation that leave travel (fare) concession is not taxable in view of section 10(5) and he is not only required to be satisfied about the provisions of the said clause but also to keep and preserve evidence in support thereof.

Some important points to be considered are as under:

1. It is uniform for all employees

2. Where an employee does not avail LTC, either one or on both the occasions during the block of 4 calendar years, the value of LTC first availed during the first calendar year of the immediately succeeding block shall be eligible for exemption in lieu of exemption not availed during the preceding block. Only one trip can be carried forward to be availed in the immediately succeeding block.
3. Quantum of Exemption – The basic rule is that quantum of exemption will be limited to the actual expense incurred on the journey.

*Any Leave encashed for the purpose of Leave travel or home travel concession is taxable.*

**5.3.2 Death-cum-retirement gratuity** or any other gratuity is exempt to the extent specified from inclusion in computing the total income under Section 10(10). Any death-cum-retirement gratuity received under the revised Pension Rules of the Central Government or, as the case may be, the Central Civil Services (Pension) Rules, 1972, or under any similar scheme applicable to the members of the civil services of the Union or holders of posts connected with defence or of civil posts under the Union (such members or holders being persons not governed by the said Rules) or to the members of the all-India services or to the members of the civil services of a State or holders of civil posts under a State or to the employees of a local authority or any payment of retiring gratuity received under the Pension Code or Regulations applicable to the members of the defence service is exempt. Gratuity received in cases other than those mentioned above, on retirement, termination etc is exempt up to the limit as prescribed by the Board. Presently the limit is Rs. 10 lakhs w.e.f. 24.05.2010 [Notification no. 43/2010 S.O. 1414(E) F.No. 200/33/2009-ITA-1 dated 11<sup>th</sup> June 2010].

**5.3.3** Any payment in **commutation of pension** received under the Civil Pensions (Commutation) Rules of the Central Government or under any similar scheme applicable to the members of the civil services of the Union or holders of posts connected with defence or of civil posts under the Union (such members or holders being persons not governed by the said Rules) or to the members of the all- India services or to the members of the defence services or to the members of the civil services of a State or holders of civil posts under a State or to the employees of a local authority] or a corporation established by a Central, State or Provincial Act, is exempt under Section 10(10A)(i). As regards payments in commutation of pension received under any scheme of any other employer, exemption will be governed by the provisions of section 10(10A)(ii). Also, any payment in commutation of pension from a fund referred to in Section 10(23AAB) is exempt under Section 10(10A)(iii).

**5.3.4** Any payment received by an employee of the Central Government or a State Government, as **cash-equivalent of the leave salary** in respect of the period of earned leave at his credit **at the time of his retirement**, whether on superannuation or otherwise, is exempt under Section 10(10AA)(i). In the case of other employees, this exemption will be determined with reference to the leave to their credit at the time of retirement on superannuation or otherwise, subject to a maximum of ten months' leave. This exemption will be further limited to the maximum amount specified by the Government of India Notification No.S.O.588(E) dated 31.05.2002 at Rs. 3,00,000/- in relation to such employees who retire, whether on superannuation or otherwise, after 1.4.1998.

**5.3.5** Under Section 10(10B), the **retrenchment compensation** received by a workman is exempt from income-tax subject to certain limits. The maximum amount of retrenchment compensation exempt is the sum calculated on the basis provided in section 25F(b) of the Industrial Disputes Act, 1947 or any amount not less than Rs.50,000/- as the Central Government may by notification specify in the Official Gazette, whichever is less. These limits shall not apply in the case where the compensation is paid under any scheme which is approved in this behalf by the Central Government, having regard to the need for extending

special protection to the workmen in the undertaking to which the scheme applies and other relevant circumstances. The maximum limit of such payment is Rs. 5,00,000/- where retrenchment is on or after 1.1.1997 as specified in Notification No. 10969 of 25-06-1999.

**5.3.6** Under Section 10(10C), any payment received or receivable (even if received in installments) by an employee of the following bodies at the time of his voluntary retirement or termination of his service, in accordance with any scheme or **schemes of voluntary retirement** or in the case of public sector company, a **scheme of voluntary separation**, is exempt from income-tax to the extent that such amount does not exceed Rs. 5,00,000/-:

- a) A public sector company;
- b) Any other company;
- c) An Authority established under a Central, State or Provincial Act;
- d) A Local Authority;
- e) A Cooperative Society;
- f) A university established or incorporated or under a Central, State or Provincial Act, or, an Institution declared to be a University under section 3 of the University Grants Commission Act, 1956;
- g) Any Indian Institute of Technology within the meaning of Section 3 (g) of the Institute of Technology Act, 1961;
- h) Such Institute of Management as the Central Government may by notification in the Official Gazette, specify in this behalf.

The exemption of amount received under VRS has been extended to employees of the Central Government and State Government and employees of notified institutions having importance throughout India or any State or States. It may also be noted that where this exemption has been allowed to any employee for any assessment year, it shall not be allowed to him for any other assessment year. Further, if relief has been allowed under section 89 for any assessment year in respect of amount received on voluntary retirement or superannuation, no exemption under section 10(10C) shall be available.

**5.3.7** Any **sum received under a Life Insurance Policy (Sec 10(10D))**, including the sum allocated by way of bonus on such policy other than the following is exempt under section 10(10D):

- i) any sum received under section 80DD(3) or section 80DDA(3); or
- ii) any sum received under a Keyman insurance policy; or
- iii) any sum received under an insurance policy issued on or after 1.4.2003, but on or before 31-03-2012, in respect of which the premium payable for any of the years during the term of the policy exceeds 20 percent of the actual capital sum assured; or
- iv) any sum received under an insurance policy issued on or after 1.4.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10 percent of the actual capital sum assured; or
- v) any sum received under an insurance policy issued on or after 1.4.2013 in cases of persons with disability or person with severe disability as per Sec 80U or suffering from disease or ailment as specified in Sec 80DDB, in respect of which the premium payable for any of the years during the term of the policy exceeds 15 percent of the actual capital sum assured

However, any sum received under such policy referred to in (iii), (iv) and (v) above, on the death of a person would be exempt.

**5.3.8** Any **payment from a Provident Fund** to which the Provident Funds Act, 1925, applies or from any other provident fund set up by the Central Government and notified by it in the Official Gazette is exempt under section 10(11).

**5.3.9** Under section **10(13A)** of the Act, any special allowance specifically granted to an assessee by his employer to meet **expenditure incurred on payment of rent** (by whatever name called) in respect of residential accommodation occupied by the assessee is exempt from Income-tax to the extent as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations. According to Rule 2A of the Rules, the quantum of exemption allowable on account of grant of special allowance to meet expenditure on payment of rent shall be the least of the following:

- (a) the actual amount of such allowance received by the assessee in respect of the relevant period i. e. the period during which the accommodation was occupied by the assessee during the financial year; or
- (b) the actual expenditure incurred in payment of rent in excess of one-tenth of the salary due for the relevant period; or
  - (i) where such accommodation is situated in Bombay, Calcutta, Delhi or Madras, 50% of the salary due to the employee for the relevant period; or
  - (ii) where such accommodation is situated in any other places, 40% of the salary due to the employee for the relevant period,

For this purpose, "Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

It has to be noted that only the expenditure actually incurred on payment of rent in respect of residential accommodation occupied by the assessee subject to the limits laid down in Rule 2A, qualifies for exemption from income-tax. Thus, house rent allowance granted to an employee who is residing in a house/flat owned by him is not exempt from income-tax. The disbursing authorities should satisfy themselves in this regard by insisting on production of evidence of actual payment of rent before excluding the House Rent Allowance or any portion thereof from the total income of the employee.

Though incurring actual expenditure on payment of rent is a pre-requisite for claiming deduction under section 10(13A), it has been decided as an administrative measure that salaried employees drawing house rent allowance upto Rs.3000/- per month will be exempted from production of rent receipt. It may, however, be noted that this concession is only for the purpose of tax-deduction at source, and, in the regular assessment of the employee, the Assessing Officer will be free to make such enquiry as he deems fit for the purpose of satisfying himself that the employee has incurred actual expenditure on payment of rent.

Further if annual rent paid by the employee exceeds Rs 1,00,000 per annum, it is mandatory for the employee to report PAN of the landlord to the employer. In case the landlord does not have a PAN, a declaration to this effect from the landlord along with the name and address of the landlord should be filed by the employee.

**5.3.10** Section 10(14) provides for exemption of the following allowances :-

- (i) Any special allowance or benefit granted to an employee to meet the **expenses wholly, necessarily and exclusively incurred in the performance of his duties** as prescribed under Rule 2BB subject to the extent to which such expenses are actually incurred for that purpose.

- (ii) Any allowance granted to an employee either to meet his personal expenses at the place of his posting or at the place he ordinarily resides or to **compensate him for the increased cost of living**, which may be prescribed and to the extent as may be prescribed.

However, the allowance referred to in (ii) above should not be in the nature of a personal allowance granted to the assessee to remunerate or compensate him for performing duties of a special nature relating to his office or employment unless such allowance is related to his place of posting or residence.

CBDT has prescribed guidelines for the purpose of Section 10(14) (i) & 10 (14) (ii) vide notification No.SO 617(E) dated 7th July, 1995 (F.No.142/9/95-TPL) which has been amended vide notification SO No.403(E) dt 24.4.2000 (F.No.142/34/99-TPL). The transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of duty is exempt to the extent of Rs.800 p. m. or Rs1600 p.m (for a blind person) vide notification S.O.No. 395(E) dated 13.5.98.

**5.3.11** Under Section 10(15)(iv)(i) of the Act, interest payable by the Government on deposits made by an employee of the Central Government or a State Government or a public sector company out of his retirement benefits, in accordance with such scheme framed in this behalf by the Central Government and notified in the Official Gazette is exempt from income-tax. By notification No.F.2/14/89-NS-II dated 7.6.89, as amended by notification No.F.2/14/89-NS-II dated 12.10.89, the Central Government has notified a scheme called **Deposit Scheme for Retiring Government Employees, 1989** for the purpose of the said clause.

**5.3.12** Any scholarship granted to meet the cost of education is not to be included in total income as per provisions of section 10(16) of the Act.

**5.3.13** Section 10(18) provides for exemption of any income by way of pension received by an individual who has been in the service of the Central Government or State Government and has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as may be specifically notified by the Central Government. Family pension received by any member of the family of such individual is also exempt [Notifications No. S.O.1948(E) dated 24.11.2000 and 81(E) dated 29.1.2001, which are enclosed as per Annexure VIII & IX]. "Family" for this purpose shall have the meaning assigned to it in Section 10(5) of the Act.

*DDO may not deduct any tax in the case of recipients of such awards after satisfying himself about the veracity of the claim.*

**5.3.14** Under section 17 of the Act, exemption from tax will also be available in respect of:-

- (a) the value of any **medical treatment** provided to an employee or any member of his family, in any hospital maintained by the employer;
- (b) any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or of any member of his family:

- (i) in any hospital maintained by the Government or any local authority or any other hospital approved by the Government for the purposes of medical treatment of its employees;
- ii) in respect of the prescribed diseases or ailments as provided in Rule 3A(2) of the Rules in any hospital approved by the Chief Commissioner having regard to the prescribed guidelines as provided in Rule 3(A)(1) of the Rules.

(c) premium paid by the employer in respect of medical insurance taken for his employees (under any scheme approved by the Central Government or Insurance Regulatory and Development Authority) or reimbursement of insurance premium to the employees who take medical insurance for themselves or for their family members (under any scheme approved by the Central Government or Insurance Regulatory and Development Authority);

(d) reimbursement, by the employer, of the amount spent by an employee in obtaining medical treatment for himself or any member of his family from any doctor, not exceeding in the aggregate Rs.15,000/- in an year;

(e) As regards medical treatment abroad, the actual expenditure on stay and treatment abroad of the employee or any member of his family, or, on stay abroad of one attendant who accompanies the patient, in connection with such treatment, will be excluded from perquisites to the extent permitted by the Reserve Bank of India. It may be noted that the expenditure incurred on travel abroad by the patient/attendant, shall be excluded from perquisites only if the employee's gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakhs.

For the purpose of availing exemption on expenditure incurred on medical treatment, "hospital" includes a dispensary or clinic or nursing home, and "family" in relation to an individual means the spouse and children of the individual. Family also includes parents, brothers and sisters of the individual if they are wholly or mainly dependent on the individual.

## **5.4 DEDUCTIONS U/S 16 OF THE ACT FROM THE INCOME FROM SALARIES**

### **5.4.1 Entertainment Allowance [Section 16(ii)]:**

A deduction is also allowed under section 16(ii) in respect of any allowance in the nature of an entertainment allowance specifically granted by an employer to the assessee, who is in receipt of a salary from the Government, a sum equal to one-fifth of his salary (exclusive of any allowance, benefit or other perquisite) or five thousand rupees whichever is less. No deduction on account of entertainment allowance is available to non-government employees.

### **5.4.2 Tax on Employment [Section 16(iii)]:**

The tax on employment (Professional Tax) within the meaning of article 276(2) of the Constitution of India, leviable by or under any law, shall also be allowed as a deduction in computing the income under the head "Salaries".

**It may be clarified that "Standard Deduction" from gross salary income, which was being allowed up to financial year 2004-05 is not allowable from financial year 2005-06 onwards.**

## **5.5 DEDUCTIONS UNDER CHAPTER VI-A OF THE ACT**

In computing the taxable income of the employee, the following deductions under Chapter VI-A of the Act are to be allowed from his gross total income:

### **5.5.1 Deduction in respect of Life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. (section 80C)**

**A. Section 80C**, entitles an employee to deductions for the whole of amounts paid or deposited in the current financial year in the following schemes, **subject to a limit of Rs.1,50,000/-**:



- (1) Payment of **insurance premium** to effect or to keep in force an insurance on the life of the individual, the spouse or any child of the individual.
- (2) Any payment made to effect or to keep in force a contract for a **deferred annuity**, not being an annuity plan as is referred to in item (7) herein below on the life of the individual, the spouse or any child of the individual, 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;
- (3) Any sum deducted 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 deducted does not exceed 1/5th of the salary;
- (4) Any contribution made :

(a) by an individual to any **Provident Fund** to which the Provident Fund Act, 1925 applies;

(b) 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 an individual, or spouse or children;

*[The Central Government has since notified Public Provident Fund vide Notification S.O. No. 1559(E) dated 3.11.05]*

(c) by an employee to a Recognized Provident Fund;

(d) by an employee to an approved **superannuation fund**;

It may be noted that "contribution" to any Fund shall not include any sums in repayment of loan or advance;

- (5) Any subscription :-

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

(b) to any such **saving certificates** as defined under section 2(c) of the Government Saving Certificate Act, 1959 as the Government may, by notification in the Official Gazette, specify in this behalf.

*[The Central Government has since notified National Saving Certificate (VIII<sup>th</sup> Issue) vide Notification S.O. No. 1560(E) dated 3.11.05 and National Saving Certificate (IX<sup>th</sup> Issue) vide Notification . G.S.R. 848 (E), dated the 29<sup>th</sup> November, 2011, publishing the National Savings Certificates (IX-Issue) Rules, 2011 G.S.R. 868 (E), dated the 7th December, 2011, specifying the National Savings Certificates IX Issue as the class of Savings Certificates F No1-13/2011-NS-II r/w amendment Notification No.GSR 319(E), dated 25-4-2012 ]*

- (6) Any sum paid as contribution in the case of an individual, for himself, spouse or any child,
  - a. for participation in the **Unit Linked Insurance Plan, 1971** of the Unit Trust of India;
  - b. for participation in any **unit-linked insurance plan of the LIC Mutual Fund** referred to section 10 (23D) and as notified by the Central Government.

*[The Central Government has since notified Unit Linked Insurance Plan (formerly known as Dhanraksha, 1989) of LIC Mutual Fund vide Notification S.O. No. 1561(E) dated 3.11.05.]*

(7) Any subscription made to effect or 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;

*[The Central Government has since notified New Jeevan Dhara, New Jeevan Dhara-I, New Jeevan Akshay, New Jeevan Akshay-I and New Jeevan Akshay-II vide Notification S.O. No. 1562(E) dated 3.11.05 and Jeevan Akshay-III vide Notification S.O. No. 847(E) dated 1.6.2006 ]*

(8) Any subscription made to any **units of any Mutual Fund**, of section 10(23D), or from the Administrator or the specified company referred to in Unit Trust of India (Transfer of Undertaking & Repeal) Act, 2002 under any plan formulated in accordance with any scheme as the Central Government, may, by notification in the Official Gazette, specify in this behalf;

*[The Central Government has since notified the Equity Linked Saving Scheme, 2005 for this purpose vide Notification S.O. No. 1563(E) dated 3.11.2005]*

The investments made after 1.4.2006 in plans formulated in accordance with Equity Linked Saving Scheme, 1992 or Equity Linked Saving Scheme, 1998 shall also qualify for deduction under section 80C.

(9) Any contribution made by an individual to any **pension fund set up by any Mutual Fund** referred to in section 10(23D), or, by the Administrator or the specified company defined in Unit Trust of India (Transfer of Undertaking & Repeal) Act, 2002, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

*[The Central Government has since notified the Equity Linked Saving Scheme, 2005 for this purpose vide Notification S.O. No. 1563(E) dated 3.11.2005]*

(10) Any subscription made to any such deposit scheme of, or, any contribution made to any such pension fund set up by, the **National Housing Bank**, as the Central Government may, by notification in the Official Gazette, specify in this behalf;

(11) Any subscription made to any such deposit scheme, as the Central Government may, by notification in the Official Gazette, specify for the purpose of being floated by (a) **public sector companies** engaged in providing long-term finance for construction or purchase of houses in India for residential purposes, or, (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.

*[The Central Government has since notified the Public Deposit Scheme of HUDCO vide Notification S.O. No.37(E), dated 11.01.2007, for the purposes of Section 80C(2)(xvi)(a)].*

(12) Any sums paid by an assessee for the purpose of **purchase or construction of a residential house property**, the income from which is chargeable to tax under the head "Income from house property" (or which would, if it has not been used for assessee's own residence, have been chargeable to tax under that head) where such payments are made towards or by way of any instalment or part payment of the amount due under any self-financing or other scheme of any Development Authority, Housing Board etc.

The deduction will also be allowable in respect of re-payment of loans borrowed by an assessee from the Government, or any bank or Life Insurance Corporation, or National Housing Bank, or certain other categories of institutions engaged in the business of providing long term finance for construction or purchase of houses in India. Any repayment of loan borrowed from the employer will also be covered, if the employer happens to be a public company, or a public sector company, or a university established by law, or a college affiliated to such university, or a local authority, or a cooperative society, or an authority, or a board, or a corporation, or any other body established under a Central or State Act.

The stamp duty, registration fee and other expenses incurred for the purpose of transfer shall also be covered. Payment towards the cost of house property, however, will not include, admission fee or cost of share or initial deposit or the cost of any addition or alteration to, or, renovation or repair of the house property which is carried out after the issue of the completion certificate by competent authority, or after the occupation of the house by the assessee or after it has been let out. Payments towards any expenditure in respect of which the deduction is allowable under the provisions of section 24 of the Act will also not be included in payments towards the cost of purchase or construction of a house property.

Where the house property in respect of which deduction has been allowed under these provisions is transferred by the tax-payer at any time before the expiry of five years from the end of the financial year in which possession of such property is obtained by him or he receives back, by way of refund or otherwise, any sum specified in section 80C(2)(xviii), no deduction under these provisions shall be allowed in respect of such sums paid in such previous year in which the transfer is made and the aggregate amount of deductions of income so allowed in the earlier years shall be added to the total income of the assessee of such previous year and shall be liable to tax accordingly.

(13) **Tuition fees**, whether at the time of admission or thereafter, paid to any university, college, school or other educational institution situated in India, for the purpose of full-time education of any two children of the employee.

