SPECIAL DEDUCTIONS UNDER SECTIONS 35 TO 35E

Section	Nature of expenditure	Quantum of deduction	Qualifying Assessee	Other provisions
35(1)(i)	Any expenditure (not being capital in nature) laid out or expended for scientific research related to assessee's business	The amount actually expended	All assessee	Where any expenditure is laid out or spent before the commencement of business on payment of salaries to an employee engaged in such scientific research or on purchase of material used in such research, the aggregate of such expenses so expended within three preceding previous years shall, to the extent certified by prescribed authority *(Refer Rule 6)* shall be deemed to have been expended in the year in which actual business is commenced.
35(1)(ii)	Payment to a notified/approved research association/university/college or other institution to be used for such scientific research.	one and three-fourth times of the sum paid) (W.e.f. A.Y. 2011-12) One and One-fourth times of the sum paid. (Upto A.Y. 2010-11)	All assessee	Such association, university, college, or other institution is approved according to the prescribed guidelines and is notified in the Official Gazette by Central Government *(refer Rules 5C, 5D and 5E)* *Note :* (Deduction under this section shall not be denied

				for such payments made on the ground that subsequent to such payment, approval granted to such association, university, college, etc. has been withdrawn.
35(1) (iia)	Payment to a approved company registered in India, with the object of scientific research and development	One and One-fourth times of the sum paid	All assessee	The company should be approved by prescribed authority and fulfils prescribed conditions *(Refer Rule 5F)*. In case where the company is approved under this clause, no deduction shall be allowed u/s 35(2AB) (w.e.f. 1-4-2008)
35(1) (iii)	Payment made to a research association having its object of undertaking research in social science or statistical research or to any university, college, or other institution to be used for research in social science or statistical research	One and One-fourth times of the sum paid	All assessee	Such association, university, college, or other institution is notified in the official gazette by central Govt. and is approved according to the prescribed guidelines *(Refer Rules 5C, 5D and 5E)* (Deduction under this section shall not be denied for such payments made on the ground that subsequent to such payment, approval granted to such university, college, etc. has been withdrawn.
35(1) (iv)	Expenditure of capital nature on scientific research (other than expenditure on acquisition of land) related to the business carried on by the assessee	Expenditure so incurred	All assessee	where any capital expenditure is incurred prior to commencement of the business, the aggregate of such expenses so incurred within three years immediately preceding the commencement of the business shall be deemed to have been incurred in the year in which the business is commenced. No depreciation shall be allowed on such assets. Where the amalgamating company transfers capital assets to the amalgamated company being an Indian

				company, then the deduction under this clause would be allowed to the amalgamated company and in such case no deduction would be allowed to the amalgamating company provided the amalgamated company has not sold/transferred such assets.
35(2AA)	Payment to a National Laboratory/university or an Indian Institute of Technology or a specified person	One and three-fourth times of the sum paid for A.Y. 2011-12 Two times of such sum paid for A.Y. 2012-13 onwards. One and One-fourth times of the sum paid upto A. Y. 2010-11.	All assessee	The payment should be made with the specified direction that the sum shall be used in a scientific research undertaken under a programme approved by the head of National laboratory, university, or IIT and in case of specified person, the principal scientific advisor to the Govt. of India. Where deduction is allowed under this section no other deduction would be allowed under any other provisions of the Act. (Deduction under this section shall not be denied for such payments made on the ground that subsequent to such payment, approval granted to such Laboratory, university, etc. has been withdrawn or such laboratory, university having withdrawn the programme undertaken.
35(2AB)	Any expenditure incurred by a company, on scientific research (not being in nature of cost of land and building) on in-house scientific research and development facilities as approved by the prescribed authorities *(Refer Rule 6)*.	Two times of such expenses incurred for A.Y. 2011-12 One and One-half time of such expenses upto A. Y. 2010-11.	Company, engaged in any business of manufacture and production of any article or thing, other than those specified in the list of Eleventh Schedule.	No other deduction in respect of such expenses would further be allowed, (No deduction is allowed under this section for companies mentioned in section 35(1)(iia) Company should enter into an agreement with the prescribed authority for co-operation in such research and development and audit of accounts maintained for such facilities.

				Expenses under this clause would be allowed only up to 31-3-2012. Expenditure on scientific research in relation to Drug and Pharmaceuticals shall include expenses incurred on clinical trials, obtaining approvals from authorities and for filing an application for patent. In case of amalgamation of the company the provisions of this section would apply to amalgamated company as they would have applied to amalgamating company
35ABB	Capital expenses incurred for acquiring right to operate telecommunication services either before or after the commencement of such business to operate such services	In case where the amount is paid prior to commencement of business, the deduction would be allowed in equal installments beginning from the previous year in which the business commences and ending in the year in which the licence expires. In other case the amount will be allowed in equal installments from the previous year in which such expenditure is incurred till the previous year in which the licence expires.	All assessee	The deduction is allowable on the payment actually made, irrespective of the previous year for which the liability for such expenditure was incurred as per the method of accounting regularly followed. Where the deduction is allowed under this clause no depreciation would be allowed. Where the license is transferred and if the amount realized in so far as it relates to capital sum, is less than the amount remained to be allowed then, the amount remained to be allowed as reduced by proceeds received would be allowed as deduction in the year in which the same is transferred. Whereas if the amount so realized on transfer of whole or part of the licence is more than the amount remained to be allowed then the difference between amount received on transfer and the amount remained to be allowed would be chargeable to tax in the year of such

