

THE SECOND SCHEDULE

[See Section 2 (8)]

RULES FOR COMPUTING THE CAPITAL OF A COMPANY FOR THE PURPOSES OF SURTAX

1. Subject to the other provisions contained in this Schedule, the capital of a company shall be the aggregate of the amounts, as on the first day of the previous year relevant to the assessment year, of—

(i) its paid-up share capital;

(ii) its reserves, if any created under the proviso (b) to clause (vib) of sub-section (2) of section 10 of the Indian Income-tax Act, 1922 (11 of 1922) or under ⁴[sub-section (4) of section 32A, or sub-section (3) of section 34], of the Income-tax Act, 1961 (43 of 1961);

(iii) its other reserves as reduced by the amounts credited to such reserves as have been allowed as a deduction in computing the income of the company for the purposes of the Indian Income-tax Act, 1922 (11 of 1922) or the Income-tax Act, 1961 (43 of 1961);

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⁶[IA. Where a company has not made any credit in any account in its books as on the first day of the previous year relevant to the assessment year which is of the nature of item (8) or item (9) under the heading “CURRENT LIABILITIES AND PROVISIONS” in the column relating to “LIABILITIES” in the “FORM OF BALANCE-SHEET”, given in part I of Schedule VI to the Companies Act, 1956 (1 of 1956), or where the ²[Assessing Officer] is of opinion that the amount credited in such account falls short of the amount which should have reasonably been credited by it, the amount of its capital as computed under rule 1 shall be reduced by the amount which has not been so credited or, as the case may be, the amount of such shortfall.

Explanation.— For the purposes of this rule, the amount of credit which should have reasonably been made by a company in relation to any account of the nature of item (9) aforesaid, means the amount of dividend declared or paid by the company, on or after the first day of the previous year relevant to the assessment year, for the previous year immediately preceding the first mentioned previous year.]

2. Where a company owns any assets the income from which in accordance with clause (iii) or clause (vi) or clause (viii) of rule 1 of the First Schedule is required to be excluded from its total income in computing its chargeable profits, the amount of its capital as computed under rule 1 of this Schedule shall be diminished by the cost to it of the said assets as on the first day of the previous year relevant to the assessment year in so far as such cost exceeds the aggregate of—

1. Subs. by Act 66 of 1976, s. 29, for “(ii) any expenditure” (w.e.f. 1-4-1977).

2. Subs. by Act 4 of 1988, s. 187, for “Income-tax Officer” (w.e.f. 1-4-1988).

3. Subs. by s. 187, *ibid.*, for “Inspecting Assistant Commissioner” (w.e.f. 1-4-1988).

4. Subs. by Act 66 of 1976, s. 29, for “sub-section (3) of section 34” (w.e.f. 1-4-1977).

5. Sub-clauses (iv) and (v) omitted by s. 29, *ibid.* (w.e.f. 1-4-1977).

6. Ins. by s. 29, *ibid.* (w.e.f. 1-4-1975).

(i) any moneys borrowed ^{1***} and remaining outstanding as on the first day of the said previous year; and

(ii) the amount of any fund, any surplus and any such reserve as is not to be taken into account in computing the capital under rule 1.

Explanation 1.— A paid-up share capital or reserve brought into existence by creating or increasing (by revaluation or otherwise) any book asset is not capital for computing the capital of a company for the purposes of this Act.

Explanation 2.—Any premium received in cash by the company on the issue of its shares standing to the credit of the share premium account shall be regarded as forming part of its paid-up share capital.

Explanation 3.—Where a company has different previous years in respect of its income, profits and gains, the computation of capital under rules 1, 2 and 3 shall be made with reference to the previous year which commenced first.

3. Where after the first day of the previous year relevant to the assessment year the capital of a company as computed in accordance with the foregoing rules of this Schedule is increased by any amount during that previous year on account of increase of paid-up share capital ²[or is reduced by any amount on account of reduction of paid-up share capital,] or repayment of any such moneys, such capital shall be increased or reduced, as the case may be, by a sum which bears to that amount the same proportion as the number of days of the previous year during which the increase or the reduction remained effective bears to the total number of days in that previous year.

4. Where a part of the income, profits and gains of a company is not includible in its total income as computed under the Income-tax Act, its capital shall be the sum ascertained in accordance with rules 1, 2 and 3, diminished by an amount which bears to that sum the same proportion as the amount of the aforesaid income, profits and gains bears to the total amount of its income, profits and gains.