**Full-time education includes any educational course offered by any university, college, school or other educational institution to a student who is enrolled full-time for the said course. It is also clarified that full-time education includes play-school activities, pre-nursery and nursery classes.**

*It is clarified that the amount allowable as tuition fees shall include any payment of fee to any university, college, school or other educational institution in India except the amount representing payment in the nature of development fees or donation or capitation fees or payment of similar nature.*

(14) Subscription to **equity shares or debentures forming part of any eligible issue of capital** made by a public company, which is approved by the Board or by any public finance institution.

(15) Subscription to any **units of any mutual fund** referred to in clause (23D) of Section 10 and approved by the Board, if the amount of subscription to such units is subscribed only in eligible issue of capital of any company.

(16) Investment as a **term deposit for a fixed period** of not less than five years with a scheduled bank, which is in accordance with a scheme framed and notified by the Central Government, in the Official Gazette for these purposes.

*[The Central Government has since notified the Bank Term Deposit Scheme, 2006 for this purpose vide Notification S.O. No. 1220(E) dated 28.7.2006]*

(17) Subscription to such bonds issued by the National Bank for Agriculture and Rural Development, as the Central Government may, by such notification in the Official Gazette, specify in this behalf.

(18) Any investment in an account under the Senior Citizens Savings Scheme Rules, 2004.

(19) Any investment as five year time deposit in an account under the Post Office Time Deposit Rules, 1981.

B. Section 80C(3) & 80C(3A) states that in case of Insurance Policy other than contract for a deferred annuity the amount of any premium or other payment made is restricted to:

Policy issued before 1 <sup>st</sup> April 2012	20% of the actual capital sum assured
Policy issued on or after 1 <sup>st</sup> April 2012	10% of the actual capital sum assured
Policy issued on or after 1 <sup>st</sup> April 2013 * - In cases of persons with disability or person with severe disability as per Sec 80 U or suffering from disease or ailment as specified in Sec 80DDB	15% of the actual capital sum assured

\*Introduced by Finance Act 2013

Actual capital sum assured in relation to a life insurance policy means 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 –

- i. the value of any premium agreed to be returned, or
- ii. any benefit by way of bonus or otherwise over and above the sum actually assured which may be received under the policy by any person.

### **5.5.2 Deduction in respect of contribution to certain pension funds (Section 80CCC)**

**Section 80CCC allows an** employee deduction of an amount paid or deposited out of his income chargeable to tax to effect or keep in force a contract for any **annuity plan of Life Insurance Corporation of India or any other insurer for receiving pension** from the Fund referred to in section 10(23AAB). However, the deduction shall exclude interest or bonus accrued or credited to the employee's account, if any and shall not exceed Rs. 1 lakh.

However, if any amount is standing to the credit of the employee in the fund referred to above and deduction has been allowed as stated above and the employee or his nominee receives this amount together with the interest or bonus accrued or credited to this account due to the reason of

- (i) Surrender of annuity plan whether in whole or part
- (ii) Pension received from the annuity plan

then the amount so received during the Financial Year shall be the income of the employee or his nominee for that Financial Year and accordingly will be charged to tax.

Where any amount paid or deposited by the employee has been taken into account for the purposes of this section, a deduction with reference to such amount shall not be allowed under section 80C.

### **5.5.3 Deduction in respect of contribution to pension scheme of Central Government (Section 80CCD):**

Section 80CCD(1) allows an employee, being an individual employed by the Central Government or by any other employer on or after 01.01.2004, or any other assessee being an individual, a deduction of an amount paid or deposited out of his income chargeable to tax under a pension scheme as notified vide Notification F. N. 5/7/2003- ECB&PR dated 22.12.2003 (National Pension System –NPS) or as may be notified by the Central Government. However, the deduction shall not exceed an amount equal to 10% of his salary (includes Dearness Allowance but excludes all other allowance and perquisites). **The deduction under section 80CCD(1) shall not exceed Rs. 1,00,000/-.**

As per Section 80CCD(2), where any contribution in the said pension scheme is made by the Central Government or any other employer then the employee shall be allowed a deduction from

his total income of the whole amount contributed by the Central Government or any other employer subject to limit of 10% of his salary of the previous year.

If any amount is standing to the credit of the employee in the pension scheme referred above and deduction has been allowed as stated above, and the employee or his nominee receives this amount together with the amount accrued thereon, due to the reason of

- (i) Closure or opting out of the pension scheme or
- (ii) Pension received from the annuity plan purchased and taken on such closure or opting out

then the amount so received during the FYs shall be the income of the employee or his nominee for that Financial Year and accordingly will be charged to tax.

Where any amount paid or deposited by the employee has been taken into account for the purposes of this section, a deduction with reference to such amount shall not be allowed under section 80C.

Further it has been specified that w.e.f 01.04.09 that any amount received by the employee from the new pension scheme shall be deemed not to have received in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

It is emphasized that as per the **section 80CCE the aggregate amount of deduction under sections 80C, 80CCC and Section 80CCD(1) shall not exceed Rs.1,50,000/-**. However, *the deduction under Section 80CCD(1) shall not exceed Rs.1,00,000 but contribution made by the Central Government or any other employer to a pension scheme u/s 80CCD(2) shall be excluded from the limit of Rs.1,00,000/- provided under this Section.*

#### **5.5.4 Deduction in respect of investment made under an equity savings scheme (Section 80 CCG):**

Section 80CCG provides deduction w.e.f .assessment year 2013-14 in respect of investment made under notified equity saving scheme. **Rajiv Gandhi Equity Savings Scheme 2012** has been notified vide SO No 2777 E dated 23.11.2012 as a scheme under this section. The scheme was modified in December 2013 vide notification SO No. 3693 dated 18.12.2013 as RGESS 2013. The deduction under this section in accordance with RGESS 2013, is available if following conditions are satisfied:

- (a) The assessee is a resident individual
- (b) His gross total income does not exceed Rs. 12 lakhs;
- (c) He has acquired listed shares in accordance with a notified scheme or listed units of an equity oriented fund as defined in section 10(38);
- (d) The assessee is a new retail investor;
- (e) The investment is locked-in for a period of 3 years from the date of acquisition in accordance with the above scheme;
- (f) The assessee satisfies any other condition as may be prescribed.

**Amount of deduction** –The amount of deduction is at 50% of amount invested in equity shares/units. However, the amount of deduction under this provision cannot exceed Rs. 25,000.

**Withdrawal of deduction** – If the assessee, after claiming the aforesaid deduction, fails to satisfy the above conditions, the deduction originally allowed shall be deemed to be the income of the assessee of the year in which default is committed.

This deduction is allowed for three consecutive assessment years beginning with the AY in which the listed equity shares or units were first acquired. If any deduction is claimed by a taxpayer under this section in any year, he shall not be entitled to any deduction under this section for any other year.

#### **5.5.5 Deduction in respect of health insurance premia paid, etc. (Section 80D)**

Section 80D provides for deduction available for health insurance premia paid, etc. which is calculated as under:

Sl No	Persons for whom payment made	Nature of payment	Mode of payment	Allowable Deduction (in Rs)
1	Employee or his family	<ul style="list-style-type: none"> <li>❖ the whole of the amount paid to effect or to keep in force an insurance on the health of the employee or his family or</li> <li>❖ any contribution made to the CGHS or such other scheme as may be notified by Central Government (Finance Act 2013)</li> <li>❖ any payment on account of preventive health check-up of the employee or family, <i>[restricted to Rs 5000/-; cash payment allowed here]</i></li> </ul>	any mode other than cash	Aggregate allowable is Rs 15,000/ {For Senior Citizens it is Rs 20000/-}.
2	Parent or Parents of employee	<ul style="list-style-type: none"> <li>❖ the whole of the amount paid to effect or keep in force an insurance on the health of the parent or parents of the employee or</li> <li>❖ any payment made on account of preventive health check-up of the parent or parents of the employee <i>[restricted to Rs 5000/-; cash payment allowed here]</i></li> </ul>	any mode other than cash	Aggregate allowable is Rs 15,000/ {For Senior Citizens it is Rs 20000/-}

Here

- i) “family” means the spouse and dependent children of the employee.
- ii) **Senior citizen**” means an individual **resident** in India who is of the age of **sixty years [For AY 2013-14 onwards]** or more at any time during the relevant previous year.

The DDO must ensure that the medical insurance referred to above shall be in accordance with a scheme made in this behalf by-

- (a) the General Insurance Corporation of India formed under section 9 of the General Insurance Business (Nationalization) Act, 1972 and approved by the Central Government in this behalf; or
- (b) any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999.

#### **5.5.6 Deductions in respect of expenditure on persons or dependants with disability**

##### **5.5.6.1 Deductions in respect of maintenance including medical treatment of a dependent who is a person with disability (section 80DD):**

Under **section 80DD**, where an employee, who is a resident in India, has, during the previous year-

(a) incurred any **expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability**; or

(b) paid or deposited any amount under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the specified company subject to the conditions specified in this regard and **approved by the Board** in this behalf for the maintenance of a dependant, being a person with disability, the employee shall be allowed a deduction of a sum of *fifty* thousand rupees from his gross total income of that year.

However, where such dependant is a person with **severe disability**, an amount of one hundred thousand rupees shall be allowed as deduction subject to the specified conditions.

The deduction under (b) above shall be allowed only if the following conditions are fulfilled:-

(i) the scheme referred to in (b) above provides for payment of annuity or lump sum amount for the benefit of a dependant, being a person with disability, in the event of the death of the individual in whose name subscription to the scheme has been made;

(ii) the employee nominates 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.

However, if the dependant, being a person with disability, predeceases the employee, an amount equal to the amount paid or deposited under sub-para(b) above shall be deemed to be the income of the employee of the previous year in which such amount is received by the employee and shall accordingly be chargeable to tax as the income of that previous year.

#### **5.5.6.2 Deductions in respect of a person with disability (section 80U):**

Under **section 80U**, in computing the total income of an individual, being a resident, who, at any time during the previous year, is certified by the medical authority to be a **person with disability**, there shall be allowed a deduction of a sum of fifty thousand rupees. However, where such individual is a person with **severe disability**, a higher deduction of *one lakh rupees* shall be allowable.

DDOs should note that 80DD deduction is in case of the dependent of the employee whereas 80U deduction is in case of the employee himself. However under both the Sections the employee **shall** furnish to the DDO following:

1. A copy of the certificate issued by the medical authority as defined in Rule 11A(1) in the prescribed form as per Rule 11A(2) of the Rules. The DDO has to allow deduction only after seeing that the Certificate furnished is from the Medical Authority defined in this Rule and the same is in the form as mentioned therein.
2. Further in cases where the condition of disability is temporary and requires reassessment of its extent after a period stipulated in the aforesaid certificate, no deduction under this section shall be allowed for any subsequent period **unless a new certificate** is obtained from the medical authority as in 1 above and furnished before the DDO.
3. For the purposes of section 80DD and 80 U some of the terms defined are as under:-

*(a) "Administrator" means the Administrator as referred to in clause (a) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 200 ;*

(b) “dependant” means—

- (i) in the case of an individual, the spouse, children, parents, brothers and sisters of the individual or any of them;
- (ii) in the case of a Hindu undivided family, a member of the Hindu undivided family, dependant wholly or mainly on such individual or Hindu undivided family for his support and maintenance, and who has not claimed any deduction under section 80U in computing his total income for the assessment year relating to the previous year;

(c) “disability” shall have the meaning assigned to it in clause (i) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 and includes “autism”, “cerebral palsy” and “multiple disability” referred to in clauses (a), (c) and (h) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999;

(d) “Life Insurance Corporation” shall have the same meaning as in clause (iii) of sub-section (8) of section 88;

(e) “medical authority” means the medical authority as referred to in clause (p) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 or such other medical authority as may, by notification, be specified by the Central Government for certifying “autism”, “cerebral palsy”, “multiple disabilities”, “person with disability” and “severe disability” referred to in clauses (a), (c), (h), (j) and (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999;

(f) “person with disability” means a person as referred to in clause (t) of section 2 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 or clause (j) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999;

(g) “person with severe disability” means—

- (i) a person with eighty per cent or more of one or more disabilities, as referred to in sub-section (4) of section 56 of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995; or
- (ii) a person with severe disability referred to in clause (o) of section 2 of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999;

(h) “specified company” means a company as referred to in clause (h) of section 2 of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

#### **5.5.7. Deduction in respect of medical treatment, etc. (Section 80DDB):**

Section **80DDB** allows a deduction in case of employee, who is resident in India, during the previous year, of any amount actually paid for the medical treatment of such disease or ailment as may be specified in the rules 11DD (1) for himself or a dependant. The deduction allowed is equal to the amount actually paid or Rs. 40,000 whichever is less. Further the amount paid should also be reduced by the amount received if any under insurance from an insurer or reimbursed by an employer. In case of a senior citizen (an individual resident in India who is of the age of **sixty years** or more at any time during the relevant previous year) the amount of deduction allowed is Rs. 60,000/-.

DDO must ensure that the employee furnishes a certificate in Form 10-I from a neurologist, an oncologist, a urologist, nephrologist, a haematologist, an immunologist or such other specialist, as mentioned in Rule 11DD.



For the purpose of this section in the case of an employee "dependant" means individual, the spouse, children, parents, brothers and sisters of the employee or any of them, dependant wholly or mainly on the employee for his support and maintenance.

#### **5.5.8 Deduction in respect of interest on loan taken for higher education (Section 80E):**

Section 80E allows deduction in respect of payment of interest on loan taken from any financial institution or any approved charitable institution for higher education for the purpose of pursuing his higher education or for the purpose of higher education of his spouse or his children or the student for whom he is the legal guardian.

The deduction shall be allowed in computing the total income for the Financial year in which the employee starts paying the interest on the loan taken and immediately succeeding seven Financial years or until the Financial year in which the interest is paid in full by the employee, whichever is earlier.

For the purpose of this section -

- (a) "approved charitable institution" means an institution established for charitable purposes and approved by the prescribed authority section 10(23C), or an institution referred to in section 80G(2)(a);
- (b) "financial institution" means 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); or any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf;
- (c) "higher education" means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognized 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;

#### **5.5.9 Deduction in respect of interest on loan taken for residential house property (Section 80EE):**

Vide Finance Act 2013, an individual is allowed a deduction upto a limit of Rs 1,00,000 being paid as interest on a loan taken from a Financial Institution, sanctioned during the period 01-04-2013 to 31-03-2014 (loan not to exceed Rs 25 lakhs) for acquisition of a residential house whose value does not exceed Rs 40 lakhs. However the deduction is available if the assessee does not own any residential house property on the date of sanction of the loan.

*If in case of above loan the interest claimed during AY 2014-15 is less than Rs. 1,00,000/- then the balance amount is allowed in AY 2015-16.*

#### **5.5.10 Deductions on respect of donations to certain funds, charitable institutions, etc. (Section 80G):**

**Section 80G** provides for deductions on account of donation made to various funds, charitable organizations etc. 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 - Circular No. 2/2005, dated 12-1-2005.

**No deduction under this section is allowable in case of amount of donation if exceeds Rs 10000/- unless the amount is paid by any mode other than cash.**

#### **5.5.11 Deductions in respect of rents paid (Section 80GG):**

**Section 80GG** allows the employee to a deduction in respect of **house rent paid by him for his own residence**. Such deduction is permissible subject to the following conditions :-

- (a) the employee has not been in receipt of any House Rent Allowance specifically granted to him which qualifies for exemption under section 10(13A) of the Act;
- (b) the employee files the declaration in Form No.10BA. (**Annexure X**)
- (c) The employee does not own:
  - (i) any residential accommodation himself or by his spouse or minor child or where such employee is a member of a Hindu Undivided Family, by such family, at the place where he ordinarily resides or performs duties of his office or carries on his business or profession; or
  - (ii) at any other place, any residential accommodation which is in the occupation of the employee, the value of which is to be determined under section 23(2)(a) or section 23(4)(a), as the case may be.
- (d) He will be entitled to a deduction in respect of house rent paid by him in excess of 10% of his total income. The deduction shall be equal to 25% of total income or Rs. 2,000/- per month, whichever is less. The total income for working out these percentages will be computed before making any deduction under section 80GG.

Drawing and Disbursing Authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed by them to the employee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of rent.

#### **5.5.12 Deductions in respect of certain donations for scientific research or rural development (Section 80 GGA):**

Section 80GGA allows deduction from total income of employee in respect of donations of any sum as given in the Table below:

Sl No	Donations made to persons	Approval / Notification under Section	Authority granting approval/ Notification
1	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	u/s 35(1)(ii)	Central Government
2	a research association which has as its object the undertaking of research in social science or statistical research or to a University, college or other institution to be used for research in social science or statistical research	u/s 35(1)(iii)	Central Government
3	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	furnishes the certificate u/s 35CCA (2)	Prescribed Authority under Rule 6AAA

	development approved for the purposes of <u>section 35CCA</u>		
4	an association or institution which has as its object the training of persons for implementing programmes of rural development.	furnishes the certificate u/s 35CCA (2A)	Prescribed Authority under Rule 6AAA
5	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.	furnishes the certificate u/s 35AC(2)(a)	National Committee for Promotion of Social & Economic Welfare
6	a rural development fund	notified u/s 35CCA (1)(c)	set up and notified by the Central Government
7	National Urban Poverty Eradication Fund	notified u/s 35CCA (1)(d)	set up and notified by the Central Government

**No deduction** under this section is allowable in case:

- i) The employee has gross total income which includes income which is chargeable under the head "Profits and gains of business or profession".
- ii) The amount of donation exceeds Rs 10000 and is paid in cash.

The Drawing and Disbursing Authorities should satisfy themselves that all the conditions mentioned above are satisfied before such deduction is allowed by them to the employee. They should also satisfy themselves in this regard by insisting on production of evidence of actual payment of donation and a receipt from the person to whom donation has been made and ensure that the approval/notification has been issued by the right authority. DDO must ensure a self-declaration from the employee that he has no income from "Profits and gains of business or profession".

#### **5.5.13 Deduction in respect of interest on deposits in savings account (Section 80TTA):**

**Section 80TTA has been introduced from the Financial Year 2012-13 and it allows to an employee from his gross total income if it includes any income by way of interest on deposits (not being time deposits) in a savings account, a deduction amounting to:**

- (i) in a case where the amount of such income does not exceed in the aggregate ten thousand rupees, the whole of such amount; and
- (ii) in any other case, ten thousand rupees.

The deduction is available if such savings account is maintained in a

- (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);
- (b) 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
- (c) Post Office as defined in clause (k) of section 2 of the Indian Post Office Act, 1898,

*For this section, "time deposits" means the deposits repayable on expiry of fixed periods.*

#### **6. REBATE OF RS 2000 FOR INDIVIDUALS HAVING TOTAL INCOME UPTO RS 5 LAKH [SECTION 87A]**

Finance Act 2013 provided relief in the form of rebate to individual taxpayers, resident in India, who are in lower income bracket, i. e. having total income not exceeding Rs 5,00,000/-. The

amount of rebate is Rs 2000/- or the amount of tax payable, whichever is lower. This rebate is available for A.Y. 2014-15 and subsequent assessment years.

## **7 TDS ON PAYMENT OF ACCUMULATED BALANCE UNDER RECOGNISED PROVIDENT FUND AND CONTRIBUTION FROM APPROVED SUPERANNUATION FUND:**

**7.1** The trustees of a Recognized Provident Fund, or any person authorized by the regulations of the Fund to make payment of accumulated balances due to employees, shall in cases where sub-rule(1) of Rule 9 of Part A of the Fourth Schedule to the Act applies, at the time when the accumulated balance due to an employee is paid, make therefrom the deduction specified in Rule 10 of Part A of the Fourth Schedule to the Act.