				transfer and no further deduction shall be allowed in the year of transfer or in succeeding years. Where a part of the licence is transferred and the amount realized is not more then the amount remained tobe allowed then the difference between the amount remained to be allowed and the amount received on transfer shall be divided by the number of unexpired years from the previous year in which such transfer takes place and would be allowed in equal installment accordingly. In case of amalgamation or demerger of the company the provisions of this section would apply to amalgamated or resulting company as they would have applied to amalgamating or demerged company
35AC	Payment to public sector company or a local authority or to an approved association/institution for carrying out any notified eligible project or scheme. (Payment under this Section would include in case of a Company the payment made as above or expenses incurred directly on eligible projects or scheme)	The amount actually paid or incurred directly as the case may be.	All assessee	The association/institution should be approved by the National Committee for Promotion of Social and Economic Welfare or public upliftment and the assessee furnishes along with the return of income certificate either from such institution or from accountants (specified in section 288 of the Act), in the prescribed form *(Refer Rule 11-O)*. Where any deduction is allowed under this section no further deduction would be allowed under any other provisions of the Act. (Deduction under this section shall not be denied for such payments made on the ground that subsequent to such payment, approval granted to such Public Sector Company or Local Authority, etc. has been

				withdrawn or such Public Sector Company or Local Authority having withdrawn the eligible projects or Scheme undertaken.) However in such case the company or, such approved institution as the case may be. shall be liable to pay the tax at maximum marginal rate for the payment so received by them in the respective previous year.
35AD	Expenditure of capital nature (other than expenditure incurred on acquisition of any land, goodwill or financial instruments) incurred, wholly and exclusively, for the purposes of any specified business carried on by the assessee viz. • Setting up and operating a cold chain facility (commencing business on or after 1-4-2009). (Cold chain facilities would mean a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture, and processed food items under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce.) • Setting up and operating a warehousing facility for agriculture produce for business commencing on or after 01-04-2009. • Laying and operating cross country natural gas, crude or petroleum oil pipeline network for distribution and includes storages facilities being integral part of such network provided such business is approved by the petroleum and natural gas regulatory board and is notified by the	The whole of the amount of expenses incurred during the previous year **And** Expenditure incurred prior to the commencement of operation would be allowed as deduction during year in which such business commence its operation if such expenses are incurred wholly and exclusively for the purpose of specified business and such amount is capitalized in the books of account on the date of such commencement of operation Further In case of Business of laying pipeline for oil, natural gas, etc. where the business has commenced on or after 1-4-2007 but ending before 31-3-	**All Assessees** Except: i) In case of laying and operating cross country natural gas, crude or petroleum oil pipeline network for distribution and include integral storage facilities *The Company registered under the Companies Act, 1956 or a consortium of such companies or an authority or a Board or a corporation established under any Central or State Act.*	The specified business should not be set up by splitting up, or the reconstruction, of the business already in existence or it is not set up by the transfer of machinery or plants previously used for any purpose. (However any machinery or plant used out of India is imported in India shall not be considered as machinery or plant used for any purpose as above, provided such plant and machinery was not at any time prior to such installation were used in India or no deduction on account of depreciation in respect of such machinery or plant has been allowed or was allowable to any person for any period prior to the date of installation of machinery or plant by the assessee.) (Also where the value of plant and machinery or any part thereof previously used for any purpose is transferred to such specified business and the total value of such plant and machinery or part so transferred does not exceed 20% of the value of the total machinery or plant used in such business, then, the deduction under this section would not be denied)

	Central Government in the *Official Gazette* commences operations after 1.4.2007 (Deductions available from A.Y. 2010-11) • Building and operating anywhere in India a new hotel of two star and above commences business on or after 1.4.2010 as classified by Central Government • Building and operating anywhere in India a new hospital with at least one hundred beds for patients commences operations on or after 1.4.2010 • Developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by Central Government or a State Government and as notified by board in accordance with guidelines prescribed and commences operation on or after 1.4.2010 • *Developing and building a housing project under a scheme for affordable Housing framed by Central Government or a State Government and as notified by board in accordance with guidelines prescribed and commences operation on or after 01.04.2011* • *Capital Expenditure incurred in a new plant or in new installed capacity in existing plant for production of fertilizers commencing operation on or after 1.4.2011*	2009 the amount of expenses incurred in any previous year shall be allowed as further deduction in the assessment year beginning on 1-4-2010 provided the assessee has not been allowed deduction of such expenses in any earlier previous year		In case of business of laying of pipe line for natural gas and crude and petroleum oil, the eligible assessee should make available such percentage of its total pipe line capacity as specified by petroleum and natural gas regulatory Board for use on common carrier basis for any person other than such assessee or its associated persons and that it should also fulfil any other conditions as may be prescribed. For the purpose of this clause associated person means (a) The one who participates directly or indirectly or through one or more intermediaries in the management or control or capital of the assessee (b) The one who holds directly or indirectly shares carrying not less than 26% of the voting power in the capital of the assessee (c) The one who appoints more than half of the Board of directors or members of the governing board or one or more executive directors or executive members of the governing board of the assessee. (d) The one who guarantees not less than 10% of the total borrowings of the assessee. No further deduction would be allowed where the deduction is claimed under this provisions either under Chapter VI-A under the heading C or w.e.f. 1-4-2011 under any other section in any previous year or under this section for any other previous year. Provisions contained in 80A(6) and sub-sections (7) and (10) of section 80-

