CHAPTER III

TAXABLE INCOME—I

Introduction

We have divided the whole subject of the determination of taxable income into two chapters for facility of discussion. In this chapter we deal with the classification of receipts into those that attract liability to tax and those that do not. We also refer to certain issues arising out of special types of receipts. In the succeeding chapter we discuss certain important questions of income-tax practice—stock valuation, business and non-business deductions and the treatment of losses.

2. Income, profits and gains, from whatever source they are derived, are made chargeable under the Indian Income-tax Act. The terms are not defined precisely in the law, but section 2(6C) of the Income-tax Act enumerates specific receipts which are made taxable in addition to what is liable under the commonly understood import of the term 'income'. The Act further describes the various sources of income and mentions the special charges that have to be adjusted against income from each source, of which 'business deductions' are the most important. One of the provisions* lists a number of items of receipts which are expressly excluded from the scope of chargeable income. Income from all sources is then aggregated (known as total income) and further adjustments are carried out in respect of certain exemptions which are available under specific conditions applicable to each. The charge is applied to this adjusted total income (known as taxable income) for determining the liability of an assessee to income-tax.

Definition of 'income'

3. Though a precise definition of income is not given in the Income-tax Act, it is quite clear from the Act that the charge is to be applied only to *net* income, that is, it should not fall on capital or on any element of necessary cost. It is also specifically provided in the Act that in arriving at the net income to be charged to tax certain types of losses must be excluded. Nevertheless, some witnesses have suggested to us that a precise definition of 'income' should be introduced in the Income-tax Act in order to ensure that this important aspect of taxation law is placed beyond the scope of controversy or litigation. While we agree that this objective is laudable, the task seems to us to be well-nigh impossible. The concept of income is not merely a creature of judicial pronouncements but is also influenced, from time to time, by the trend of economic thought and the evolution of accountancy principles. We do not think it is worthwhile attempting to compress the large volume of judicial decisions and other diverse literature on the subject of the concept of income into a succinct and workable definition. Moreover, as regards judicial decisions, it is necessary to remember that they turn on the facts of each case which are bound to differ. Even a small variation might conceivably make a material difference to the determination of the

*Sub-section (3) of section 4 of the Income-tax Act.

question whether a particular receipt is or is not of the nature of taxable income. It seems to us, therefore, that it will be impracticable to reduce the principles evolved by judicial decisions in the leading cases on this subject into an exhaustive and self-contained definition of income in our taxation Act. We are also of the opinion that perhaps more harm than good may result from including in the taxation Act a rigid definition of income. We think that guidance in this matter should continue to be drawn in the future, as heretofore, from the extensive case law on the subject.

4. Some of the important issues in connection with the concept of income on which the courts in this country and elsewhere have pronounced their opinions over a long period have been raised before us by certain witnesses who have suggested changes being made in the law in regard to these. We discuss these issues below.

Capital receipts vs. income

5. One of the principles enunciated by the courts is that capital receipts should be distinguished from income. The important tests, which are illustrative and not exhaustive, laid down for this purpose are:—

(i) receipts which arise from the substitution or conversion of fixed capital in a business should be treated as capital, while those pertaining to circulating capital such as from the sale of stock-in-trade should be treated as income;

(ii) receipts arising from the replacement of a source of income, by its sale, exchange or transfer, should be treated as capital;

(iii) lump sum receipts need not always be of a capital nature, for example, a lump sum paid to a director of a company as consideration for his continuing to serve on a reduced salary; on the other hand, recurring receipts in some cases may be regarded as not being income, for example, when the stipulated purchase price of a property is paid in instalments;

(iv) the right to receive future income may in certain circumstances be converted into a capital receipt, *e.g.*, the outright sale of patent rights.

A number of suggestions have been made in regard to the last test mentioned above (item iv). Certain receipts, *e.g.*, income from the sale of patent rights or copyrights, premium on leases, etc., which were held to be of a capital nature are now being treated in many income-tax systems as of a revenue nature. It has been urged before us that this is a development on the right lines, and that it is inequitable, with the tax rates at their present pitch, that the mere arrangement of transactions in a particular manner should lead to differences in the taxability of certain receipts as between different taxpayers. We agree with this approach. Government would be justified in taxing such receipts on the ground that the sale of a right to income has resulted in extinguishing future income which would otherwise have been taxable. If there is any capital element involved in the sale, due to the transfer of the title, it is likely to be very small and by suitably spreading the receipt over a long enough period, the inequity, if any, on that account, would be eliminated.