The accumulated balance is treated as income chargeable under the head “Salaries”

**7.2** Where any contribution made by an employer, including interest on such contributions, if any, in an approved Superannuation Fund is paid to the employee, tax on the amount so paid shall be deducted by the trustees of the Fund to the extent provided in Rule 6 of Part B of the Fourth Schedule to the Act. TDS should be at the average rate of tax at which, the employee was liable to be taxed during the preceding three years or during the period, if that period is less than three years, when he was member of the fund.

The deductor shall remain liable to deduct tax on any sum paid on account of returned contributions (including interest, if any) even if a fund or part of a fund ceases to be an approved Superannuation fund.

## **8. DDOS TO SATISFY THEMSELVES ABOUT THE GENUINENESS OF CLAIM:**

The Drawing and Disbursing Officers should satisfy themselves about the actual deposits/ subscriptions / payments made by the employees, by calling for such particulars/ information as they deem necessary before allowing the aforesaid deductions. In case the DDO is not satisfied about the genuineness of the employee's claim regarding any deposit/ subscription/ payment made by the employee, he should not allow the same, and the employee would be free to claim the deduction/ rebate on such amount by filing his return of income and furnishing the necessary proof etc., therewith, to the satisfaction of the Assessing Officer.

## **9. CALCULATION OF INCOME-TAX TO BE DEDUCTED:**

9.1 Salary income for the purpose of section 192 shall be computed as follow:-

- (a) First compute the gross salary as mentioned in para 5.1 including all the incomes mentioned in para 5.2 and excluding the income mentioned in para 5.3.
- (b) Allow deductions mentioned in para 5.4 from the figure arrived at (a) above and compute the amount to arrive at Net salary of the employee
- (c) Add income from all other heads- ‘House property’, ‘Profits & gains of Business or Profession’, ‘Capital gains’ and ‘Income from other Sources’ to arrive at the Gross Total Income as shown in the form of simple statement mentioned para 3.5. However it may be remembered that no loss under any such head is allowable by DDO other than loss under the Head “Income from House property”.
- (d) Allow deductions mentioned in para 5.5 from the figure arrived at (c) above ensuring that the relevant conditions are satisfied. The aggregate of the deductions subject to the threshold limits mentioned in para 5.5 shall not exceed the amount at (b) above and if it exceeds, it should be restricted to that amount.

This will be the amount of total income of the employee on which income tax would be required to be deducted. This income should be rounded off to the nearest multiple of ten rupees.

9.2 Income-tax on such income shall be calculated at the rates given in para 2.1 of this Circular keeping in view the age of the employee and subject to the provisions of sec. 206AA, as discussed in para 4.8. Rebate as per Section 87A upto Rs 2000/- to eligible persons (see para 6) may be given. Surcharge shall be calculated in cases where applicable (see para 2.2).

9.3 The amount of tax payable so arrived at shall be increased by education cess as applicable (2% for primary and 1% for secondary education) to arrive at the total tax payable.

9.4 The amount of tax as arrived at para 9.3 should be deducted every month in equal installments. Any excess or deficit arising out of any previous deduction can be adjusted by increasing or decreasing the amount of subsequent deductions during the same financial year.

## **10. MISCELLANEOUS:**

10.1 These instructions are not exhaustive and are issued only with a view to guide the employers to understand the various provisions relating to deduction of tax from salaries. Wherever there is any doubt, reference may be made to the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1962, the Finance (No. 2) Act 2014, the relevant circulars / notifications, etc.

10.2 In case any assistance is required, the Assessing Officer/the Local Public Relation Officer of the Income-tax Department may be contacted.

10.3 These instructions may be brought to the notice of all Disbursing Officers and Undertakings including those under the control of the Central/ State Governments.

10.4 Copies of this Circular are available with the Director of Income-tax (Public Relations, Printing & Publications and Official Language), 6th Floor, Mayur Bhavan, Connaught Place, New Delhi-110 001 and at the following websites:

[www.finmin.nic.in](http://www.finmin.nic.in) & [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)

Hindi version will follow.

**(Sandeep Singh)**  
**Under Secretary to the Govt. of India**

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70. Manager, State Bank of India, Local Head Office :-
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82. The Editor, "Taxation" 174, Jorbagh, New Delhi
83. The Editor, "The Tax Law Review" Post Box No.152, Jalandhar-144001
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G.L.Tagore Road, Kolkata-700108.

**(Sandeep Singh)**  
**Under Secretary to the Govt. of India**



**SOME ILLUSTRATIONS****Example 1**For Assessment Year 2015-16

(A) Calculation of Income tax in the case of an **employee (Male or Female)** below the age of sixty years and having gross salary income of:

- i) Rs.2,50,000/- ,
- ii) Rs.5,00,000/- ,
- iii) Rs.10,00,000/-
- iv) Rs.20,00,000/- . and
- v) Rs. 1,10,00,000/-

(B) What will be the amount of TDS in case of above employees, if PAN is not submitted by them to their DDOs/Offices:

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)	Rupees (iv)	Rupees (v)
Gross Salary Income (including allowances)	2,50,000	5,00,000	10,00,000	20,00,000	1,10,00,000
Contribution of G.P.F.	45,000	50,000	1,00,000	1,00,000	1,00,000

**Computation of Total Income and tax payable thereon**

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)	Rupees (iv)	Rupees (v)
Gross Salary	2,50,000	5,00,000	10,00,000	20,00,000	1,10,00,000
Less: Deduction U/s 80C	45,000	50,000	1,00,000	1,00,000	1,00,000
Taxable Income	2,05,000	4,50,000	9,00,000	19,00,000	1,09,00,000
<b>(A) Tax thereon</b>	<b>Nil</b>	<b>18,000*</b>	<b>1,05,000</b>	<b>3,95,000</b>	<b>3095000</b>
Surcharge					309500
Add:					
(i) Education Cess @ 2%.	Nil	360	2100	7,900	68090
(ii) Secondary and Higher Education Cess @1%	Nil	180	1050	3950	34045
<b>Total tax payable</b>	<b>Nil</b>	<b>18,540</b>	<b>1,08,150</b>	<b>406850</b>	<b>3506635</b>
<b>(B) TDS under sec. 206AA in case where PAN is not furnished by the employee</b>	<b>Nil</b>	<b>90,000</b>	<b>1,30,000</b>	<b>406850</b>	<b>3506635</b>

\* includes Rebate of Rs 2000 u/s 87A

**Example 2**

For Assessment Year 2015-16

**Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer).**

S.No.	Particulars	Rupees
1	Gross Salary	4,00,000
2	Amount spent on treatment of a dependant, being person with disability (but not severe disability)	7000
3	Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability( but not severe disability)	60,000
4	GPF Contribution	25,000
5	LIP Paid	10,000
6	Interest Income on Savings Account	12,000

**Computation of Tax**

S.No.	Particulars	Rupees
1	Gross Salary	4,00,000
2	Add: Income from Other Sources Interest Income on Savings Account	Rs 12,000
3	<b>Gross Total Income</b>	4,12,000
4	<b>Less:</b> Deduction U/s 80DD (Restricted to Rs.50,000/- only)	50,000
5	<b>Less:</b> Deduction U/s 80C (i) GPF Rs.25,000/- (ii) LIP Rs.10,000/- = Rs.35,000/-	35,000
6	<b>Less:</b> Deduction u/s 80TTA on Interest Income on savings account (restricted to Rs 10000/-)	10000
7	<b>Total Income</b>	<b>3,17,000</b>
8	<b>Income Tax thereon/payable</b> (includes Rebate of Rs 2000 as per Section 87A)	<b>4,700</b>
9	<b>Add:</b> (i). Education Cess @2% (ii). Secondary and Higher Education Cess @1%	<b>94</b> <b>47</b>
10	<b>Total Income Tax payable</b>	<b>4,841</b>
11	<b>Rounded off to</b>	<b>4,840</b>

### Example 3

For Assessment Year 2015-16

**Calculation of Income Tax in the case of an employee below age of sixty years where medical treatment expenditure was borne by the employer (With valid PAN furnished to employer).**

S.No.	Particulars	Rupees
1	Gross Salary	5,20,000
2	Medical Reimbursement by employer on the treatment of self and dependent family member	35,000
3	Contribution of GPF	20,000
4	LIC Premium	20,000
5	Repayment of House Building Advance	25,000
6	Tuition fees for two children	60,000
7	Investment in Unit-Linked Insurance Plan	30,000
8	Interest Income on Savings Account	8,000
9	Interest Income on Time Deposit	15,000

#### **Computation of Tax**

S.No.	Particulars	Rupees
1	Gross Salary	5,20,000
2	<b>Add:</b> Perquisite in respect of reimbursement of Medical Expenses In excess of Rs.15,000/- in view of Section 17(2)(v)	20,000
3	<b>Income from Other Sources</b> i) Interest Income on Savings Account Rs 8,000 ii) Interest Income on Savings Account Rs 15,000	<b>23,000</b>
4	<b>Gross Total Income</b>	<b>5,63,000</b>
5	<b>a.Less:</b> Deduction U/s 80C (i) GPF Rs.20,000/- (ii) LIC Rs.20,000/- (iii) Repayment of House Building Advance Rs.25,000/- (iv) Tuition fees for two children Rs.60,000/- (v) Investment in Unit-Linked Insurance Plan Rs.30,000/- <b>Total =Rs.1,55,000/-</b>  <b>Restricted to Rs. 1,50,000/-</b> <b>b. Less:</b> Deduction u/s 80TTA on Interest Income on savings account (restricted to Rs 8000/- available only on Savings account interest) Rs 8,000/- Total deduction available Rs 1,58,000/-	<b>1,58,000</b>
6	<b>Total Income</b>	<b>4,05,000</b>
7	<b>Income Tax thereon/payable</b> (includes Rebate of Rs 2000 as per Section 87A)	<b>13,500</b>
8	<b>Add:</b> (i). Education Cess @2% (ii). Secondary and Higher Education Cess @1%	<b>270</b> <b>135</b>
9	<b>Total Income Tax payable</b>	<b>13,905</b>
10	<b>Rounded off to</b>	<b>13,910</b>

#### Example 4

For Assessment Year 2015-16

**Illustrative calculation of House Rent Allowance U/s 10 (13A) in respect of residential accommodation situated in Delhi in case of an employee below the age of sixty years (With valid PAN furnished to employer).**

S.No.	Particulars	Rupees
1	Salary	3,50,000
2	Dearness Allowance	2,00,000
3	House Rent Allowance	1,40,000
4	House rent paid	1,44,000
5	General Provident Fund	60,000
6	Life Insurance Premium	4,000
7	Subscription to Unit-Linked Insurance Plan	50,000

#### **Computation of total income and tax payable thereon**

S.No.	Particulars	Rupees
1	Salary + Dearness Allowance + House Rent Allowance $3,50,000+2,00,000+1,40,000 = 6,90,000$	6,90,000
2	<b>Total Salary Income</b>	<b>6,90,000</b>
3	<b>Less:</b> House Rent allowance exempt U/s 10(13A): <b>Least of:</b> (a). Actual amount of HRA received= 1,40,000 (b). Expenditure of rent in excess of 10% of salary (including D.A. presuming that D.A. is taken for retirement benefit) $(1,44,000-55,000) =$ <b>89,000</b> (c). 50% of Salary(Basic+ DA) = 2,75,000	<b>89,000</b>
4	<b>Gross Total Income</b>	<b>6,01,000</b>
5	<b>Less:</b> Deduction U/s 80C (i). GPF Rs.60,000/- (ii). LIC Rs. 4,000/- (iii). Investment in Unit-Linked Insurance Plan <u>Rs.50,000/-</u> <b>Total =Rs.1,14,000/-</b>	1,14,000
6	<b>Total Income</b>	<b>4,87,000</b>
7	<b>Tax payable on total income</b> (includes Rebate of Rs 2000 as per Section 87A)	<b>21700</b>
8	<b>Add:</b> (i). Education Cess @2% (ii). Secondary and Higher Education Cess @1%	<b>434</b> <b>217</b>
9	<b>Total Income Tax payable</b>	<b>22351</b>
10	<b>Rounded off to</b>	<b>22350</b>

**Example 5**

For Assessment Year 2015-16

Illustrating valuation of perquisite and calculation of tax in the case of an employee below age of sixty years of a private company in Mumbai who was provided accommodation in a flat at concessional rate for ten months and in a hotel for two months ( With valid PAN furnished to employer).

S.No.	Particulars	Rupees
1	Salary	7,00,000
2	Bonus	1,40,000
3	Flat at concessional rate (for ten month). = Rs.3,60,00	3,60,000
4	Hotel rent paid by employer (for two month)	1,00,000
5	Cost of furniture	2,00,000
6	Free gas, electricity, water etc. (Actual bills paid by company)	40,000
7	Rent recovered from employee	60,000
8	Subscription to Unit Linked Insurance Plan	50,000
9	Life Insurance Premium	10,000
10	Contribution to recognized P.F.	42,000

**COMPUTATION OF TOTAL INCOME AND TAX PAID THEREON:**

S.No.	Particulars	Rupees
1	Salary	7,00,000
2	Bonus	1,40,000
3	Total Salary(1+2) for the purpose of valuation of perquisites (12 months)	8,40,000
<b>Valuation of perquisites</b>		
4(a)	<i>Perquisite for flat:</i> Lower of (15% of salary for 10 months = Rs.1,05,000/-) and (actual rent paid= Rs 3,60,000) <b>i.e. Rs. 1,05,000/-</b> <b>Less : Rent recovered Rs. 60000/-</b>	Rs 45,000
4(b)	<i>Perquisite for hotel :</i> Lower of (24% of salary of 2 months=Rs 33,600) and (actual payment= Rs 1,00,000)	Rs 33,600
4(c)	<i>Perquisites for furniture</i> @ 10% of cost of Rs.2,00,000	Rs 20,000
4(d)	Perquisite for free gas, electricity, water etc.	Rs 40,000
4	<b>Total</b>	<b>1,38,600</b>
5	Gross Total Income (Rs.8,40,000+ 1,38,600)	9,78,600
6	<b>Gross Total Income</b>	<b>9,78,600</b>
7	<b>Less: Deduction U/s 80C:</b> (i). Provident Fund (80C) : Rs.42,000/- (ii). LIC (80C) : Rs.10,000/- (iii). Subscription to Unit Linked Insurance Plan(80C) : <u>Rs.50,000/-</u> Total = <b>Rs.1,02,000/-</b>	<b>1,02,000</b>
8	<b>Total Income</b>	<b>8,76,600</b>
9	Tax Payable	<b>1,00,320</b>
10	<b>Add:</b> (i). Education Cess @2% (ii). Secondary and Higher Education Cess @1%	<b>2,006</b> <b>1,003</b>
11	<b>Total Income Tax payable</b>	<b>1,03,329</b>
12	<b>Rounded off to</b>	<b>1,03,330</b>

**Example 6**

For Assessment Year 2015-16

**Illustrating Valuation of perquisite and calculation of tax in the case of an employee below the age of 60 years of a Private Company posted at Delhi and repaying House Building Loan ( With valid PAN furnished to employer).**

S.No.	Particulars	Rupees
1	Salary	4,00,000
2	Dearness Allowance	1,00,000
3	House Rent Allowance	1,80,000
4	Special Duties Allowance	12,000
5	Provident Fund	60,000
6	LIP	10,000
7	Deposit in NSC VIII issue	30,000
8	Rent Paid by the employee for house hired by her	1,20,000
9	Repayment of House Building Loan (Principal)	60,000
10	Tuition Fees for three children (Rs.10,000 per child)	30,000

**Computation of total income and tax payable thereon**

S.No.	Particulars	Rupees
1	Gross Salary (Basic+DA+HRA+SDA)	6,92,000
	<b>Less:</b> House rent allowance exempt U/s 10 (13A) <u>Least of:</u> (a). Actual amount of HRA received. :Rs. 1,80,000 (b). Expenditure on rent in excess of 10% of salary (Including D.A.)assuming D.A. is included for retirement benefits (1,20,000- 50,000) :Rs. <b>70,000</b> (c). 50% of salary (including D.A) :Rs. 2,00,000	70,000
2	<b>Gross Total Taxable Income</b>	<b>6,22,000</b>
	<b>Less:</b> Deduction U/s 80C (i). Provident Fund : Rs. 60,000 (ii). LIP : Rs. 10,000 (iii). NSC VIII Issue : Rs. 30,000 (iv). Repayment of HBA : Rs. 60,000 (v). Tuition Fees (Restricted to two children) : Rs. <u>20,000</u> Total : Rs. 1,80,000 <b>Restricted to Rs. 1,50,000</b>	1,50,000
	<b>Total Income</b>	<b>4,72,000</b>
	<b>Income Tax thereon/payable</b> (includes Rebate of Rs 2000 as per Section 87A)	<b>20,200</b>
	<b>Add:</b> (i). Education Cess @2% (ii). Secondary and Higher Education Cess @1%	<b>404</b> <b>202</b>
	<b>Total Income Tax payable</b>	<b>20,806</b>
	<b>Rounded off to</b>	<b>20,810</b>

### Example 7

For Assessment Year 2015-16

A. Calculation of Income tax in the case of a retired employee above the age of sixty years but below the age of 80 years and having gross pension of:

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)
Gross Pension	4,50,000	8,00,000	12,50,000
Contribution of P.P.F.	70,000	1,00,000	1,50,000

B What will be the amount of TDS in case of above employees, if PAN is not submitted by them to their DDOs/Offices:

#### **Computation of Total Income and tax payable thereon**

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)
Gross Pension	4,50,000	8,00,000	12,50,000
Less: Deduction U/s 80C	70,000	1,00,000	1,50,000
Taxable Income	3,80,000	7,00,000	11,00,000
<b>Tax thereon (A)</b>	6,000	60,000	1,50,000
Add:			
(i) Education Cess @ 2%.	120	1200	3000
(ii) Secondary and Higher Education Cess @ 1%	60	600	1500
<b>Total tax payable</b>	<b>6,180*</b>	<b>61,800</b>	<b>1,54,500</b>
<b>B. TDS under sec. 206AA in case where PAN is not furnished by the employee</b>	<b>16,000</b>	<b>80,000</b>	<b>1,60,000</b>

\*includes Rebate of Rs 2000 as per Section 87A

### Example 8

For Assessment Year 2015-16

**A. Calculation of Income tax in the case of a retired employee above the age of 80 years and having gross pension of:**

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)
Gross Pension	5,00,000	8,00,000	12,50,000
Contribution of P.P.F.	80,000	1,20,000	1,50,000

**B** What will be the amount of TDS in case of above employees, if PAN is not submitted by them to their DDOs/Offices:

#### **Computation of Total Income and tax payable thereon**

Particulars	Rupees (i)	Rupees (ii)	Rupees (iii)
Gross Pension	5,00,000	8,00,000	12,50,000
Less: Deduction u/s 80C	80,000	1,20,000	1,50,000
Taxable Income	4,20,000	6,80,000	11,00,000
<b>Tax thereon (A)</b>	<b>Nil</b>	<b>36,000</b>	<b>1,30,000</b>
Add:			
(i) Education Cess @ 2%.		720	2600
(ii) Secondary and Higher Education Cess @1%		360	1300
<b>Total tax payable</b>	<b>Nil</b>	<b>37,080</b>	<b>1,33,900</b>
<b>B. TDS under sec. 206AA in case where PAN is not furnished by the employee</b>	<b>Nil</b>	<b>37,080</b>	<b>1,33,900</b>



**FORM NO.12BA**  
**{See rule 26A(2)(b)}**

**Statement showing particulars of perquisites, other fringe benefits or amenities and profits in lieu of salary with value thereof**

- 1) Name and address of employer :
- 2) TAN
- 3) TDS Assessment Range of the employer :
- 4) Name, designation and PAN of employee :
- 5) Is the employee a director or a person with :  
substantial interest in the company  
(where the employer is a company)
- 6) Income under the head "Salaries" of the employee :  
(other than from perquisites)
- 7) Financial Year :
- 8) Valuation of Perquisites

S.No	Nature of perquisite (see rule 3)	Value of perquisite as per rules (Rs.)	Amount, if any recovered from the employee (Rs.)	Amount of perquisite chargeable to tax Col(3) - Col(4) (Rs.)
(1)	(2)	(3)	(4)	(5)
1	Accommodation			
2	Cars/Other automotive			
3	Sweeper, gardener, watchman or personal attendant			
4	Gas, electricity, water			
5	Interest free or concessional loans			
6	Holiday expenses			
7	Free or concessional travel			
8	Free meals			
9	Free Education			
10	Gifts, vouchers etc.			
11	Credit card expenses			
12	Club expenses			
13	Use of movable assets by employees			
14	Transfer of assets to employees			

15	Value of any other benefit/amenity/service/privilege			
16	Stock options (non-qualified options)			
17	Other benefits or amenities			
18	Total value of perquisites			
19	Total value of Profits in lieu of salary as per 17(3)			

9. Details of tax, -

- (a) Tax deducted from salary of the employee u/s 192(1) .....
- (b) Tax paid by employer on behalf of the employee u/s 192(1A) .....
- (c) Total tax paid .....
- (d) Date of payment into Government treasury .....

