PROFESSIONAL COMPETENCE COURSE

SUPPLEMENTARY STUDY PAPER - 2007

TAXATION

[Covers amendments made by the Finance Act, 2007, Taxation Laws (Amendment) Act, 2006 and Important Circulars/ Notifications issued between 1st May 2006 and 30th April 2007]

(Relevant for students appearing for May, 2008 and November, 2008 examinations)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Supplementary Study Paper has been prepared by the faculty of the Board of Studies of the Institute of Chartered Accountants of India with a view to assist the students in their education. While due care has been taken in preparing this Supplementary Study Paper, if any errors or omissions are noticed, the same may be brought to the attention of the Director of Studies. The Council of the Institute is not responsible in any way for the correctness or otherwise of the amendments published herein.

Prepared by
CA. Priya Subramanian and CA. Smita Mishra
Faculty, Board of Studies

Website: www.icai.org. E-mail : bosnoida@icai.org

Price : Rs.30/-

Published by Dr. T.P. Ghosh, Director of Studies, ICAI, C-1, Sector-1, NOIDA – 201 301

Typeset and designed at Board of Studies, The Institute of Chartered Accountants of India.

FOREWORD

Taxation is a very dynamic subject of the chartered accountancy course. For attaining thorough knowledge, the students have not only to be well conversant with the basic provisions of the relevant laws, but also have to constantly update their knowledge regarding statutory developments.

The Board of Studies brings out the annual Supplementary Study Papers to help the students to update their knowledge relating to recent statutory developments in the field of income-tax and service tax made by the Annual Finance Acts, Notifications/Circulars etc.

This year, the amendments made by the Taxation Laws (Amendment) Act, 2006 have also been incorporated in this Supplementary Study Paper. I compliment the Board of Studies for its good work in bringing out this publication, which would help the students to update their knowledge regarding the latest statutory developments. I am sure that this publication will be of great use to the students in preparing for their examination.

Date: 19th June, 2007
Place: New Delhi

CA. Sunil Talati
President

PREFACE

The Board of Studies is engaged in the task of providing quality study materials and other inputs to enable the students to prepare for their examinations. In the syllabus for chartered accountancy course, direct and indirect taxes constitute a core competence area for the students. In the Professional Competence Course, "Taxation" constitutes Paper-5. Students are expected to acquire working knowledge in income-tax and service-tax after undergoing this course.

Two of the important inputs of the Board on taxation are the supplementary study papers in Income tax and Central Sales Tax and Direct and Indirect Taxes to be used by the PE-II and Final students, respectively. The supplementary study papers are annual publications and contain a discussion of the amendments made by the Annual Finance Acts, notifications and circulars in income-tax, wealth tax, central sales tax, excise, customs and service tax. They are very important to the students for updating their knowledge regarding the latest statutory developments in the respective areas mentioned above.

This is the first supplementary study paper in Professional Competence Course. It covers amendments made in income-tax and service-tax. The faculty of the Board of Studies have incorporated in this Supplementary Study Paper-2007, the amendments made by the Finance Act, 2007, Taxation Laws (Amendment) Act, 2006 and important Notifications/Circulars issued between 1st May 2006 and 30th April, 2007. I am happy to note that this Supplementary Study Paper has many student-friendly features like presentation of the amendments point-wise in a simplified and lucid manner, giving 'amendments at a glance' etc. These features will help the students to understand and grasp the essence of the new amendments in an easy and methodical manner. I appreciate the earnest and sincere efforts taken by CA. Priya Subramanian & CA. Smita Mishra, Faculty, Board of Studies in bringing out this valuable publication, under the guidance of CA. R. Devarajan, Additional Director of Studies (S.G.). I am sure that this Supplementary Study Paper would be highly useful to the students preparing for Professional Competence Examinations.