				IA shall so far as may be, apply to this provision in respect of goods or services or assets held for the purpose of such business. Note : Any sum received in cash or kind on account of demolition, destroy, discarding or transfer of such assets where deduction under this clause has been allowed as a whole under this clause, the sum so received shall be chargeable to tax under the head business income (section 28(vii)).
35D	Specified expenditure incurred either before the commencement of business or after the commencement of business in connection with the extension of industrial undertaking or setting up of new industrial unit	One-fifth of such expenditure for a period of five years. Beginning with the year in which the business is commenced or extension of the undertaking is completed as the case may be.	Indian Companies or any person resident in India	The deduction is restricted to 5% of the cost of the project or where the assessee is an Indian company, at the option of the company, of the capital employed in the business of the company. In case of non corporate assessee or a co-operative society, the deduction would not be allowed unless the accounts of the assessee are audited for the year/s in which such expenditures are incurred and a report in prescribed form is furnished along with the return of income for the first year in which such deduction is claimed. In case of amalgamation or demerger of the company the deduction would be allowed to amalgamated or resulting company and in such case no further deduction would be allowed to amalgamating or demerged company. Where any deduction is allowed under this section no further deduction would be allowed under any other provisions of Act.
35DD	Expenditure incurred wholly and exclusively for the	One-fifth of such	Indian Company	No deduction would be allowed in respect of such

	purpose of amalgamation or demerger of an undertaking	expenditure for a period of five successive years beginning with the previous year in which such amalgamation or demerger takes place.		expenses under any other provisions of the Act
35DDA	Expenditure incurred by way of payment to an employee under any scheme in connection with his voluntary retirement	One-fifth of such expenditure for a period of five years beginning with the year in which such expenditure is incurred.	All Assessees	The expenditure should be incurred in accordance with any scheme of voluntary retirement. In case of amalgamation or demerger of the company the deduction would be allowed to the amalgamated or resulting company as if the deduction were allowed to amalgamating or demerged company as the case may be. Whereas in case of partnership firm or proprietary concern is succeeded by the company in reorganization of business the deduction would be allowed to such succeeded company provided conditions laid down in provisions of section 47(xiii) or section 47(xiv) as applicable are adhered to. And no further deduction would be allowed to the partnership firm or proprietary concern as the case may be. Whereas in case of a private limited company or unlisted public company under reorganization of business is succeeded by a limited liability partnership fulfilling the conditions laid down in proviso to clause (xiiib) of section 47, then the deduction shall be allowed to the successor limited liability partnership and no further deduction would be allowed to private limited company or unlisted public company as the case may be.

				(applicable from A.Y. 2011-12) Once the deduction under this section allowed the same shall not be allowed under any other provisions of the Act.
35E	Expenditure in respect of operations relating to prospecting for or extracting or production of any mineral or group of associated minerals or for development of mine or other natural deposit of such mineral or group of associated minerals.	One-tenth of such expenditure for a period of ten years beginning from the year in which commercial production starts Or the expenditure as is sufficient to reduce the income to Nil as computed before allowing deduction under this clause whichever is lesser (subject however portion of expenditure not allowed in any previous year shall be carried forward and added to the installment of succeeding previous year up to last year of such deduction)	Indian companies or any person resident in India.	Such minerals/group of associated minerals should be specified in Part A/B of Seventh Schedule of the Income-tax Act, 1961. Deduction is allowed in respect of expenditure incurred in the year in which the production commences, or any expenses incurred in any four years preceding such year. For the purpose of this clause expenditure met by any other persons, authorities or sales or salvage or insurance claim received in respect of any property or rights brought into existence shall be excluded from such expenditure. Similarly expenditure incurred for acquisition of any sites, or deposits of minerals, or capital expenditure on acquisition of plant and machineries, building, furniture, etc. on which depreciation is allowable shall also be excluded from such expenditure In case of non corporate assessee or a co-operative society, the deduction would not be allowed unless the accounts of the assessee are audited and a report in prescribed form is furnished along with the return of income for the first year in which such deduction is claimed. See Form 3AE, Rule 6AB. In case of amalgamation or demerger of the company the deduction would be

				allowed to amalgamated or resulting company and in such case no further deduction would be allowed to amalgamating or demerged company. Once the deduction under this section allowed the same shall not be allowed under any other provisions of the Act.