**DECLARATION BY EMPLOYER**

I ..... s/o ..... working as .....(designation) do hereby declare on behalf of ..... (name of the employer) that the information given above is based on the books of account, documents and other relevant records or information available with us and the details of value of each such perquisite are in accordance with section 17 and rules framed thereunder and that such information is true and correct.

Signature of the person responsible

for deduction of tax

Place...

Full Name .....

Date...

Designation.....

**POINT NO.4.4.2.1 OF CIRCULAR OF DEDUCTION OF TAX AT SOURCE – INCOME TAX DEDUCTION FROM SALARIES U/S 192 OF THE INCOME-TAX ACT, 1961 – FINANCIAL YEAR 2013-14**

**Compulsory filing of Statement by PAO, Treasury Officer, etc. in case of payment of TDS by Book Entry**

**1. Procedure of preparation and furnishing Form 24G at TIN-Facilitation Centres (TIN-FCs):**

The Form 24G should be prepared by the PAO/DTO/CDDO (hereinafter referred to as AOs) as per the data structure (File format) prescribed by the DIT (Systems), Delhi which is available on TIN website [www.tin-nsdl.com](http://www.tin-nsdl.com). The AOs can prepare Form 24G either by using in-house facilities, third party software or by using form 24G Return Preparation Utility (RPU) developed by NSDL e-Governance Infrastructure Limited (NSDL), which is freely downloadable from the TIN web-site [www.tin-nsdl.com](http://www.tin-nsdl.com).

After preparation of form 24G, the AO is required to validate the same by using the Form 24G File Validation Utility (FVU) which is freely available on TIN website.

Once file is validated through FVU, ‘.fvu file’ in CD/DVD/Pen Drive along with physical Statement Statistic Report (SSR) signed by the AO, to be furnished at TIN-FCs. On successful acceptance of Form 24G at the TIN-FC, an acknowledgement containing 15 digit Token no. is provided to the AO. The AO can view the status of Form 24G on TIN website.

Book identification Number (BIN) is generated for each ‘DDO record with valid TAN’ reported in Form 24G, which is further disseminated to the AOs on email ID mentioned in Form 24G. AOs need to communicate the BIN details to respective DDOs. BIN is to be quoted by the DDOs in quarterly e-TDS/TCS statements. BIN consists of receipt number of Form 24G. DDO serial number and date of transfer voucher.

The AO is required to furnish Form 24G within ten days from the end of the month in respect of tax deducted by the deductors and reported to him for that month. Only one regular Form 24G for a ‘month-FY’ can be submitted.

**1.1 Correction in Form 24G:**

AO can file a correction Form 24G for any modification or cancellation of Form 24G accepted at TIN central system. Preparation and validation of correction Form 24G is in line with regular form 24G. The validated Form 24G correction file (.fvu file) copied on a CD/pen drive is to be submitted along with the provisional receipt of original Form 24G and SSR to TIN-FC. On successful acceptance of correction Form 24G at the TIN-FC, an acknowledgement containing 15 digit Token no. is provided to the AO. The AO can view the status of Form 24G on TIN website.

**2. Online upload of Form 24G at TIN websites:**

For online upload of Form 24G at TIN website, the Accounts Office Identification Number (AIN) is a pre-requisite. For online AIN registration, AO need to file at least one Form 24G through TIN-FC. After AIN registration, AO can file Form 24G through AO Account at TIN website. Preparation and validation of correction Form 24G is in line with regular Form 24G (submitted at TIN-FC). The validated Form 24G correction file (.fvu file) is to be uploaded at

TIN website. There is no need to submit SSR in online upload. For Form 24G accepted at TIN Central System an online acknowledgement containing a 15 digit token number is generated and displayed to the AO. The format of the acknowledgement is identical to the one issued by the TIN-FC.

No charges are applicable to AOs for online upload of Form 24G. On login, AO can also View/Download BIN details and update demographic details. No Digital Signature Certificate (DSC) is required for registration and online uploading of Form 24G.

**2.1 Online uploading of correction Form 24G at TIN website:**

AO can file a correction Form 24G for any modification or cancellation of Form 24G accepted at TIN Central System. Preparation and validation of correction form 24G is in line with regular form 24G. The validated Form 24G correction file (.fvu file) can be uploaded online through AO account at TIN website. For correction Form 24G accepted at TIN central system, an online acknowledgement containing a 15 digit token number is generated and displayed to the AO. The format of the acknowledgement is identical to the one issued by the TIN-FC. There is no need to submit SSR and provisional receipt of original form 24G in online upload.

3. For FAQs and further details, AOs are advised to log on TIN website [www.tin-nsdl.com](http://www.tin-nsdl.com)

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**Furnishing of Monthly Form No. 24G Statements by Pay and Accounts Officers (PAOs)/District Treasury Officers (DTOs)/Cheque Drawing and Disbursing Officers(CDDOs)**

**1. Under what income tax rule should Form 24G be filed?**

Income-tax Department Notification no. 41/2010 dated May 31, 2010 amended the Income Tax Rule 30 which mandates that in case of an office of the Government, where tax has been paid to the credit of Central Government without the production of a challan (associated with deposit of the tax in a bank), **the relevant PAO / CDDO / DTO or an equivalent office of the government (herein after called as AO in this document) is required to file Form 24G on monthly basis.**

**2. Who is the relevant PAO/CDDO/DTO who is liable for filing Form 24G?**

A relevant PAO/CDDO/DTO is that office to whom the Deductor/DDO (TAN holder) reports remittance of TDS/TCS through book adjustment. Generally, the Central Government DDOs report TDS through book entry to their respective Pay and Accounts Officers (PAOs) and the State Government DDOs report TDS through book entry to their respective District Treasury Officers(DTOs). Such PAOs and DTOs are required to file Form 24G on monthly basis.

There are also cases of Cheque Drawing and Disbursing Officers (CDDOs) who report TDS through book entry directly to State AG. For example, PWD, Forest Department etc. Such CDDOs are also required to file Form 24G on monthly basis. Schematic Diagram at Annexure-III clarifies the person responsible for filing Form 24G in different scenarios.

**3. Can the same office/officer also act as DDO and AO?**

Ordinarily, the PAO office is the one to whom the DDO reports the TDS and therefore, both should be from different offices. However, where the DDO and AO are the same, as in the case of CDDOs, the statistics report of Form 24G should be counter signed by his superior officer.

**4. What is AIN and who should apply?**

Accounts Office Identification Number (AIN) is a unique seven digit which is allotted by the Directorate of Income Tax (Systems), Delhi, to every AO. Each AO is uniquely identified in the system by this number. AOs are required to apply for AIN with jurisdictional TDS office. The AIN application can be downloaded from TIN site. Every AIN holder is required to file Form 24G.

Each DDO is identified in the system by a Tax Deduction and Collection Account Number (TAN). This number is allotted by Income Tax Department.

**5. Where should the Accounts Office Identification Number (AIN) application be submitted ?**

The duly filled and signed application for AIN allotment is to be submitted in physical form by the PAO / CDDO / DTO to the jurisdictional CIT (TDS). Complete and correct AIN application forms will be forwarded by the jurisdictional CIT (TDS) to NSDL e-Governance Infrastructure Limited (NSDL), Times Tower, 1st Floor, Kamala Mills Compound, SenapatiBapatMarg, Lower Parel, Mumbai - 400013 recommending allotment of AIN to the PAO / CDDO / DTO.

## **6. What information should be submitted through Form 24G?**

Every AO should furnish one complete, correct and consolidated Form 24G every month having details of each type of deduction / collection separately viz. TDS-Salary / TDS-Non Salary / TDS-Non Salary Non Residents / TCS made by each DDO under his jurisdiction.

## **7. Where should Form 24G be submitted?**

Form 24G is to be furnished only in electronic form in a CD/pen drive at TIN-FCs or online through AO Account at [www.tin-nsdl.com](http://www.tin-nsdl.com) web portal. The facility to submit Form No. 24G online is available free of cost. Provisional Receipt Number (PRN) is issued as an acknowledgement of the receipt of Form 24G.

## **8. How to register for online facility?**

Registration for AO Account is mandatory for filing Form No. 24G online through TIN website, [www.tin-nsdl.com](http://www.tin-nsdl.com). Registration AO Account is required once only. AO required to submit the Form No. 24G at TIN-FC at least once to comply with the Know Your Customer (KYC) norms for registration of the AO Account. After registration, it is optional for AO either to submit the Form No.24G in CD/Pen drive at TIN-FC or online.

## **9. What are the functionalities available with AO Account?**

Through the AO Account, the AO can view the status of Form No. 24G filed, obtain BIN (Book Identification Number) details, update AO profile and upload Form No. 24G. The status tracking is based on AIN and concerned Provisional Receipt Number (PRN) of Form 24G.

## **10. Can the AO furnish Form No. 24G in paper form?**

No. Form 24G is to be filed only in electronic form.

## **11. Can the AO submit the electronically prepared Form No.24G at the Income Tax Office?**

No. Electronically prepared Form No.24G can only be submitted at TIN-FC or online .

## **12. What does Form 24G contain?**

Every Form 24G should be prepared in accordance with the data structure prescribed by the Income Tax Department (ITD). Form 24G contains-

- Details of the AO filing Form 24G (AIN, name, demographic information, contact details).
- Category of AO (Central / State Government) along with details of ministry / state.
- Statement details (month and year for which Form 24G is being filed).
- Payment summary; nature of deduction wise (TDS – Salary /TDS Non-salary / TDS – Non-salary Non-resident / TCS).
- DDO wise payment details (TAN of DDO, name, demographic details, total tax deducted and remitted to the Government account (A.G. / Pr.CCA).
- DDOs which are associated with the AO. If the AO wants to add/delete or update details of DDO, same should be mentioned in the statement.

## **13. What is the procedure to prepare the Form 24G statement?**

The AOs can prepare Form 24G either by using in-house facilities, third party software or by using Form 24G Preparation Utility developed by NSDL, which is freely downloadable from the TIN web-site ([www.tin-nsdl.com](http://www.tin-nsdl.com)) or ITD website ([www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)).

Once the statement is prepared, the AO shall validate the same by using File Validation Utility (FVU) developed by NSDL and freely available at the TIN or ITD website. The statement can be furnished in Compact Disk (CD) at any of the TIN-Facilitation Centres (TIN-FC) managed by NSDL along with Form 24G Statement Statistics Report (generated through File Validation Utility), duly signed by the AO. The list of TIN-FCs is available at TIN or ITD website.

Once Form 24G is accepted by the TIN-FC, it will issue a provisional receipt with a unique Provisional Receipt Number (PRN) to the AO as a proof of submission of the statement.

#### **14. What is Form 24G Preparation Utility?**

The Form 24G Preparation Utility is a Java based utility. Form 24G Preparation Utility can be freely downloaded from [www.tin-nsdl.com](http://www.tin-nsdl.com). After downloading, it needs to be saved on the local disk of the machine.

JRE (Java Run-time Environment) [versions: SUN JRE: 1.4.2\_02 or 1.4.2\_03 or 1.4.2\_04 or IBM JRE: 1.4.1.0] should be installed on the computer where Form 24G Preparation Utility is being installed. JRE is freely downloadable from <http://java.sun.com> and <http://www.ibm.com/developerworks/java/jdk> or you can ask your computer vendor (hardware) to install the same for you.

Form 24G Preparation Utility can be executed on Windows platform(s) Win 2K Prof. / Win 2K Server/ Win NT 4.0 Server/ Win XP Prof. To run the 'Form 24G Preparation Utility', click on the '24GRPU.bat' file.

If JRE is not installed on the computer, then on clicking '24GRPU.bat', a message will be displayed. In such cases, install JRE and try again. If appropriate version of JRE is installed, then the 'Form 24G Preparation Utility' will be displayed.

#### **15. What are the steps to download and install Form 24G Preparation Utility?**

For assistance in downloading and using Form 24G Preparation Utility, please read the instructions provided in 'Help' in the Form 24G Preparation Utility. This utility can be used for preparation of Form 24G with upto 75,000 records. Form 24G Preparation Utility (version 1.2) should be used for regular and correction statements.

#### **16. What is File Validation Utility (FVU)?**

The AO should pass the Form 24G (Regular/Correction) file generated using Preparation Utility through the File Validation Utility (FVU) to ensure format level accuracy of the file. This utility is also freely downloadable from TIN website. In case the Form 24G contains any errors, the AO should rectify the same. After rectifying the errors, user should pass the rectified Form 24G through the FVU. This process should be continued till an error-free Form 24G is generated. Form 24G (regular/correction) prepared from F.Y. 2005-06 onwards can be validated using this utility.

The Form 24G FVU is a Java based utility. JRE (Java Run-time Environment) [versions: SUN JRE: 1.4.2\_02 or 1.4.2\_03 or 1.4.2\_04 or IBM JRE: 1.4.1.0] should be installed on the computer where the Form 24G FVU is being installed. JRE is freely downloadable from <http://java.sun.com> and <http://www.ibm.com/developerworks/java/jdk> or you can request your computer vendor (hardware) to install the same for you.

The Form 24G FVU setup comprises of two files, namely-

- **Form 24G FVU.bat:** This is a setup program for installation of FVU.
- **Form 24G\_FVU\_STANDALONE.jar:** This is the FVU program file.

These files are in an executable zip file (Form24GFVU.exe) (version 1.2). These files are required for installing the Form 24G FVU.

Instructions for extracting and setup are given in:

- Form 24G FVU Extract and Setup

**17. After preparation of Form No. 24G statement through RPU, three files are generated when such statement passes through FVU. Is the AO required to take all three files in CD /Pen drive to TIN-FC?**

When a valid file is passed through the FVU, the following three files are generated:-

- (a) The upload file
- (b) Form 24G statement Statistics Report and
- (c) Form 24G.

Every Form 24G (upload file) mentioned at Sr. No. (a) is to be saved in CD and the same should be accompanied with the Statement Statistic Report mentioned at Sr. No. (b), **in paper form duly signed by the Accounts Officer**, which needs to be submitted at TIN-FCs.

Form 24G: Form 24G, at serial number (c) above, is a reader friendly format of TDS/TCS Book Adjustment form. This is like the physical form of Form 24G in html format. It contains all the details of Accounts Officer as well as Drawing and Disbursement Officer. There is no need to submit this file.

**18. Can the Form 24G Statement be corrected?**

Every Form 24G is to be prepared in accordance with the data structure prescribed by the Income Tax Department (ITD). If it does not confirm to the new data structure it will be rejected by TIN.

As per procedure, statements relating to Form 24G should be complete and correct. No fragmented statements are expected to be filed (i.e. separate statements giving details for deductions under different form type with respect to the same AIN, FY and month). However, any mistake made in an original accepted statement can be rectified by submitting a 'correction statement'. **For correction, the latest version of the RPU should be downloaded from TIN website.**

Form 24G corrections can also be uploaded directly at the TIN website. For direct upload at TIN Central system, AO has to first register AIN at TIN website and upload the Form 24G correction.

**19. What are the different kinds of correction statements allowed?**

There are two different types of correction statements that can be furnished by the AO. These are listed below.

- **M (Modify) :-** For any modification in the existing Form 24G statement.
- **X (Cancel) :-** For cancellation of an existing Form 24G statement.

For preparation of correction statement, the receipt number of the original statement and receipt number of the previous statement is mandatory.

In case of first correction, PRN of original statement should be provided in field "**Receipt number of Original Statement**" and also in the field "**Receipt number of Previous Statement**".



In case a correction statement has already been filed earlier, PRN of original statement should be provided in field “**Receipt number of Original Statement**” and PRN of last correction to be mentioned in field “**Receipt number of Previous Statement**”.

## 20. What is M –Type of Correction Statement?

This type of correction statement is to be furnished by AO, if it wishes to update any of its details like its name, address, Responsible person details, category, Ministry, State or deletion and addition of DDO (Drawing & Disbursing Officer) etc. **Modifications in AIN (Account office Identification Number), Financial Year and Month are not allowed.**

There are three modes by which changes can be made in the DDO details provided in original Form 24G statement:

- **Add:** DDO records can be added to the original Form 24G statement
- **Update:** details of DDO (i.e. TAN, TAN Name, demographic and contact details, amount of tax deducted and remitted, nature of deduction) can be updated for the DDO records provided in original or subsequent correction statement
- **Delete:** DDO records provided in original Form 24G or subsequent correction statement can be deleted

M-type correction statement will always contain AO details and details of DDO which are added and/or deleted.

## 21. What is X–Type of Correction Statement?

This type of correction statement is to be furnished by AO if it wishes to cancel an existing Form 24G statement. Filing of Correction type X will allow AOs to file regular Form 24G for the same primary key (AIN, Financial year and Month). This type of correction is to be filed only if the Form 24G has been filed with wrong AIN, F.Y. or Month.

## 22. What is BIN?

BIN stands for “Book Identification Number” for each form type mentioned in the accepted monthly form No. 24G. BIN consists of the following:

- (i) **Receipt Number:** Receipt number is a seven digit unique number generated on successful acceptance of Form 24G.
- (ii) **DDO Serial Number:** It is a five digit unique number generated for every DDO transaction reported in Form 24G statement.
- (iii) **Transfer Voucher Date:** It is the last date of month for which Form 24G statement is filed.

BIN is required to be disseminated to the respective DDOs who in turn are required to report the same in the TDS/TCS Statement. The quoting of BIN has been made mandatory w.e.f 01<sup>st</sup> February, 2012. BIN is a unique number to verify the claim of TDS deposited without production of challan. As it is a verification key, it is advised that valid BIN disseminated by AO to the respective DDO should be correctly filled in TDS statement.

## 23. When is BIN generated?

On processing of accepted Form 24G statement, BIN is generated for each DDO record (with valid TAN) present in Form 24G statement. BIN are generated at TIN Central System and intimated to the PAOs with details of TAN and Form Type.

## **24. What do the PAO and DDO have to do with the BIN?**

PAOs have to disseminate the BINS to respective DDOs. While preparing the quarterly TDS/TCS statement, DDO has to quote the said BIN details, if tax has been paid through transfer voucher (book adjustment).

BINs generated for a particular 24G are mailed to the AO on the e-mail id provided in Form 24G. In addition, AO may also download the BIN details through AO login at TIN site.

## **25. Under what circumstances will BIN be generated?**

- BIN will be generated for valid TAN-DDO records added in Form 24G correction statement.
- BIN will be generated for DDO records where invalid TANs/TAN not present in Income Tax Department database is updated with a valid TAN.
- New BIN will not be generated for any update made in TAN name, demographic and contact details, amount of Tax deducted and remitted or nature of deduction.
- BIN details will not be generated for deleted DDO records.