6. The following individual items have been suggested to us for consideration in this connection:—

Suggestion for taxation of certain receipts now treated as capital

(i) premium on leases;

(ii) sale proceeds of patent rights and copyrights;

(iii) compensation received for termination of managing agency agreements or similar business agreements; and

(iv) compensation for loss of employment.

7. We recommend that the receipts at (i)—(iii) above should be brought to charge to the extent and in the manner indicated below. The lump sum receipts from the sale of patent rights should, in our opinion, be spread over a maximum period of six years; those from premia on leases over a maximum period of twenty years; and those from compensation for loss of managing agency commission over a period that may be considered appropriate by the income-tax authorities, the decision depending on the nature of the agreement. We would also recommend that the receipts should be spread backwards, except for those arising from premia on leases which should be spread forwards.

8. We may refer in somewhat greater detail to the taxability of compensation for loss of employment. The position in regard to this item of receipt is that under Explanation (2) to section 7 of the Income-tax Act, 1922, any payment made solely as compensation for loss of employment, which is not by way of remuneration for past services, is not taxable. The rule as it stands would appear to turn on the interpretation of the word 'solely' and on the distinction that had been established between 'compensation for loss of office' and 'remuneration for past services'. There is obviously a possibility of the same facts being interpreted differently by the tax-payer and the taxing authorities in view of the ambiguity that arises from the use of the phraseology referred to. We, therefore, agree that it is necessary to clarify the law.

9. We are in favour of 'compensation for loss of office' being brought to charge in the same manner and for the same reasons as compensation for loss of managing agency commission, but even so some hard cases are likely to arise which will need special treatment in the application of this rule. Compensation for loss of office may be made in any of the following forms:—

(i) damages awarded by a court for the employer's repudiation of service agreement or for wrongful discharge or dismissal;

(ii) amount agreed upon between the employer and the employee for the latter's going out of employment as a result of differences of opinion or due to other circumstances;

(iii) provision made in the contract itself that compensation would be awarded in case the employee is asked to quit service.

10. We would recommend that compensation of the nature referred to at (i) above should not be taxed. The justification for this exception is that such compensation is not necessarily related to the remuneration of the employee, and is more in the nature of an *ad hoc*

replacement of the source of income of the employee that is destroyed by his dismissal or discharge. We would suggest that receipts relating to the other two forms of 'compensation for loss of employment' should be spread backward over an appropriate number of years, the period depending on the nature of the agreement or the contract to which they pertain.

Casual and non-recurring receipts

11. Another test which the courts have laid down for distinguishing taxable income is that it should be received with regularity or expected regularity. Economists also attach considerable importance to this characteristic of income, but the present income-tax law departs from it in one respect. Casual and non-recurring receipts, which arise from business or from the exercise of a profession, vocation or occupation or by way of addition to the remuneration of an employee have been specifically made taxable. It is thus possible for isolated receipts falling in the above categories to be subjected to tax provided certain conditions are satisfied. The courts have usually relied upon the following criteria for this purpose:—

(1) the character of the articles purchased and sold; whether they are of such a nature as would be held as investments, because they give pride of possession or for other reasons, or whether they have been bought only for disposal;

(2) the ordinary occupation of the tax-payer;

(3) the processes to which the articles are subjected and the methods of their disposal;

(4) the number of operations—whether the sale is effected in lump, or over a series of transactions;

(5) the period occupied; and

(6) the nature of the organisation employed for the disposal of the goods.

12. Opinion is divided on the question of the taxability of casual receipts. It has been argued by some witnesses that regularity or expected regularity should be the proper test for the taxation of a receipt. Any departure from this concept would bring to charge items of a capital nature such as accretions to the capital value of a security or shares the sale of which may constitute only an isolated transaction. It is further contended that if this is not possible, a time-test should be evolved under which a receipt of this type accruing to an assessee other than a dealer should be brought to charge only if the asset had been in possession of the person concerned for more than three months. On the other hand, a section of the witnesses is in favour of the abolition of even the present exemption in favour of casual receipts. These witnesses suggest that all types of casual receipts, whether arising out of business, etc., or otherwise, should be charged to tax. It is argued that such receipts add to disposable income and increase the ability to pay. It is inequitable that they should be exempt when the rates of tax are as high as at present.

13. We think that there is a great deal to be said for the latter view, but practical considerations would seem to rule out any modification of the present law. We are impressed by the difficulty of selecting the types of receipts to be taxed and, even more, of defining

them or the criteria applicable for their selection in terms which will be sufficiently precise to elude attempts at legal avoidance. It would also not be equitable to bring them to charge in the year of accrual; they will have to be either spread over a number of years or charged at a lower rate. The likelihood of receipts taxable at normal rates being passed off as casual receipts chargeable at lower rates cannot be overlooked. It would also not be easy to determine admissible expenses relating to receipts of this type.