CA. Jaydeep Narendra Shah
Chairman
Board of Studies

June 19, 2007
New Delhi

TAXATION

PART I : INCOME TAX

AMENDMENTS AT A GLANCE – FINANCE ACT, 2007

S.No.	Particulars	Section
	INCOME-TAX ACT, 1961	
1.	A. Rates of tax	
	B. Basic Concepts	
2.	Assessing Officer to include Additional Commissioner and Additional Director	2(7A)
3.	Amendment of definition of 'India'	2(25A)
	C. Residence and scope of total income	
4.	Contribution made by any employer to the pension scheme of Central Government deemed to be income received	7(iii), 17(1)(viii) & 80CCD
5.	Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services to be taxed irrespective of territorial nexus	Explanation to section 9
	D. Incomes which do not form part of total income	
6.	Exemption of compensation received on account of disaster	10(10BC)
7.	Exemption of interest on notified bonds issued by State Pooled Finance Entities	10(15)(vii)
8.	Exemption of income of ASOSAI-SECRETARIAT	10(23BBD)
9.	Exemption of income of Central Electricity Regulatory Commission	10(23BBG)
10.	Approval of prescribed authority required for exemption of funds/institutions established for charitable purposes	10(23C) & 80E
11.	Exemption of specified income of Investor Protection Fund set up by commodity exchanges	10(23EC)
12.	Pass through status restricted to investment in a venture capital undertaking engaged in specified businesses	10(23FB)

40.	Tax holiday in respect of profits and gains from the business of hotel or business of building, owning and operating a convention centre in NCR	80-ID
41.	Tax holiday in respect of profits and gains from eligible business of certain undertakings in North-Eastern States	80-IE
	L. Procedure for filing return of income	
42.	Power of CBDT to dispense with furnishing documents etc. with the return and filing of return in electronic form	139C, 139D & 139(9)
	M. Provisions concerning advance tax and tax deducted at source	
43.	Provisions relating to tax deduction at source	193, 194A(3)(i), 194C(1), 194H, 194I, 194J, 197A(1C)

AMENDMENTS AT A GLANCE - TAXATION LAWS (AMENDMENT) ACT, 2006

S.No.	Particulars	Section
	INCOME-TAX ACT, 1961	
44.	Tax Recovery Officer to exercise or perform the powers and functions of the Assessing Officer	2(44)
45.	Exemption of income of North-Eastern Development Finance Corporation Limited	10(23BBF)
46.	Removal of the requirement of renewal of notification issued under sub-clauses (iv) and (v) of section 10(23C)	10(23C)
47.	Time limit for issue of notification under sub-clauses (iv) and (v) or for approval by the prescribed authority under sub-clauses (vi) and (via) of section 10(23C)	10(23C)
48.	Funds/Trusts/Universities/Other educational institutions or hospitals or other medical institutions referred to in sub-clauses (iv),(v),(vi) or (via) of clause (23C) of section 10 to get their accounts audited and furnish audit report	10(23C)
49.	Accounts of a charitable or religious trust or institution to be audited if their total income exceeds the basic exemption limit	12A(b)

50.	Guidelines, manner and conditions on the basis of which approval is to be granted under section 35(1)(ii) and section 35(1)(iii)	35(1)(ii) & 35(1)(iii)
51.	Deduction not to be denied to the donor-assessee on subsequent withdrawal of approval of specified donee entities	35(2AA), 35AC & 35CCA
52.	Disallowance of rent and royalty paid to a resident without deduction of tax at source	40(a)(ia)
53.	Disallowance of expenses for which payment above Rs.20,000 has been made otherwise than by account-payee cheque or account-payee bank draft	40A
54.	Cash gifts received in excess of Rs.50,000 on or after 1.4.2006 to be taxed	56(2)(vi)
55.	Deduction not to be denied to the donor-assessee on subsequent withdrawal of approval of the donee-association, university etc.	80GGA
56.	Specified universities, colleges and other institutions compulsorily required to file their return of income	139(4C) & (4D)
57.	The scope of tax deduction at source on rent expanded	194-I
58.	Expansion of the scope of tax deduction at source on fees for professional or technical services	194J

PART II : SERVICE TAX

AMENDMENTS AT A GLANCE – FINANCE ACT, 2007

S. No.	Particulars	Section
	Amendments in Chapter V and VA of the Finance Act, 1994	
1.	A secondary and higher education cess of 1% imposed on services liable to service tax	
2.	7 new services brought under the service tax net	65
	1. Telecommunication service (includes individual services in respect of telephone, pager, leased circuit, telegraph, telex and facsimile communication)	
	2. Mining services	
	3. Services provided in relation to renting of immovable property, other than residential properties and vacant land, for use in the course or furtherance of business or commerce	
	4. Services provided in relation to the execution of a works contract	
	5. Development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services	
	6. Asset management services including portfolio management and all forms of fund management service provided by any person, except a banking company or a financial institution including a non-banking financial company or any other body corporate or commercial concern	
	7. Design services	
3.	Scope of following existing services expanded	65
	1. Sale of space or time for advertisement, other than in print media	
	2. Rent-a-cab service	