## **26. What is the utility of BIN?**

The BIN details and amount of TDS reported in the quarterly TDS/TCS Statement filed by the DDO will be matched with the respective details filed in Form No.24G filed by the PAO for verification purpose.

## **27. Are there instances where BIN details and amount of TDS reported in TDS/TCS statements do not match with that reported in Form 24G? What are the consequences of such mismatch?**

- (i) Instances of wrong/incorrect reporting of BIN by the DDOs in the TDS/TCS Statement have been observed. Reporting of incorrect BINs and corresponding amount in TDS statement will lead to mismatch with the respective amount as reported in the Form No. 24G. In this situation, the corresponding deductees may not get credit of the TDS/TCS. Therefore, the BIN as disseminated by the respective PAO should be reported correctly along with the corresponding amount in the TDS/TCS Statement filed by the DDOs.
- (ii) In a number of cases, one distinct DDO has been found to be reported by more than one AO in the Form No. 24G for the same form type of TDS statement which is not a valid scenario. The DDOs and respective AOs are advised to reconcile the issue and one DDO should be mapped to one AO only for a particular form type for a particular month.

## **28. What are the duties of PAOs/DTOs/CDDOs?**

- i. To apply for AIN with jurisdictional TDS office. AIN application can be downloaded from TIN site.
- ii. To obtain correct TAN from the reporting DDOs.
- iii. To file Form No. 24G (in CD, DVD, Pen Drive), within 10 days from the end of the month, electronically either at TIN-FC or by direct online upload at TIN website.
- iv. To track status of the filed Form No. 24G through TIN website.
- v. To download Book Identification Number (BIN) generated on the basis of 24G statement.
- vi. To disseminate BIN to the respective DDOs.

## **29. What are the duties of DDOs?**

- i. To provide correct TAN to their PAOs/DTOs/CDDOs to whom the DDO/Deductor reports the tax so deducted & who is responsible for crediting such sum to the credit of the Central Government.

- ii. To report to PAOs/DTOs/CDDOs, the details of tax deducted and credited to the Central Government account through book adjustment.
- iii. To quote BIN in the quarterly TDS/TCS Statement (24Q, 26Q, etc) for the tax deducted and credited through book adjustment.

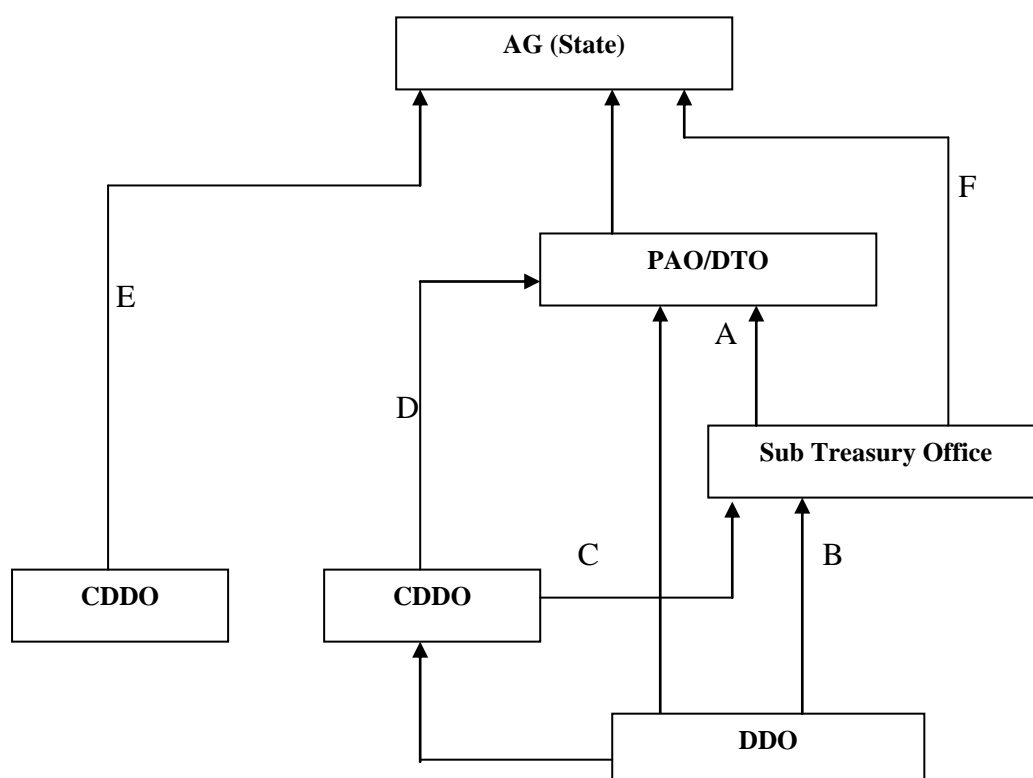
**30. What are the consequences of non-quoting of BIN details in quarterly TDS/TCS statement?**

- (a) BIN details and amount of TDS reported in the quarterly TDS/TCS Statement filed by the DDO will be matched with the details filed in Form No.24G filed by the PAO for verification purpose.
- (b) Any wrong information reported by the DDOs in TDS/TCS Statement may lead to mismatch due to which credit to the respective deductee will not be available in the deductee's Form 26AS.
- (c) Further details are available at TIN website [www.tin-nsdl.com](http://www.tin-nsdl.com) and ITD website [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in).

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# ANNEXURE V

## “Person Responsible for filing Form No. 24G in case of State Govt. Departments”



Type of Reporting of Book Entry	Person Responsible (AIN holder) for filing 24G.
A	PAO / DTO
B	PAO / DTO
C	PAO / DTO
D	PAO / DTO
E	CDDO
F	STO

<b>AG</b>	Accountant General
<b>PAO</b>	Pay & Accounts Officer
<b>DTO</b>	District Treasury Office
<b>STO</b>	Sub Treasury Office
<b>DDO</b>	Drawing & Disbursing Officer
<b>CDDO</b>	Cheque Drawing & Disbursing Officer

**POINT NO. 4.9 OF CIRCULAR OF DEDUCTION OF TAX AT SOURCE FROM SALARIES U/S 192 OF THE INCOME TAX ACT, 1961 – FINANCIAL YEAR 2014-15 - PROCEDURE OF PREPARATION OF QUARTERLY STATEMENT OF DEDUCTION OF TAX UNDER SECTION 200(3) OF THE ACT**

1. Quarterly e-TDS statement/return should be prepared by Deductor/DDO as per the data structure (File Format) prescribed by the DIT (Systems), Delhi which is available on TIN website [www.tin-nsdl.com](http://www.tin-nsdl.com). Deductor/DDO can prepare e-TDS statement/return either by using in-house facilities, third party software or by using Return Preparation Utility (RPU) developed by NSDL e-Governance Infrastructure Limited (NSDL), which is freely downloadable from the TIN website.

After preparation of e-TDS statement/return, the Deductor/DDO is required to validate the same by using the File Validation Utility (FVU) which is freely available on TIN website.

**2. Procedure of furnishing of e-TDS statement/return at TIN Facilitation Centres (TIN-FCs):**

Once file is validated through FVU, 'fvu file' is generated. Copy of this 'fvu file' in CD/DVD/Pen Drive along with physical Form 27A duly filled and signed by the Deductor/DDO or by the person authorized by the Deductor/DDO, to be furnished at TIN-FC, an acknowledgement containing a unique 15 digit token number is provided to the Deductor/DDO. Deductor/DDO can view the status of e-TDS statement/return on TIN website. Only one regular e-TDS statement/return for a 'FY-Quarter-TAN-Form' can be submitted.

**2.1 Correction in e-TDS statements/returns:**

2.1.1 CPC-TDS portal ([www.tdscpc.gov.in](http://www.tdscpc.gov.in)) has also introduced online correction of statements whereby personal information, PAN correction, add/update of challan information, add/update of salary detail, add/update/movement of deductee row etc. can be done in the statements filed by the deductors, **with or without the digital signatures**. For further details, kindly refer the matrix below:

	Default Summary View	Personal Information	Challan Correction (Unmatched, matched Deductee + Deductee Movement)	PAN Correction (Annex.I)	PAN Correction (Annex. II)	Add Challan to statement	Interest, Levy Payment	Modify/Add deductee rows	Delete/Add salary deducted rows
Online Correction (with digital signature, 2013-14 onwards)	Y	Y	Y	Y	Y	Y	Y	Y	Y
Online Correction (with digital signature, prior to 2013-14 onwards)	Y	Y	Y	N	N	Y	Y	N	N
Online Correction (without digital signature, 2013-14 onwards)	Y	N	Y	N	N	Y	Y	N	N
Online Correction (without digital signature, prior to 2013-14 onwards)	Y	N	Y	N	N	Y	Y	N	N

For more information, deductors are advised to refer to e-tutorials/FAQs available on TRACES portal. Online correction entails no charges and does away with the requirement of downloading conso file and visiting TIN-FCs.

**2.1.2 With effect from 1<sup>st</sup> January, 2015, TRACES will be providing a correction window of 7 days from date of processing at CPC-TDS (generally 2 days after date of filing of statement). This facility will enable the filer to correct PAN errors and challan mismatch cases identified by CPC-TDS and avoiding of issuance of demand notices. Therefore, deductors are advised to check the processing status promptly so as to utilize this facility.**

2.1.3 Deductor/DDO can also file a correction e-TDS statement for any modification in the e-TDS statement. Correction statement can be prepared by using the TDS Consolidated file that is available at TRACES ([www.tdscpc.gov.in](http://www.tdscpc.gov.in)). Validation of correction statement is in line with regular e-TDS statement, physical Form 27A duly signed and Statement Statistical Report at TIN-FC. On successful acceptance of correction e-TDS statement at the TIN-FC, an acknowledgement containing a unique 15 digit token no. is provided to the Deductor/DDO. Deductor/DDO can view the status of e-TDS statement on TRACES website.

### **3. Procedure of preparation and furnishing of paper TDS statement/return at TIN-Facilitation Centres (TIN-FCs):**

All statement/return in Form 24Q are required to be furnished in computer media except in case where the number of deductee records are equal to or less than 20. Paper statement/return duly filled and signed by the Deductor/DDO can be furnished at TIN-FC. On successful acceptance of paper statement/return at the TIN-FC, an acknowledgment containing a unique 15 digit token no. is provided to the Deductor/DDO. Deductor/DDO can view the status of paper statement/return on TIN website. No charges are applicable for paper TDS statement/return.

#### **3.1 Correction in paper statements/returns:**

The physical TDS statement/return is to be filed again in case of any correction to a physical TDS statement/return accepted at TIN. The deductor will submit the duly filled and signed physical TDS statement/return along with a copy of provisional receipt of regular paper statement/return at TIN-FC. On successful acceptance of correction paper statement/return at the TIN-FC, an acknowledgement containing a unique 15 digit token number is provided to the Deductor/DDO. Deductor/DDO can view the status of paper statement/return on TIN website.

#### **4. Procedure of furnishing of e-TDS statement/return online at TIN website:**

Deductor/DDO is required to procure Digital Signature Certificate (DSC) for online upload of e-TDS statement/return. After registration on TIN website, an authorization letter by the Deductor/DDO should be provided on the letter head of the organisation to NSDL. Once application is approved by NSDL, user ID is created and intimated to Deductor/DDO on their registered email ID provided at the time of registration. Preparation and validation of e-TDS statement is in line with regular e-TDS statement/return (submitted at TIN-FC). Deductor/DDO can login with its user ID and DSSC and upload the validated e-TDS file (.fvu file) generated by the FVU to the TIN website. On successful acceptance of e-TDS statement/return at TIN, an acknowledgement containing a unique 15 digit token no. and 8 digit receipt number is generated and displayed. There is no need to submit physical form 27A in online upload. Deductor/DDO can view the status of e-TDS statement/return on TIN website.

No charges are applicable for online upload of e-TDS statement/return.

#### **4.1 Correction of e-TDS statement/return online at TIN website:**

Deductor/DDO can file a correction e-TDS statement/return for any modification in e-TDS statement/return accepted at TIN central system. Correction statement/return can be prepared

by using the TDS consolidated file only, available at the CPC-TDS portal [www.tdscpc.gov.in](http://www.tdscpc.gov.in) through TAN registration. Preparation and validation of e-TDS statement is in line with regular e-TDS statement/return (submitted at TIN-FC) Deductor/DDO can login with its user ID and DSC and upload the validated e-TDS file (.fvu file) generated by the FVU to the TIN website. On successful acceptance of correction e-TDS statement/return at TIN, an acknowledgement containing a unique 15 digit token number is generated and displayed. There is no need to submit copy of provisional receipt of regular e-TDS statement/return, physical Form 27A and SSR in online upload. Deductor/DDO can view the status of e-TDS statement/return on TIN website.

5. For FAQs and further details, Deductors/DDOs are advised to log on website [www.tin-nsdl.com](http://www.tin-nsdl.com)

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MINISTRY OF FINANCE  
(Department of Economic Affairs)  
(ECB & PR Division)  
NOTIFICATION  
New Delhi, the 22<sup>nd</sup> December, 2003

F.No. 5/7/2003-ECB &PR- The government approved on 23<sup>rd</sup> August, 2003 the proposal to implement the budget announcement of 2003-04 relating to introducing a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing system of defined benefit pension system.

- i. The system would be mandatory for all new recruits to the Central Government service from 1<sup>st</sup> of January 2004 (except the armed forces in the first stage). The monthly contribution would be 10 percent of the salary and DA to be paid by the employee and matched by the Central government. However, there will be no contribution from the Government in respect of individuals who are not Government employees. The contribution and investment returns would be deposited in a non-withdrawable pension tier-I account. The existing provisions of defined benefit pension and GPF would not be available to the new recruits in the Central Government service.
- ii. In addition to the above pension account, each individual may also have a voluntary tier-II withdrawable account at his option. This option is given as GPF will be withdrawn for new recruits in Central government service. Government will make no contribution into this account. These assets would be managed through exactly the above procedures. However, the employee would be free to withdraw part or all of the 'second tier' of his money anytime. This withdrawable account does not constitute pension investment, and would attract no special tax treatment.
- iii. Individuals can normally exit at or after age 60 years for tier-I of the pension system. At the exit the individual would be mandatorily required to invest 40 percent of pension wealth to purchase an annuity (from an IRDA- regulated life insurance company). In case of Government employees the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement. The individual would receive a lump-sum of the remaining pension wealth, which he would be free to utilize in any manner. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth.

#### **Architecture of the new Pension System**

- (i) It will have a central record keeping and accounting (CRA) infrastructure, several pension fund managers (PFMs) to offer three categories of schemes viz. option A, B and C.
  - (ii) The participating entities (PFMs and CRA) would give out easily understood information about past performance, so that the individual would be able to make informed choices about which scheme to choose.
2. The effective date for operationalization of the new pension system shall be from 1<sup>st</sup> of January, 2004.

U.K. SINHA, Jt. Secy.



MINISTRY OF FINANCE  
Department of Revenue  
(Central Board of Direct Taxes)  
Notification

New Delhi, the 24<sup>th</sup> November, 2000

**INCOME- TAX**

**S.O.1048 (E)** - In exercise of the powers conferred by sub-clause (i) of clause (18) of Section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government, hereby specifies the gallantry awards for the purposes of the said Section, mentioned in column 2 of the table below awarded in the circumstances as mentioned in corresponding column 3 thereof:-

**Table**

Sl. No.	Name of gallantry award	Circumstances for eligibility
(1)	(2)	(3)
1.	Ashok Chakra	When awarded to Civilians for gallantry
2.	Kirti Chakra	- do -
3.	Shaurya Chakra	- do -
4.	Sarvottan Jeevan Raksha Padak displayed by them in life saving acts.	When awarded to Civilians for bravery
5.	Uttam Jeevan Raksha Medal	- do -
6.	Jeevan Raksha Padak	- do -
7.	President's Police Medal for gallantry	When awarded for acts of exceptional courage displayed by members of police forces, Central police or security forces and certified to this effect by the head of the department concerned
8.	Police Medal for Gallantry	- do -
9.	Sena Medal	When awarded for acts of courage or conspicuous gallantry and supported by certificate issued to this effect by relevant service headquarters.
10.	NaoSena Medal	- do -
11.	VayuSena Medal	- do -
12.	Fire Services Medal for Gallantry	When awarded for acts of courage or conspicuous gallantry and supported by certificate issued to this effect by the last Head of Department.
13.	President's Police & Fire Services Medal for Gallantry	-do-
14.	President's Fire Services Medal for Gallantry	-do-
15.	President's Home Guards and Civil Defence Medal for Gallantry	-do-
16.	Home Guard and Civil Defence Medal for Gallantry	-do-

( Notification no. 1156/F.No. 142/29/99-TPL)

**T.K. SHAH**  
**Director**

## ANNEXURE IX

MINISTRY OF FINANCE  
Department of Revenue  
Central Board of Direct Taxes

New Delhi, the 29<sup>th</sup> January, 2001

S.O.81(E)- In exercise of the powers conferred by sub-clause (i ) of clause (18) of Section 10 of the Income –tax Act, 1961 (43 of 1961)), the Central Government, hereby specifies the gallantry awards for the purposes of the said Section and for that purpose makes the following amendment in the notification of the Government of India in the Ministry of Finance, Department of Revenue (Central Board of Direct Taxes) number S.O.1048(E), dated the 24<sup>th</sup> November 2000, namely:-

In the said notification, in the Table, against serial numbers 1,2 and 3 under column (3) relating to “Circumstances for eligibility” **the words** “to civilians” shall be omitted.

(Notification No.22/F.No.142/29/99-TPL)

**T.K. SHAH**  
Director

**FORM NO. 10BA**  
**(See rule 11B)**  
**DECLARATION TO BE FILED BY THE ASSESSEE**  
**CLAIMING DEDUCTION U/S 80 GG**

I/We.....  
.....

( Name of the assessee with permanent account number)

do hereby certify that during the previous Year.....I/We had occupied the  
premise.....(full address of the premise) for the purpose of my/our own  
residence for a period of.....months and have paid Rs. .... In  
cash/through crossed cheque, bank draft towards payment of rent to  
Shri/Ms/M/s.....(name and complete address of the landlord).

It is further certified that no other residential accommodation is owned by

- a) me/my spouse/my minor child/our family (in case the assessee is HUF), at  
.....where I/we ordinarily reside/perform duties of officer or employment  
or carry on business or profession, or
- b) me/us at any other place, being accommodation in my occupation, the value of which is  
to be determined u/s 23(2)(a)(i) of u/s 23(2)(b).

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[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART II, SECTION 3, SUB-SECTION (i)]

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF REVENUE  
CENTRAL BOARD OF EXCISE AND CUSTOMS

**NOTIFICATION No. 23/2014-SERVICE TAX**

New Delhi, the 5<sup>th</sup> December, 2014  
14 Agrahayana, 1936 Saka

G.S.R. (E).- In exercise of the powers conferred by clause (k) of sub-section (2), read with sub-section (1) of section 94 of the Finance Act, 1994 (32 of 1994), the Central Government hereby makes the following rules further to amend the Service Tax Rules, 1994, namely:-

1. (1) These rules may be called the Service Tax (Third Amendment) Rules, 2014.  
(2) They shall come into force on the date of their publication in the Official Gazette.
2. In the Service Tax Rules, 1994, in rule 5A, for sub-rule (2), the following sub-rule shall be substituted, namely:-

“(2) Every assessee, shall, on demand make available to the officer empowered under sub-rule (1) or the audit party deputed by the Commissioner or the Comptroller and Auditor General of India, or a cost accountant or chartered accountant nominated under section 72A of the Finance Act, 1994,-

- (i) the records maintained or prepared by him in terms of sub-rule (2) of rule 5;
- (ii) the cost audit reports, if any, under section 148 of the Companies Act, 2013 (18 of 2013); and
- (iii) the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961 (43 of 1961),

for the scrutiny of the officer or the audit party, or the cost accountant or chartered accountant, within the time limit specified by the said officer or the audit party or the cost accountant or chartered accountant, as the case may be.”