14. We are, therefore, of the view that the present provision, which is working satisfactorily, should not be disturbed. We do not think that the suggestion regarding a distinction based on short-term and long-term gains is appropriate to income-tax law. It is more relevant to the taxation of capital gains which we have not recommended for the reasons stated in paragraphs 56 and 57 of Chapter VIII of Volume I of our Report.

15. We would, however, recommend that certain types of casual receipts, which are obviously an addition to one's ability to pay, should be charged to tax at a flat rate but this should be done through a separate tax levied under item 97 of the Union Legislative List in the Seventh Schedule to the Constitution of India. We have in mind receipts from the winning of cross-word puzzles, lotteries, etc.

Perquisites

16. It has been ruled by the courts that a receipt, in order to be taxable, should be in money or money's worth, either actual or constructive. In actual practice, this dictum has been applied in various forms depending upon the interpretation of the terms 'money's worth' or 'constructive receipt' in the light of the facts of each case. The test is not, therefore, capable of general application, and does not afford much guidance as regards the taxation of benefits in kind or perquisites, a question that has been raised before us.

17. The present position in regard to the taxation of perquisites is that perquisites in lieu of or in addition to any salary or wages are taxable under section 7(1) of the Income-tax Act. Under explanation (1) to this section, it is only the right of a person to occupy as a place of residence any premises provided by the employer free of rent that is specifically defined as a perquisite. The trend of thought on this subject has been influenced by a leading English decision* in which it was held that the advantage acquired should be such that it could "be turned to pecuniary account". In other words, the acquired advantage should be considered equivalent to a receipt of money's worth, only if the circumstances are such that it is capable of being disposed of by the person receiving it.

18. Clause (vi) of sub-section (3) of section 4 of the Income-tax Act also lays down that any special allowance, benefit or perquisite specifically granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit will be considered non-taxable.

19. The effect of the two provisions of the law referred to above is that, except for the value of rent-free quarters, all other benefits in kind are exempt from taxation.

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*Tennant *vs.* Smith (3 Tax Cases 158).

20. Several witnesses appearing before us have questioned the wisdom of exempting from taxation perquisites or benefits received in kind. Their argument is that the enjoyment of a perquisite is in the nature of an indirect advantage in lieu of the receipt of cash. Perquisites add to the comfort and privileges of those who receive them. Not to tax them would, therefore, be a departure from the fundamental principle that the charge should be levied on the total income of a person, and that personal expenditure should be met out of disposable income. As the receipt of perquisites means increase in disposable income indirectly, it raises questions of equity as between tax-payers. The importance of this has become greater in view of the rate structure having become steeply progressive. We have, therefore, been asked to re-examine the whole question from the point of view of equity rather than of the amount of additional revenue that will be secured thereby. On the other hand, some of the witnesses have argued that perquisites assist in attracting personnel in out-of-the-way places; the additional revenue involved is inconsiderable; and taxation of perquisites will only result in harassing enquiries into the personal affairs of employees without any substantial benefit of revenue.

21. We are in broad agreement with the former view, and are in favour of the taxation of perquisites on considerations of equity rather than on the basis of the additional revenue that may be obtained. We are, however, convinced that the evaluation of perquisites received by all employees might result in harassing enquiries; hence practical considerations suggest that the number of assessees on whom this extra liability should be imposed should be limited. Accordingly, we recommend that the full value of any benefits granted to an employee by his employer and any sum paid by the employer in respect of any charge or other obligation which but for such payment would have been paid by the employee, should be treated as taxable income in the latter's assessment. For the present, however, the liability should be confined to employees whose total emoluments (including the value of the perquisites) exceed Rs. 24,000 in a year, and to directors of companies irrespective of their emoluments. The omission of a limit for emoluments in respect of directors is based on the consideration that, by virtue of their power of control over a company's affairs, they would ordinarily be able to arrange perquisites to their own advantage; their other emoluments would depend on the amount of time which they devote to the company's affairs and various other factors, and it would not be practicable to lay down a specific limit. We further recommend that the Central Board of Revenue should issue executive instructions to ensure that no attempt is made to evaluate or tax petty items.