(Himani Bhayana)  
Under Secretary to the Government of India  
[F.No 137/46/2014-Service Tax]

*Note:- The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide notification No. 2/94-SERVICE TAX, dated the 28th June, 1994 vide number G.S.R. 546 (E), dated the 28th June, 1994 and last amended vide notification No.19/2014-SERVICE TAX, dated the 25<sup>th</sup> August, 2014 vide number G.S.R. 614 (E), dated the 25<sup>th</sup> August, 2014.*

**Circular No. 992/16/2014-CX**

dated 26.12.2014

F. No. 201/26/2013-CX.6  
Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Excise & Custom

To

Principal Chief Commissioner/ Chief Commissioner of Central Excise (All),  
Principal Chief Commissioner/ Chief Commissioner of Central Excise & Customs (All)  
Principal Commissioner/ Commissioner of Central Excise (All)  
Principal Commissioner/ Commissioner of Central Excise & Customs (All)  
Web-master, CBEC

**Sub: Inclusion of cases filed in the Settlement Commission in the "Call-Book"-reg.**

Madam/Sir,

Reference has been received in the Board from field that cases which are admitted in the Settlement Commission should be allowed to be transferred to Call-book in addition to the three category of cases prescribed by Board, for inclusion in Call Book, vide Circular No. 162/73/95-CX dated 14.12.1995 issued vide F. No. 101/20/93-CX.3 read with Circular No. 53/90-CX dated 06.09.1990.

2. The issue has been examined and it is clarified that:-

- I. Cases admitted by the Settlement Commission may be transferred to the Call-book, as it is already covered under Category "(ii) cases where injunction has been issued by the Supreme Court/High Court/CEGAT etc." mentioned in Circular dated 14.12.1995,
- II. Where there are multiple noticees, the case can be transferred only in respect of those noticees who have made application in the Settlement Commission, and whose case has been admitted by Settlement Commission,
- III. Cases shall be taken out of the Call-Book after Settlement Order has been issued or where the case has been reverted back for adjudication.

3. Difficulties faced, if any, in implementation of this Circular may be brought to the notice of the Board. Hindi version follows.

Yours faithfully,

(ROHAN)  
OSD (CX-6)

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART II, SECTION 3, SUB-SECTION (i)]

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

New Delhi dated the 11<sup>th</sup> December, 2014

**Notification No. 25/2014-Central Excise**

G.S.R. (E).- In exercise of the powers conferred by sub-section (1) of section 5A of the Central Excise Act, 1944 (1 of 1944), the Central Government, being satisfied that it is necessary in the public interest so to do, hereby exempts all goods falling under the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986) donated or purchased out of cash donations, for the relief and rehabilitation of the people affected by the floods in the State of Jammu and Kashmir from the duty of excise leviable thereon under the Central Excise Act, 1944, subject to the following conditions, namely:-

- (i) that it is certified by the manufacturer of such goods on the relevant clearance documents that the goods are intended to be donated for the relief and rehabilitation of the people affected by the floods in the said State free of cost;
- (ii) that the goods are sent directly from the factory of the manufacturer or warehouse to the Central Government, the Government of Jammu and Kashmir; or as the case may be, the relief agencies of the Central Government, the Government of Jammu and Kashmir including the relief agencies duly approved by the Central Government or the Government of Jammu and Kashmir; and
- (iii) that the manufacturer produces before the jurisdictional Deputy Commissioner or the Assistant Commissioner of Central Excise, as the case may be, within six months from the date of removal of the goods or within such extended period as the said officer may allow, a certificate from the District Magistrate of the affected area in the State of Jammu and Kashmir that the said goods have been donated for use for the aforesaid purpose.

2. This notification shall remain in force upto and inclusive of the 31<sup>st</sup> March, 2015.

[F.No. 356/24/2014-TRU]

(Akshay Joshi)  
Under Secretary to the Government of India

**Circular No.16/2014-Customs**F.No. 605/75/2014-DBK

Government of India  
Ministry of Finance, Department of Revenue  
Central Board of Excise & Customs  
Drawback Division

New Delhi, dated the 18<sup>th</sup> December, 2014

To

All Chief Commissioners under CBEC

All Directors General under CBEC / Chief Commissioner (AR), CESTAT

All Commissioners under CBEC.

Ma'am/Sir,

**Subject: Re-warehousing of goods imported and/or procured indigenously by EOU/EHTP/STP/BTP units-reg.**

Attention is drawn to the self-bonding/warehousing procedure on the above subject specified in Circular No. 19/2007-Cus dated 03.05.2007. It has been brought to the notice of the Board that the units which are under the said procedure are facing difficulty in obtaining deemed export benefits as the ARE-3 is not certified by the Central Excise authorities.

2. The matter was examined in consultation with the DGFT and DG (EP). To resolve the issue and facilitate trade, it has been decided by the Board to provide that the Superintendent – in- charge of the unit shall make two legible photocopies of the original copy of ARE-3 (that bears his counter signature) and attest each of them as true copies with his dated signature. One attested copy shall be kept in the Range office for records and the other one shall be handed over (against dated acknowledgement) to the unit for use while applying deemed export benefits.

3. Accordingly, the last sentence in para 2(b) of Circular No. 19/2007-Cus shall be taken as modified to the above extent.

4. This instruction may be brought to the notice of the trade/exporters by issuing suitable public notice. The officers may be suitably guided through a Standing Order. Difficulties faced, if any, in implementation may be brought to the notice of the Board.

Yours faithfully,

Sanjay Kumar  
Under Secretary (Drawback)  
Tele: 23341480.

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, PART-II, SECTION 3,  
SUB-SECTION (ii), EXTRAORDINARY]

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF REVENUE  
CENTRAL BOARD OF EXCISE AND CUSTOMS

NOTIFICATION  
NO.116/2014-CUSTOMS (N.T.)

DATED THE 18<sup>th</sup> December, 2014  
27 Agrahayana, 1936(SAKA)

S.O. (E). – In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), and in super session of the notification of the Government of India in the Ministry of Finance (Department of Revenue) No.113/2014-CUSTOMS (N.T.), dated the 4<sup>th</sup> December, 2014 *vide* number S.O.3066 (E), dated the 4<sup>th</sup> December, 2014, except as respects things done or omitted to be done before such super session, the Central Board of Excise and Customs hereby determines that the rate of exchange of conversion of each of the foreign currency specified in column (2) of each of Schedule I and Schedule II annexed hereto into Indian currency or *vice versa* shall, with effect from 19<sup>th</sup> December, 2014 be the rate mentioned against it in the corresponding entry in column (3) thereof, for the purpose of the said section, relating to imported and export goods.

SCHEDULE-I

S.No.	Foreign Currency	Rate of exchange of one unit of foreign currency equivalent to Indian rupees	
(1)	(2)	(3)	
		(a)	(b)
		(For Imported Goods)	(For Export Goods)
1.	Australian Dollar	52.35	50.90
2.	Bahrain Dinar	172.75	163.30
3.	Canadian Dollar	55.05	53.80
4.	Danish Kroner	10.65	10.35
5.	EURO	79.15	77.25
6.	Hong Kong Dollar	8.25	8.10
7.	Kuwait Dinar	222.70	210.25
8.	New Zealand Dollar	49.45	48.20
9.	Norwegian Kroner	8.65	8.40
10.	Pound Sterling	99.90	97.65

Contd...2/....



11.	Singapore Dollar	48.80	47.65
12.	South African Rand	5.60	5.30
13.	Saudi Arabian Riyal	17.35	16.40
14.	Swedish Kroner	8.35	8.15
15.	Swiss Franc	65.95	64.25
16.	UAE Dirham	17.75	16.75
17.	US Dollar	63.85	62.80

SCHEDULE-II

S.No.	Foreign Currency	Rate of exchange of 100 units of foreign currency equivalent to Indian rupees	
(1)	(2)	(3)	
		(a)	(b)
		(For Imported Goods)	(For Export Goods)
1.	Japanese Yen	54.05	52.80
2.	Kenya Shilling	72.15	68.05

[F.No.468/01/2014-Cus.V]

(SATYAJIT MOHANTY)  
DIRECTOR (ICD)  
TELE: 2309 3380

To  
The Manager,  
Government of India Press,  
Mayapuri, Ring Road, New Delhi.

[To be published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i)]

**GOVERNMENT OF INDIA  
MINISTRY OF CORPORATE AFFAIRS  
NOTIFICATION**

New Delhi, the 31<sup>st</sup> December, 2014

**G.S.R..... (E).** — In exercise of the powers conferred by sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules to amend the Companies (Cost Records and Audit) Rules, 2014, namely:-

1. (1) These rules may be called the Companies (Cost Records and Audit) Amendment Rules, 2014.

(2) They shall come into force from the date of their publication in the Official Gazette.

2. In the Companies (Cost Records and Audit) Rules 2014, -

(i) in rule 2, after clause (a), the following clause shall be inserted, namely:-

“(aa) “Central Excise Tariff Act Heading” means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986]

(ii) for rule 3, the following rule shall be substituted, namely:-

“3. **Application of Cost Records.**- For the purposes of sub-section (1) of section 148 of the Act, the class of companies, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in the Table below, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account, namely:-

Table

## (A) Regulated Sectors

Sl. No.	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	Not applicable.
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);	-----
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715;
4.	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5.	Fertilisers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207.

## (B) Non-regulated Sectors

SN	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items;  <i>Explanation.</i> - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	8401 to 8402; 8801 to 8805; 8901 to 8908.
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other	3601 to 3603



	than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent. or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963(38 of 1963);	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No. (1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947).	4001 to 4017
12.	Coffee and tea;	0901 to 0902
13.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
14.	Cement;	2523; 6811 to 6812
15.	Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17.	Base metals;	7401 to 7403; 7405 to 7413;

		7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
18.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19.	Jute and Jute Products;	5303, 5310
20.	Edible Oil;	1507 to 1518
21.	Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
22.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
23.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
24.	Milk powder;	0402
25.	Insecticides;	3808
26.	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
27.	Tyres and tubes;	4011 to 4013
28.	Paper;	4801 to 4802.
29.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
30.	Glass;	7003 to 7008; 7011; 7016
31.	Other machinery;	8403 to 8487
32.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
33.	Production, import and supply or trading of following medical devices, namely:-  (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants;	9018 to 9022



(viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic palpable cardiac deflobillator; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy ; (xvii) Urethra spinicture devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents:	
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Provided that nothing contained in serial number 33 shall apply to foreign companies having only liaison offices.

Provided further that nothing contained in this rule shall apply to a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006).

(iii) for rule 4, the following rule shall be substituted, namely:-

**"4. Applicability for cost audit.-** (1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty five crore or more.

(2) Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or

service or services for which cost records are required to be maintained under rule 3 is rupees thirty five crore or more.

(3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and -

(i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or

(ii) which is operating from a special economic zone.”

(iv) in rule 5, in sub-rule (1), the following proviso shall be inserted, namely:-

“Provided that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1<sup>st</sup> day of April, 2015.”

(v) in rule 6, after sub-rule (3), following sub-rule shall be inserted, namely:-

“(3A) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.”

(vi) rule 7 shall be omitted;

(vii) in Annexure, for Form CRA-1 and Form CRA-3, the following shall respectively, be substituted, namely:-

## FORM CRA-1

(Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014)

### Particulars relating to the Items of Costs to be included in the Books of Accounts

1. **Material Costs.**- (a) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.
- (b) The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.
- (c) Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.
- (d) Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
- (e) Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.
- (f) Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
- (g) Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.
- (h) The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.
- (i) Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.
- (j) Subsidy or Grant or Incentive and any such payment received or receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.
- (k) Issues shall be valued using appropriate assumptions on cost flow, e.g. First-in-First-out, Last-in-First-out, Weighted Average Rate. The method of valuation shall be followed on a consistent basis.
- (l) Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.



- (m) Any abnormal cost shall be excluded from the material cost.
  - (n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.
  - (o) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
  - (p) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap or defectives shall not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.
  - (q) Material costs shall be directly traced to a Cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.
  - (r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.
  - (s) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.
  - (t) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.
  - (u) The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.
  - (v) The cost of materials like catalysts, dies, tools, moulds, patterns etc, which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.
  - (w) The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.
- 2. Employee Cost.-** (a) Proper records shall be maintained in respect of employee costs in such a manner as to enable the company to book these expenses cost centre wise or department wise with reference to goods or services under reference and to furnish necessary particulars. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or service centre or department, the employees cost shall be apportioned to the cost centre or service centres or departments on equitable and reasonable basis and applied consistently.
- (b) Employee cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits.

- (c) Bonus whether payable as a statutory minimum or on a sharing of surplus shall be treated as part of employee cost. Ex gratia payable in lieu of or in addition to bonus shall also be treated as part of the employee cost.
- (d) Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute shall be considered as part of the employee cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Remuneration paid to non executive directors shall not form part of employee cost but shall form part of administrative overheads.
- (e) Separation costs related to voluntary retirement, retrenchment, termination and other related matters shall be amortised over the period benefitting from such costs.
- (f) Employee cost shall not include imputed costs.
- (g) Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.
- (h) Where employee cost is accounted at standard cost, variances due to normal reasons related to employee cost shall be treated as part of employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.
- (i) Any subsidy, grant, incentive or any such payment received or receivable with respect to any employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.
- (j) Any abnormal cost where it is material and quantifiable shall not form part of the employee cost.
- (k) Penalties, damages paid to statutory authorities or other third parties shall not form part of the employee cost.
- (l) The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.
- (m) Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.
- (n) Any change in the cost accounting principles applied for the determination of the employee cost shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
- (o) Where the employee services are traceable to a cost object, such employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged or other related basis or similar identifiable measure.
- (p) While determining whether a particular employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.
- (q) Where the employee costs are not directly traceable to the cost object, the same shall be assigned on suitable basis like estimates of time based on time study.
- (r) The amortised separation costs related to voluntary retirement, retrenchment, and termination or other related matters for the period shall be treated as indirect cost and assigned to the cost objects



in an appropriate manner provided that unamortised amount related to discontinue operations, shall not be treated as employee cost.

- (s) Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.
  - (t) Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.
  - (u) Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.
3. **Utilities.-** (a) Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment and other related utilities produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.
- (b) Each type of utility shall be treated as a distinct cost object.
  - (c) Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.
  - (d) Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.
  - (e) In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as above.
  - (f) Cost of utilities generated for the intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.
  - (g) Cost of utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities shall also include the margin.
  - (h) Finance costs incurred in connection with the utilities shall not form part of cost of utilities.
  - (i) The cost of utilities shall include the cost of distribution of such utilities. The cost of distribution shall consist of the cost of delivery of utilities up to the point of consumption.
  - (j) Cost of utilities shall not include imputed costs.
  - (k) Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
  - (l) Any subsidy or grant or incentive or any such payment received or receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.
  - (m) The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as

abnormal cost. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.

- (n) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.
  - (o) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.
  - (p) Credits or recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.
  - (q) Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
  - (r) While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.
  - (s) Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.
  - (t) The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.
4. **Direct Expenses:** (a) Proper records shall be maintained in respect of direct expenses in such a manner as to enable the company to book these expenses cost centre wise or cost object or department wise with reference to goods or services under reference and to furnish necessary particulars.
- (b) Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
  - (c) Other direct expenses shall be determined on the basis of amount incurred in connection therewith.
  - (d) Direct expenses paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.
  - (e) If an item of direct expenses does not meet the test of materiality, it can be treated as part of overheads.
  - (f) Finance costs incurred in connection with the self-generated or procured resources shall not form part of direct expenses. Direct expenses shall not include imputed costs.
  - (g) Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the direct expenses. Variances due to abnormal reasons shall not form part of the direct expenses.
  - (h) Any subsidy or grant or incentive or any such payment received or receivable with respect to any direct expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
  - (i) Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the direct expenses.
  - (j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the direct expenses.



- (k) Credits or recoveries relating to the direct expenses, material and quantifiable, shall be deducted to arrive at the net direct expenses.
  - (l) Any change in the cost accounting principles applied for the measurement of the direct expenses shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
  - (m) Direct expenses that are directly traceable to the cost object shall be assigned to that cost object.
- 5. Repairs and Maintenance.-** (a) Proper records showing the expenditure incurred by the workshop, tool room and on repairs and maintenance in the various cost centres or departments shall be maintained under different heads.
- (b) Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost shall include the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.
  - (c) Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
  - (d) Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
  - (e) Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
  - (f) Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
  - (g) Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.
  - (h) Cost of repairs and maintenance activity shall be measured for each major asset category separately.
  - (i) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
  - (j) High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare shall be treated as repairs and maintenance cost.

- (k) The cost of major overhaul shall be amortised on a rational basis.
  - (l) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.
  - (m) Repairs and maintenance costs shall not include imputed costs.
  - (n) Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.
  - (o) Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
  - (p) Any repairs and maintenance cost resulting from some abnormal circumstances, namely, major fire, explosion, flood and similar events, if material and quantifiable, shall not form part of the repairs and maintenance cost.
  - (q) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.
  - (r) Credits or recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.
  - (s) Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
  - (t) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.
  - (u) Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following the principles of (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
  - (v) If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects.
- 6. Fixed Assets and depreciation.-** (a) Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.
- (b) Depreciation and amortisation shall be measured based on the depreciable amount and the useful life. The residual value of an intangible asset shall be assumed to be zero unless:
    - (i) there is a commitment by a third party to purchase the asset at the end of its useful life; or
    - (ii) there is an active market for the asset and;



- a. residual value can be determined by reference to that market; and
- b. it is probable that such a market will exist at the end of the asset's useful life.
- c. The residual value of a fixed asset shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.
- (c) The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.
- (d) In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.
- (e) While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:
  - (i) Expected physical wear and tear;
  - (ii) Obsolescence; and
  - (iii) Legal or other limits on the use of the asset.
- (f) The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.
- (g) If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.
- (h) The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.
- (i) Depreciation shall be considered from the time when a depreciable asset is first put into use. An asset which is used only when the need arises but is always held ready for use. Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset in use. Depreciable assets shall be considered to be put into use when commercial production of goods and services commences.
- (j) Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.
- (k) Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.
- (l) Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.
- (m) The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.

- (n) Impairment loss on assets shall be excluded from cost of production.
- (o) The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- (p) An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life, namely, Straight-line method; Diminishing balance method; and Units of production method, etc.
- (q) The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.
- (r) The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.
- (s) Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.
- (t) Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.
- (u) Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.
- (v) Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.
- (w) Depreciation shall be traced to the cost object to the extent economically feasible.
- (x) Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles; namely:-
  - (i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

- 7. Overheads.-** (a) Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.
- (b) Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.
  - (c) Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.



- (d) Any abnormal cost where it is material and quantifiable shall not form part of the overheads.
  - (e) Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.
  - (f) Overheads shall not include imputed cost.
  - (g) Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.
  - (h) Any subsidy or grant or incentive or amount of similar nature received or receivable with respect to overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
  - (i) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.
  - (j) Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.
  - (k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.
  - (l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.
  - (m) Overheads shall be classified according to functions, viz., works, administration, selling and distribution, head office, corporate etc.
  - (n) Assignment of overheads to the cost objects shall be based on either of the following two principles;
    - (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
  - (o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.
  - (p) The fixed production overheads shall be absorbed based on the normal capacity.
  - (q) Assignment of Administration Overheads shall be in accordance with para No. 8.
  - (r) Marketing overheads that can be identified to a product or service shall be assigned to that product or service.
  - (s) Marketing overheads that cannot be identified to a product or service shall be assigned to the products or services on the most appropriate basis.
- 8. Administrative Overheads.-** (a) Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.

- (b) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.
- (c) The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.
- (d) The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.
- (e) Any subsidy or grant or incentive or any amount of similar nature received or receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (f) Administrative overheads shall not include any abnormal administrative cost.
- (g) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.
- (h) Credits or recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.
- (i) Any change in the cost accounting principles applied for the measurement of the administrative overheads shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (j) While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.
- (k) Assignment of administrative overheads to the cost objects shall be based on either of the following two principles; namely:-

(i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

(ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

- 9. Transportation Cost.-** (a) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.
- (b) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.
  - (c) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid and other related details.
  - (d) Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier or recipient, amount of freight etc.



- (e) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed or sold for both home consumption and export.
- (f) Records for transportation cost from factory to depot and thereafter shall be maintained separately.
- (g) Records for transportation cost for carrying any material or product to job-workers place and back shall be maintained separately so as include the same in the transaction value of the product.
- (h) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same shall not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.
- (i) Records of transportation cost directly allocable to a particular category of products shall be maintained separately so that allocation can be made.
- (j) For common transportation cost, both for own fleet or hired ones, proper records for basis of apportionment shall be maintained.
- (k) Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.
- (l) Separate records of cost for mode of transportation other than road like ship or air are to be maintained, which shall be included in total cost of transportation.
- (m) Inward transportation costs shall form the part of the cost of procurement of materials which shall be identified for proper allocation or apportionment to the materials or products.
- (n) Outward transportation cost shall form the part of the cost of sale and shall be allocated or apportioned to the materials and goods on a suitable basis.
- (o) The following basis shall be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used, namely:-
  - (i) Weight;
  - (ii) Volume of goods;
  - (iii) Tonne-Km;
  - (iv) Unit or Equivalent unit;
  - (v) Value of goods;
  - (vi) Percentage of usage of space.
- (p) Once a basis of apportionment is adopted, the same shall be followed consistently.
- (q) For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.
- (r) Abnormal and non recurring cost shall not be a part of transportation cost.

- 10. Royalty and Technical Know-how.-** (a) Adequate records shall be maintained showing royalty or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made for the goods or services under reference to collaborators or technology suppliers in terms of agreements entered into with them.
- (b) Royalty and technical know-how Fee paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset. Amortisation of the amount of royalty or technical know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on

the production or service volumes estimated for the period over which the asset is expected to benefit the entity.

- (c) Amount of the royalty and technical know-how fee shall not include finance costs and imputed costs.
- (d) Any subsidy or grant or incentive or any such payment received or receivable with respect to amount of royalty and technical know-how fee shall be reduced to measure the amount of royalty and technical know-how fee.
- (e) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of royalty and technical know-how fee.
- (f) Credits or recoveries relating to the amount royalty and technical know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of royalty and technical know-how fee.
- (g) Any change in the cost accounting principles applied for the measurement of the amount of royalty and technical know-how fee shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (h) Royalty and technical know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely:-
  - (i) Units produced;
  - (ii) Units sold; or
  - (iii) Sales value.
- (i) The amount of royalty fee paid for mining rights shall form part of the cost of material.
- (j) The amount of royalty and technical know-how fee shall be assigned on the nature or purpose of such fee. The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if related to trademarks or brands shall be treated as cost of sales.

**11. Research and Development Expenses.-** (a) Research and development costs shall include all the costs that are directly traceable to research or development activities or that can be assigned to research and development activities strictly on the basis of (a) cause and effect or (b) benefits received. Such costs shall include the following elements, namely:-

- (i) the cost of materials and services consumed in research and development activities.
- (ii) cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
- (iii) the salaries, wages and other related costs of personnel engaged in research and development activities;
- (iv) the depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for research and development activities;



- (v) overhead costs, other than general administrative costs, related to research and development activities.
  - (vi) costs incurred for carrying out research and development activities by other entities and charged to the entity; and
  - (vii) expenditure incurred in securing copyrights or licences;
  - (viii) expenditure incurred for developing computer software;
  - (ix) costs incurred for the design of tools, jigs, moulds and dies;
  - (x) other costs that can be directly attributed to research and development activities and can be identified with specific projects.
- (b) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to research and development activity, if any, shall be reduced from the cost of such research, and development activity.
  - (c) Any abnormal cost where it is material and quantifiable shall not form part of the research and development cost.
  - (d) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the research and development cost.
  - (e) Research and development costs shall not include imputed costs.
  - (f) Credits or recoveries relating to research and development cost, if material and quantifiable, including from the sale of output produced from the research and development activity shall be deducted from the research and development cost.
  - (g) Research and development costs attributable to a specific cost object shall be assigned to that cost object directly. Research and development costs that are not attributable to a specific product or process shall not form part of the product cost.
  - (h) Development cost which results in the creation of an intangible asset shall be amortised over its useful life. Assignment of development costs shall be based on the principle of "benefits received".
  - (i) Research and development costs incurred for the development and improvement of an existing process or product shall be included in the cost of production. In case the Research and development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product shall be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.
  - (j) Development costs attributable to a saleable service namely, providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

- 12. Quality control expenses.-** (a) Adequate records shall be maintained to indicate the expenses incurred in respect of quality control department or cost centre or service centre for goods or services under reference. Where these services are also utilized for other goods or services of the company, the basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.
- (b) Quality control cost incurred in-house shall be the aggregate of the cost of resources consumed in the quality control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities. Such cost shall include cost of conformance to quality, namely, (a) prevention cost; and (b) appraisal cost.
- (c) Identification of quality control costs shall be based on traceability in an economically feasible manner.
- (d) Quality control costs other than those referred to above shall be determined on the basis of amount incurred in connection therewith.
- (e) Finance costs incurred in connection with the self-generated or procured resources shall not form part of quality control cost.
- (f) Quality control costs shall not include imputed costs.
- (g) Any Subsidy or grant or incentive or any such payment received or receivable with respect to any quality control cost shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (h) Any abnormal portion of the quality control cost where it is material and quantifiable shall not form part of the cost of quality control.
- (i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the quality control cost.
- (j) Any change in the cost accounting principles applied for the measurement of the quality control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (k) Quality control cost that is directly traceable to the cost object shall be assigned to that cost object. Assignment of quality control cost to the cost objects shall be based on benefits received by them on the principles, namely:-
- (i) Cause and effect - Cause is the process or operation or activity and effect is the incurrence of cost and
- (ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
- 13. Pollution control expenses.-** (a) Adequate records shall be maintained to indicate the expenses incurred in respect of pollution control. The basis of apportionment to goods or services under



reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

- (b) Pollution control costs shall be the aggregate of direct and indirect cost relating to pollution control activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing and certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others. Indirect cost shall include the cost of resources common to various pollution control activities such as pollution control registration and such like expenses.
- (c) Costs of pollution control which are internal to the entity shall be accounted for when incurred. They shall be measured at the historical cost of resources consumed.
- (d) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of onerous contract or constructive obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.
- (e) Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.
- (f) External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.
- (g) Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.
- (h) Cost of in-house pollution control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- (i) Cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
- (j) Cost of pollution control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
- (k) Cost of pollution control jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- (l) Each type of pollution control namely, water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.

- (m) Finance costs incurred in connection with the pollution control activities shall not form part of pollution control costs.
- (n) Pollution control costs shall not include imputed costs.
- (o) Price variances related to pollution control, where standard costs are in use, shall be treated as part of pollution control cost. The portion of usage variances attributable to normal reasons shall be treated as part of pollution control cost. Usage variances attributable to abnormal reasons shall be excluded from pollution control cost.
- (p) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to Pollution control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (q) Any Pollution control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the pollution control cost.
- (r) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the pollution control cost.
- (s) Credits or recoveries relating to the pollution control activity, material and quantifiable, shall be deducted to arrive at the net pollution control cost.
- (t) Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.
- (u) Any change in the cost accounting principles applied for the measurement of the pollution control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (v) Pollution Control costs shall be traced to a cost object to the extent economically feasible.
- (w) Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.
- (x) Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.
- (y) Where the pollution control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles; namely:-
  - (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

**14. Service department expenses.-** (a) Proper records shall be maintained in respect of service departments, that is, cost centres which primarily provides auxiliary services across the enterprise,



to indicate expenses incurred in respect of each such service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare and other related centres.

- (b) Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.
- (c) Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.
- (d) Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.
- (e) Cost of other resources shall include related overheads.
- (f) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.
- (g) Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.
- (h) Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.
- (i) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.
- (j) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.
- (k) Finance costs incurred in connection with the service cost Centre shall not form part of the cost of Service Cost Centre.
- (l) The cost of service cost centre shall not include imputed costs.
- (m) Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (n) Any Subsidy or grant or incentive or any such payment received or receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.
- (o) The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a stand-by service shall include the committed costs of maintaining such a facility for the service.
- (p) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.
- (q) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.

- (r) Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.
  - (s) Any change in the cost accounting principles applied for the measurement of the cost of Service cost centre shall be made, only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
  - (t) While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.
  - (u) Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.
  - (v) The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.
- 15. Packing expenses.-**
- (a) Proper records shall be maintained separately for domestic and export packing showing the quantity and cost of various packing materials and other expenses incurred on primary or secondary packing indicating the basis of valuation.
  - (b) The packing material receipts shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.
  - (c) Finance costs directly incurred in connection with the acquisition of packing material shall not form part of packing material cost.
  - (d) Self-manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.
  - (e) Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
  - (f) The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.
  - (g) Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.
  - (h) Any subsidy or grant or incentive or any such payment received or receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.



- (i) Issue of packing materials shall be valued using appropriate assumptions on cost flow, namely, First In First Out, Last In First Out, weighted average rate. The method of valuation shall be followed on a consistent basis.
- (j) Wherever, packing material costs include transportation costs, the determination of costs of transportation shall be in accordance with para No. 9 on determination of cost of transportation.
- (k) Packing material costs shall not include imputed costs.
- (l) Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (m) The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.
- (n) Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.
- (o) The credits or recoveries in the nature of normal scrap arising from packing materials if any, shall be deducted from the total cost of packing materials to arrive at the net cost of packing materials.
- (p) Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.
- (q) Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.
- (r) The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.
- (s) Cost of primary packing materials shall form part of the cost of production.
- (t) Cost of secondary packing materials shall form part of distribution overheads.

**16. Interest and financing charges.-** (a) Interest and financing charges are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund.

- (b) Interest and financing charges incurred shall be identified for-
  - (i) acquisition or construction or production of qualifying assets including fixed assets; and
  - (ii) other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.
- (c) Interest and financing charges directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.
- (d) Interest and financing charges shall not include imputed costs.
- (e) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.
- (f) Penal Interest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the interest and financing charges. In case

the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

- (g) Interest paid for or received on investment shall not form part of the other financing charges for production of goods or operations or services rendered;
- (h) Assignment of interest and financing charges to the cost objects shall be based on either of the following two principles; namely:-

(1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and

(2) Benefits received – to be apportioned to the various cost objects in proportion to the benefits received by them.

**17. Any other item of cost.-** Proper records shall be maintained for any other item of cost being indispensable and considered necessary for inclusion in cost records for calculating cost of production of goods or rendering of services, cost of sales, margin in total and per unit of the goods or services under reference.

**18. Capacity determination.-** (a) Capacity shall be determined in terms of units of production or equivalent machine or man hours.

(b) Installed capacity is determined based on-

- (i) manufacturers' Technical specifications;
- (ii) capacities of individual or interrelated production centres;
- (iii) operational constraints or capacity of critical machines; or
- (iv) number of shifts

(c) In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.

(d) Normal capacity shall be determined vis-a-vis installed capacity after carrying out adjustments for

- (i) holidays, normal shut down days and normal idle time;
- (ii) normal time lost in batch change over;
- (iii) time lost due to preventive maintenance and normal break downs of equipments;
- (iv) loss in efficiency due to ageing of the equipment; or
- (v) number of shifts;

(e) Capacity utilization is actual production measured as a percentage of installed capacity.

**19. Work-in-progress and finished stock.-** The method followed for determining the cost of work-in-progress and finished stock of the goods and for services under delivery or in-process shall be



appropriate and shall be indicated in the cost records so as to reveal the cost element that have been taken into account in such computation. All conversion costs incurred in bringing the inventories to their present location and condition shall be taken into account while computing the cost of work-in-progress and finished stock. The method adopted for determining the cost of work-in progress and finished goods shall be followed consistently.

- 20. Captive consumption.-** If the goods or services under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such goods or services transferred to other departments or cost centres or units of the company for self-consumption and sold to outside parties separately.
- 21. By-Products and Joint Products.-** (a) Proper records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and shall be indicated in cost records. Records showing the expenses incurred on further processing, if any, and actual sales realisation of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.
- (b) Proper records shall be maintained the cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect credits or recoveries from the disposal of joint products or services.
- 22. Adjustment of cost variances.-** Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods or services under such system. The cost variances shall be shown against separate heads and analyzed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.
- 23. Reconciliation of cost and financial accounts.-** The cost statements shall be reconciled with the financial statements for the financial year specifically indicating the expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to adjust the profit of the goods or services under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.
- 24. Related party transactions.-** (a) Related Party means related party as defined under clause (76) of section 2 of the Companies Act, 2013 (18 of 2013).

(b) "Normal" price means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged in the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.

(c) The basis adopted to determine Normal price shall be classified as under:

- (i) Comparable uncontrolled price method;
- (ii) Resale price method;
- (iii) Cost plus method;
- (iv) Profit split method;
- (v) Transactional net margin method; or
- (vi) Any other method, to be specified.

(d) In respect of related party transactions or supplies made or services rendered by a company to a company termed "related party relationship" and vice-a-versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of -

- (i) purchase and sale of raw materials, finished goods, rendering of services, process materials and rejected goods including scraps and other related materials;
- (ii) utilisation of plant facilities and technical know-how;
- (iii) supply of utilities and any other services;
- (iv) administrative, technical, managerial or any other consultancy services;
- (v) purchase and sale of capital goods including plant and machinery; and
- (vi) any other payment related to the production of goods or rendering of services under reference.

(e) These records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates in so far as they are in any way related to goods or services under reference.

**25. Expenses or incentives on exports.-** (a) Proper records showing the expenses incurred on the export sales, if any, of the goods or services under reference shall be separately maintained so that the cost of export sales can be determined correctly. Separate cost statements shall be prepared for goods or services exported giving details of export expenses incurred or incentive earned.

(b) Proper records shall be maintained giving the details of export commitments license-wise and the fulfillment of these commitments giving the reasons for non-compliance, if any. In case, duty free imports are made, the cost statements shall reflect this fact. If the duty free imports have been made after actual production, the statement shall reflect this fact also.

**26. Production Records.-** Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services



under reference, shall be maintained. The quantitative details of production of goods or services rendered shall be maintained separately for self-produced, third party on job work, loan license basis etc.

**27. Sales records.-** Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales at market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service center wise for total as well as per unit sales realization.

**28. Cost statements.-** (a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each good or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, capacity utilization (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale during current financial year and previous year.

(b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods or services, cost of sales of goods or services and margin in total as well as per unit of the goods or services. The goods or services emerging from a process, which forms raw material or an input material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.

(c) Cost Statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value, duties or taxes paid, CENVAT or VAT or Service Tax credit utilized, duties or taxes recovered and interest or penalty paid.

(d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant, factory or service centre.

(e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.

**29. Statistical Records.-** (a) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of goods or rendering of services under reference and shortfall suitably analyzed. Suitable records for computation of idle time of machines or labour shall also be maintained and analyzed.

(b) Proper records shall be maintained to enable the company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or

services. Fresh investments on fixed assets for production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in the cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

- 30. Records of Physical Verification.**- Records of physical verification may be maintained in respect of all items held in the stock such as raw materials, process materials, packing materials, consumables stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.

### Form CRA-3

[Pursuant to rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

#### FORM OF THE COST AUDIT REPORT

I/We,..... having been appointed as Cost Auditor(s) under section 148(3) of the Companies Act, 2013(18 of 2013) of .....(mention name of the company) having its registered office at ..... (mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name (s) of Product(s)/service(s)] for the period/year..... (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
- (ii) In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
- (iii) In my/our opinion, proper returns adequate for the purpose of the cost audit have/have not been received from the branches not visited by me/us.
- (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
- (v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
- (vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.



- (vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product /service under reference of the company duly audited and certified by me/us are/are not kept in the company.

2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this \_\_\_\_ day of \_\_\_\_\_ 20\_\_

at \_\_\_\_\_ (mention name of place of signing this report)

SIGNATURE AND SEAL OF THE COST AUDITOR (S)

MEMBERSHIP NUMBER (S)

**Notes.-** (1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the cost auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vii) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.

(3) The report, suggestions, observations and conclusions given by the cost auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

**Annexure to the Cost Audit Report**

**PART - A**

**1. General Information**

1	Corporate identity number or foreign company registration number	
2	Name of company	
3	Address of registered office or of principal place of business in India of company	
4	Address of corporate office of company	
5	Email address of company	
6	Date of beginning of reporting Financial Year	dd/mm/yyyy

7	Date of end of reporting Financial Year	dd/mm/yyyy
8	Date of beginning of previous financial year	dd/mm/yyyy
9	Date of end of previous financial year	dd/mm/yyyy
10	Level of rounding used in cost statements	Absolute/thousands/lacs/crores
11	Reporting currency of entity	INR
12	Number of cost auditors for reporting period	
13	Date of board of directors meeting in which annexure to cost audit report was approved	
14	Whether cost auditors report has been qualified or has any reservations or contains adverse remarks	
15	Consolidated qualifications, reservations or adverse remarks of all cost auditors	
16	Consolidated observations or suggestions of all cost auditors	
17	Whether company has related party transactions for sale or purchase of goods or services	

## 2. General Details of Cost Auditor

1	Whether cost auditor is lead auditor	
2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor/cost auditor's firm	
5	PAN of cost auditor/cost auditor's firm	
6	Address of cost auditor or cost auditor's firm	
7	Email id of cost auditor or cost auditor's firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CETA heading	
11	SRN number of Form 23C / CRA-2	
12	Number of audit committee meeting attended by cost auditor during year	
13	Date of signing cost audit report and annexure by cost auditor	

14	Place of signing cost audit report and annexure by cost auditor	
----	---	--

### 3. Cost Accounting Policy.-

(1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy shall cover, inter alia, the following areas:

- Identification of cost centres/cost objects and cost drivers.
- Accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components.
- Accounting, allocation and absorption of overheads.
- Accounting for depreciation/amortization.
- Accounting for by-products/joint-products or services, scraps, wastage etc.
- Basis for Inventory Valuation.
- Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
- Treatment of abnormal and non-recurring costs including classification of other non-cost items.
- Other relevant cost accounting policy adopted by the Company.

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product(s)/service(s) under audit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

### 4. PRODUCT/SERVICE DETAILS (for the company as a whole)

Name of Product(s) /Service(s)	UOM	CETA heading (wherever applicable)	Whether Covered under Cost Audit Yes / No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1.					
2.					
3.					
4.					



*****					
Total net revenue from operations					
Other Incomes of company					
Total revenue as per financial accounts					
Extra ordinary income, if any					
Total revenue including extra ordinary income, if any					
Turnover as per Excise/Service Tax Records					
Note: Explain the difference, if any, between Turnover as per Annual Accounts and Turnover as per Excise/Service Tax Records.					

## PART-B

### For Manufacturing Sector

1. QUANTITATIVE INFORMATION (for each product with CETA heading separately)			
Name of Product			
CETA heading			
Particulars	Unit	Current Year	Previous Year
<b>1. Available Capacity</b>			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if any			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			
<b>2. Actual Production</b>			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
<b>3. Production as per Excise Records</b>			

<b>4. Capacity Utilization (in-house)</b>			
<b>5. Finished Goods Purchased</b>			
(a) Domestic Purchase of Finished Goods			
(b) Imports of Finished Goods			
(c) Total Finished Goods Purchased			
<b>6. Stock and Other Adjustments</b>			
(a) Change in Stock of Finished Goods			
(b) Self / Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
<b>7. Total Available Quantity for Sale [2(d) + 5(c) + 6(d)]</b>			
<b>8. Actual Sales</b>			
(a) Domestic Sales of Product			
(b) Domestic Sales of Traded Product			
(c) Export Sale of Product			
(d) Export Sale of Traded Product			
(e) Total Quantity Sold			

<b>2. ABRIDGED COST STATEMENT (for each product with CETA heading separately)</b>							
	<b>Name of Product</b>						
	<b>CETA heading</b>						
	<b>Unit of Measure</b>						
		<b>Production</b>	<b>Finished Goods Purchased</b>	<b>Finished Stock Adjustment</b>	<b>Captive Consumption</b>	<b>Other Adjustments</b>	<b>Quantity Sold</b>
	<b>Current Year</b>						
	<b>Previous Year</b>						
<b>Sno.</b>	<b>Particulars</b>	<b>Current Year</b>		<b>Previous Year</b>			
		<b>Amount (Rs.)</b>	<b>Rate per Unit (Rs.)</b>	<b>Amount (Rs.)</b>	<b>Rate per Unit (Rs.)</b>		
1	Materials Consumed (specify details as per Para 2A)						
2	Process Materials/Chemicals						
3	Utilities (specify details as per 2B)						

4	Direct Employees Cost				
5	Direct Expenses				
6	Consumable Stores and Spares				
7	Repairs and Maintenance				
8	Quality Control Expenses				
9	Research and Development Expenses				
10	Technical know-how Fee / Royalty				
11	Depreciation/Amortization				
12	Other Production Overheads				
13	Industry Specific Operating Expenses (specify details as per Para 2C)				
14	Total (1 to 13)				
15	Increase/Decrease in Work-in-Progress				
16	Less: Credits for Recoveries, if any				
17	Primary Packing Cost				
18	Cost of Production/Operations (14 + 15 to 17)				
19	Cost of Finished Goods Purchased				
20	Total Cost of Production and Purchases (18 + 19)				
21	Increase/Decrease in Stock of Finished Goods				
22	Less: Self/Captive Consumption (incl. Samples, etc.)				
23	Other Adjustments (if any)				
24	Cost of Production/Operation of Product Sold (20 + 21 to 23)				
25	Administrative Overheads				
26	Secondary Packing Cost				
27	Selling and Distribution Overheads				
28	Cost of Sales before Interest (24 to 27)				
29	Interest and Financing Charges				
30	Cost of Sales (28 + 29)				
31	Net Sales Realization (Net of Taxes and Duties)				
32	Margin [Profit/(Loss) as per Cost Accounts] (31 - 30)				

	<b>Notes:</b>
1.	Separate cost statement shall be prepared for each CETA heading representing the product.
2.	In case the same product has different unit of measure, separate cost statement shall be provided for different unit of measures.
3.	The items of cost shown in the Proforma are indicative and the same shall be reflected keeping in mind the materiality of the item of cost in the product. The Proforma may be suitably modified to meet the requirement of the industry/product.
4.	In case the company follows a pre-determined or standard costing system, the above cost statement shall reflect figures at actuals after adjustment of variances, if any.

<b>2A. Details of Materials Consumed</b>								
<b>Name of Product</b>								
<b>CETA heading</b>								
<b>Description of Material</b>	<b>Category</b>	<b>UOM</b>	<b>Current Year</b>			<b>Previous Year</b>		
			<b>Quantity</b>	<b>Rate per Unit (Rs.)</b>	<b>Amount</b>	<b>Quantity</b>	<b>Rate per Unit (Rs.)</b>	<b>Amount</b>
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
Category: Indigenous/ Imported/ Self Manufactured								

<b>2B. Details of Utilities Consumed</b>	
<b>Name of Product</b>	
<b>CETA heading</b>	



Description of Material	UOM	Current Year			Previous Year		
		Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							

2C. Details of Industry Specific Operating Expenses			
Name of Product			
CETA heading			
Description of Industry Specific Operating Expenses		Current Year	Previous Year
		Amount	Amount
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			



**PART-C**  
**For Service Sector**

<b>1. QUANTITATIVE INFORMATION (for each service separately)</b>			
<b>Name of Service</b>			
<b>Service Code (if applicable)</b>			
<b>Particulars</b>	<b>Unit of Measurement</b>	<b>Current Year</b>	<b>Previous Year</b>
<b>1. Available Capacity</b>			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Total available Capacity			
<b>2. Actual Services Provided</b>			
(a) Own Services			
(b) Services under contractual arrangements			
(c) Outsourced Services			
(d) Total Services			
<b>3. Total Services provided as per Service Tax Records</b>			
<b>4. Capacity Utilization (in-house)</b>			
<b>5. Actual Sales</b>			
(a) Services rendered – Domestic			
(b) Services rendered – Export			
(c) Total Services Rendered			

<b>2. ABRIDGED COST STATEMENT (for each service separately)</b>					
<b>Name of Service</b>					
<b>Service Code (if applicable)</b>					
<b>Unit of Measure</b>					
		<b>Services Provided</b>	<b>Captive Consumption</b>	<b>Other Adjustments</b>	<b>Services rendered</b>
	<b>Current Year</b>				

	Previous Year				
Sno.	Particulars	Current Year		Previous Year	
		Amount (Rs.)	Rate per Unit (Rs.)	Amount (Rs.)	Rate per Unit (Rs.)
1	Materials Consumed (specify details as per Para 2A)				
2	Utilities (specify details as per Para 2B)				
3	Direct Employees Cost				
4	Direct Expenses				
5	Consumable Stores and Spares				
6	Repairs and Maintenance				
7	Quality Control Expenses				
8	Research and Development Expenses				
9	Technical know-how Fee / Royalty				
10	Depreciation/Amortization				
11	Other Overheads				
12	Industry Specific Operating Expenses (specify details as per Para 2C)				
13	Total (1 to 12)				
14	Less: Credits for Recoveries, if any				
15	Cost of Services provided (13 - 14)				
16	Cost of Outsourced/Contractual Services				
17	Total Services available				
18	Less: Self/Captive Consumption				
19	Other Adjustments (if any)				
20	Cost of Services Sold (17 - 18 + 19)				
21	Administrative Overheads				
22	Selling and Distribution Overheads				
23	Cost of Sales before Interest (20+21+22)				
24	Interest and Financing Charges				
25	Cost of Sales (23 + 24)				

26	Net Sales Realization (Net of Taxes and Duties)				
27	Margin [Profit/(Loss) as per Cost Accounts] (26 - 25)				
<b>NOTES:</b>					
1.	Separate cost statement shall be prepared for each service				
2.	The items of cost shown in the Proforma are indicative and the same shall be reflected keeping in mind the materiality of the item of cost in the service.				
3.	The Proforma may be suitably modified to meet the requirement of the industry/service.				
4.	In case the company follows a pre-determined or standard costing system, the above cost statement shall reflect figures at actuals after adjustment of variances, if any.				

<b>2A. Details of Materials Consumed</b>								
<b>Name of Service</b>								
<b>Service Code (if applicable)</b>								
<b>Description of Material</b>	<b>Category</b>	<b>UOM</b>	<b>Current Year</b>			<b>Previous Year</b>		
			<b>Quantity</b>	<b>Rate per Unit (Rs.)</b>	<b>Amount</b>	<b>Quantity</b>	<b>Rate per Unit (Rs.)</b>	<b>Amount</b>
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
Category: Indigenous/ Imported/ Self Manufactured								

2B. Details of Utilities Consumed							
Name of Service							
Service Code (if applicable)							
Description of Material	UOM	Current Year			Previous Year		
		Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							

2C. Details of Industry Specific Operating Expenses			
Name of Service			
Service Code (if applicable)			
Description of Industry Specific Operating Expenses		Current Year	Previous Year
		Amount	Amount
1.			
2.			
3.			
4.			
5.			
6.			
7.			



8.		
9.		
10.		

#### PART-D

##### 1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)

Sno.	Particulars	Current Year			Previous Year		
		Sales	Cost of Sales	Margin	Sales	Cost of Sales	Margin
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	Product 1						
	Product 2						
	Product 3						
	..... etc.						
	Service 1						
	Service 2						
	Service 3						
	..... etc.						
	<b>Total</b>						

##### 2. PROFIT RECONCILIATION (for the company as a whole)

Sno.	Particulars	Current Year Rs.	Previous Year Rs.
1	Profit or Loss as per Cost Accounting Records		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
2	Add: Incomes not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		



	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
3	Less: Expenses not considered in cost accounts (specify details)		
	a)		
	h)		
	c)		
	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
4	Difference in Valuation of stock between financial accounts and cost accounts		
5.	Other adjustments, if any		
6	Profit or Loss as per Financial Accounts		
Note: Show abnormal wastages, expenses on strikes/lock-outs and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

### 3. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

S.no.	Particulars	Current Year Rs.	Previous Year Rs.
	<b>Value Addition:</b>		
1	Gross Sales (excluding sales returns)		
2	Less: Excise duty, etc.		

3	Net Sales		
4	Add: Export Incentives		
5	Add/Less: Adjustment in Finished Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores and Spares		
	(d) Utilities (e.g. power and fuel)		
	(e) Others, if any		
	Total Cost of bought out inputs		
7	Value Added		
8	Add: Income from any other sources		
9	Add: Extra Ordinary Income		
10	Earnings available for distribution		
	<b>Distribution of Earnings to:</b>		
1	Employees as salaries and wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Extra Ordinary Expenses		
6	Others, if any (specify)		
7	Total distribution of earnings		

#### 4. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

Sno.	Particulars	Units	Current Year	Previous Year
<b>A.</b>	<b>Financial Position</b>			
1	Share Capital			
2	Reserves and Surplus			
3	Long Term Borrowings			
4	(a) Gross Assets			
	(b) Net Assets			
5	(a) Current Assets			
	(b) Less: Current Liabilities			

	(c) Net Current Assets			
6	Capital Employed			
7	Net Worth			
<b>B.</b>	<b>Financial Performance</b>			
1	Value Added			
2	Net Revenue from Operations of Company			
3	Profit before Tax (PBT)			
<b>C.</b>	<b>Profitability Ratios</b>			
1	PBT to Capital Employed (B3/A6)	%		
2	PBT to Net Worth (B3/A7)	%		
3	PBT to Value Added (B3/B4)	%		
4	PBT to Net revenue from Operations (B3/B2)	%		
<b>D.</b>	<b>Other Financial Ratios</b>			
1	Debt-Equity Ratio			
2	Current Assets to Current Liabilities			
3	Value Added to Net Revenue from Operations	%		
<b>E.</b>	<b>Working Capital Ratios</b>			
1	Raw Materials Stock to Consumption	Months		
2	Stores and Spares to Consumption	Months		
3	Finished Goods Stock to Cost of Sales	Months		
<p>Note.- 1 Capital Employed means average of net fixed assets (excluding effect of revaluation of fixed assets) plus Non-current investments and net current assets existing at the beginning and close of the financial year.</p> <p>Note.-2 Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.</p>				

#### 5. RELATED PARTY TRANSACTIONS (for the company as a whole)

Sno.	Name and Address of the Related Party	Name of the Product / Service	Nature of Transaction (Sale, Purchase etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								

5								
6								
7								
8								
9								
10								

NOTE.1 Details shall be furnished for each Related Party and Product /Service separately.

NOTE.2 Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

#### 6. Reconciliation of Indirect Taxes (for the Company as a whole)

	Particulars	Assessable Value Rs.	Excise Duty Rs.	Service Tax Rs.	Cess and Others Rs.	VAT Rs.
	<b>Duties/Taxes Payable</b>					
	<b>Excise Duty</b>					
1	Domestic					
2	Export					
3	Stock Transfers (Net)					
4	Duty Free Clearance, Others etc.					
5	<b>Total Excise Duty (1 to 4)</b>					
6	Service Tax					
7	VAT, CST etc.					
8	Other State Taxes, if any					
9	<b>Total Duties / Taxes Payable (5 to 8)</b>					
	<b>Duties/Taxes Paid</b>					
10	Cenvat/VAT Credit Utilised - Inputs					
11	Cenvat/VAT Credit Utilised - Capital Goods					



12	Cenvat/VAT Credit Utilised - Input Services					
13	Cenvat/VAT Credit Utilised - Others					
14	Total (10 to 13)					
15	Paid through PLA/Cash					
16	Total Duties/Taxes Paid (14 + 15)					
17	Duties/Taxes Recovered					
18	Difference between Duties/Taxes Paid and Recovered					
19	Interest/Penalty/Fines Paid					
Note: Provide separate amounts in notes in respect of Item 4 above.						

SIGNATURE	SIGNATURE	SIGNATURE
NAME	NAME	NAME
COST AUDITOR	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

Note.

Note (1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.

Note (2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

[F. No. 1/40/2013-CL-V]

AMARDEEP SINGH BHATIA,  
Joint Secretary to the Government of India.

*o/c*  
**Note.-** The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), *vide* number G.S.R. 425(E), dated the 30<sup>th</sup> June, 2014.





भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

[www.rbi.org.in](http://www.rbi.org.in)

RBI/2014-15/352

DPSS (CO) RTGS No. **1064** / 04.04.002 / 2014-15

December 15, 2014

The Chairman / Managing Director / Chief  
Executive Officer of participants of RTGS

Madam / Sir,

**Extension of RTGS time window**

It has been the endeavour of the Reserve Bank of India to keep enhancing the systems, procedures, etc. to meet the growing needs of the markets/ customers. The launch of the new RTGS system in October 2013 was one of the steps taken by the Bank for catering to the growing volume and to provide liquidity saving and other features of the new system to the members.

2. Of late there has been a market demand for extending business hours of the RTGS system to facilitate customer and inter-bank transactions as also to facilitate other market obligations to settle in the RTGS system. Accordingly, the RTGS business hours are being revised to meet the market expectation.

3. It has hence been decided to advance RTGS business hours to 8:00 hours from 9.00 hours and extend closing time of RTGS to 20.00 hours on week days. RTGS business window will be open from 8.00 hours to 15.30 hours on Saturdays.

4. In view of the above, the RTGS time window will be modified as under with effect from December 29, 2014:

S. No.	Daily Events	Timing on Weekdays / Regular Days	Timing on Saturdays / Short Days
1.	Open for Business	08:00 hours	08:00 hours
2.	Initial Cut-off	16:30 hours	14:00 hours
3.	Final Cut-off	19:45 hours	15:00 hours
4.	IDL Reversal	19:45 hours –20:00 hours	-
5.	End of Day	20:00 hours	15:30 hours

भुगतान और निपटान प्रणाली विभाग, केंद्रीय कार्यालय, 14वीं मंजिल, केंद्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग, फोर्ट, मुम्बई - 400001

फोन Tel: (91-22) 2264 4995; फैक्स Fax: (91-22) 22691557; ई-मेल e-mail : [cgmdpssco@rbi.org.in](mailto:cgmdpssco@rbi.org.in)

Department of Payment and Settlement Systems, Central Office, 14<sup>th</sup> Floor, Central Office Building, Shahid Bhagat Singh Marg, Fort, Mumbai - 400001

हिंदी आसान है, इसका प्रयोग बढ़ाइए



-2-

5. This circular is issued under Section 10 (2) of Payment & Settlement Systems Act, 2007.

6. Please acknowledge receipt.

Yours faithfully,

Vijay Chugh  
Principal Chief General Manager



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)Website : [www.rbi.org.in](http://www.rbi.org.in)ई-मेल email: [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

December 29, 2014

## RBI releases Financial Stability Report (Including Trend and Progress of Banking in India 2013-14) December 2014

The Reserve Bank of India today released the [Financial Stability Report \(Including Trend and Progress of Banking in India 2013-14\) December 2014](#). The [Statistical Tables Relating to Banks in India \(STRBI\)](#) have also been released simultaneously with this Report.

The highlights of the latest Report are as follows:

### Macro-financial risks

The current weak global growth outlook may prolong easy monetary policy stance in most advanced economies (AEs). Consequently, low risk premia may lead to accumulation of vulnerabilities, and sudden and sharp overshooting in markets cannot be ruled out. As of now, financial risk taking has not translated into commensurate economic risk taking. Against the backdrop of low interest rates in AEs, portfolio flows to emerging market and developing economies have been robust, increasing the risk of reversals on possible adverse growth or financial market shocks, thus necessitating greater alertness. On the domestic front, macroeconomic vulnerabilities have abated significantly in recent months on the back of improvement in growth outlook, fall in inflation, recovery in the external sector and political stability. However, growth in the banking business and activity in primary capital markets remain subdued due to moderate investment intentions. Sustaining the turnaround in business sentiment remains contingent on outcomes on the ground.

### Financial institutions: Developments and stability

The growth of the Indian banking sector moderated further during 2013-14. Profitability declined on account of higher provisioning on banks' delinquent loans and lacklustre credit growth. The financial health of urban and rural co-operatives indicated divergent trends in terms of key indicators. While urban co-operative banks exhibited improved performance, the performance of primary agriculture credit societies and long term rural credit co-operatives remained a matter of concern with a further increase in their losses coupled with a deterioration in asset quality. While the asset size of the non-banking financial companies (non deposit taking-systemically important) showed an expansion, asset quality deteriorated further during the period of review. The banking stability indicator suggests that overall risks to the banking sector remained unchanged during the first half of 2014-15. In individual dimensions, though the liquidity position improved in the system, concerns remain on account of deterioration in asset quality along with weakened soundness. The profitability dimension of the indicator showed an improvement but it remained sluggish. The

stress tests suggest that the asset quality of banks may improve in the near future under expected positive developments in the macroeconomic conditions and banks may also be able to meet expected losses with their existing levels of provisions. However, the asset quality of scheduled commercial banks may worsen from the current level if the macroeconomic conditions deteriorate drastically, and banks are likely to fall short in terms of having sufficient provisions to meet expected losses under adverse macroeconomic risk scenarios. Analysis of the interconnectedness indicates that the size of the interbank market in relation to total banking sector assets has been on a steady decline. However, contagion analysis with top five most connected banks reveals that the banking system could potentially lose significant portion of its total Tier-I capital under the joint solvency-liquidity condition in the event of a particular bank triggering a contagion.

### **Financial sector regulation and infrastructure**

While the capital to risk weighted assets ratio (CRAR) of the scheduled commercial banks at 12.8 per cent as of September 2014 is satisfactory, going forward, the banking sector, particularly the public sector banks would require substantial capital to meet regulatory requirements with respect to additional capital buffers. With the increased regulatory focus on segregating the cases of wilful defaults and ensuring the equity participation of promoter(s) in the losses leading to defaults, there is a need for greater transparency in the process of carrying out a net economic value impact assessment of large Corporate Debt Restructuring (CDR) cases. Another aspect that impinges upon the banks' asset quality is corporate leverage and its impact on banks' balance sheets, particularly 'double leveraging' through holding company structures and the pledging of shares by promoters. Indian stock markets have seen a rapid growth in recent months. While the retail investor base still remains comparatively low, India's stock markets have been attracting substantial amounts of foreign investments, increasing the risk of reversal. The Securities and Exchange Board of India has introduced an additional safety net in the form of core settlement guarantee fund to mitigate risks from possible default in settlement of trades and to strengthen risk management framework in the domestic capital markets. With a view to improving participation of actual users / hedgers and the quality of price discovery in the market, the Forward Markets Commission has revised position limits which are linked to estimated production and imports of the underlying commodities. To deal with issues relating to unauthorised deposit acceptance and financial frauds, the State Level Coordination Committee (SLCC) mechanism has been strengthened under the initiative of the Financial Stability and Development Council (FSDC).