22. We recognise that, if provisions on the lines suggested above are introduced, some assessees may resort to various ingenious devices for escaping the consequent liability. The less scrupulous among them may succeed in diverting the cost of perquisites to business deductions, and claim that the expenses have been laid out for genuine business purposes. As the State does not have the power to regulate the quantum of business expenditure, the remedy lies in a careful scrutiny by the income-tax authorities of the relevant facts. Another possible method of circumventing the provisions would be by invoking the provisions of section 4(3)(vi) and making it appear

that some of the perquisites which are a clear addition to income are intended to meet expenses wholly and necessarily incurred in the performance of the duties of office of the recipient. It will, in our opinion, be necessary to amend section 4(3) (vi) of the Income-tax Act suitably to prevent such attempts.

Other receipts

23. We discuss below some miscellaneous receipts which have been suggested to us for specific treatment. The first three receipts involve modifications in the definition of agricultural income [Section 2(1) of the Income-tax Act], which will continue to be operative until the distinction between agricultural and non-agricultural incomes disappears. We have suggested in Chapter V of Volume III that both the income should eventually be treated as one for the purposes of taxation but the change should, however, be brought about gradually.

Income from forests of non-spontaneous growth

24. 'Agricultural income' which is defined in section 2(1) of the Income-tax Act is specified as a non-taxable receipt in section 4 (3) (viii). The courts have ruled that income from forests of spontaneous growth is non-agricultural, whereas income from cultivated forests or on which some human skill and labour have been employed is agricultural. The suggestion has been made to us that both kinds of forest income should be treated as non-agricultural in view of the difficulties that are stated to exist in the matter of differentiating between cultivated forests and those which are not. While we agree that the difficulty is there, we believe that, as income from privately owned forests is now a rapidly decreasing source of revenue since the abolition of zamindaris in most States, a change in the existing law is not called for at present. The rule, as it is, seems to us to be fair enough and has worked satisfactorily. We, therefore, do not propose any amendment to the definition of agricultural income on this account.

Income from dairy farming

25. One of the tests laid down by the courts is that income from dairy farming is non-agricultural if the cattle are stall-fed but agricultural if they are pasture-fed. In practice, this test creates a distinction between different types of dairy farms based merely on the accident of their location and appears to us to be inequitable. We recommend that income from such forms of dairy farming as are undertaken as a commercial venture should be regarded as non-agricultural, and subjected to income-tax.

Income from poultry-raising

26. So far as poultry-raising is concerned, the vocation is sometimes carried on on agricultural land. It is also often an ancillary occupation to agriculture. It is, however, not an agricultural activity in the proper sense, though it may be carried on by the owner of agricultural land. We, therefore, suggest that income from poultry-raising, which is undertaken as a commercial venture, should also be brought to charge under the Indian Income-tax Act.

Income from usufructuary mortgage

27. Income from usufructuary mortgage is held by the courts to be agricultural income as legally the assessee is in possession of the land from which that income arises. We think that the question of taxability of such income should be decided irrespective of the nature of

source from which the service charges or the repayment of debt is met. The position of the assessee is fundamentally that of any one lending money, and we recommend that his income from that source should be brought to charge under the Indian Income-tax Act.

Debts foregone

28. Debts foregone are allowed as deductible expense in the assessment of a creditor under certain conditions, but they are not chargeable as income in the assessment of the debtor. Normally, the latter contingency does not arise as the debts are foregone only when the financial condition of the debtor is bad and he is hardly likely to have any taxable income. It is, however, possible in certain circumstances to take advantage of the present state of the law, to the detriment of revenue. For example, a debt may be foregone in respect of a transaction which has already been allowed as an admissible deduction in the assessment of the debtor. We think that the position needs rectification in view of a decision of the Bombay High Court*. We recommend that debts of the type referred to above, which are foregone, should be treated as income in the assessment of the debtor but we would suggest that executive instructions should be issued to prevent detailed enquiries in cases involving small sums.

Unclaimed balances

29. Similar to foregone debts are unclaimed balances in respect of which also a suggestion has been made to us that the amount of expenses which was allowed as a deduction on the mercantile basis, but was not actually paid, should on the expiry of three years be treated as taxable income. This would cover such items as wages which became due and were debited in the accounts, but were not claimed by the employees concerned. This suggestion strikes us as reasonable, and we recommend that provision should be made accordingly.

Suggestions for exclusion of certain items of receipts

30. We now proceed to consider suggestions which have been made to us for excluding from tax certain receipts which are now treated as taxable.

Surrender of managing agency commission

31. One of the grievances brought to our notice relates to the tax treatment of that part of the managing agency commission, which is surrendered by the managing agents, in order to rehabilitate the financially weak position of a managed company. It is argued that a mere legal right to something should not mean the actual exercise of such a right. It is further stated that it is an obvious hardship that the surrendered commission should be brought to charge in the assessment of the managing agents, and that, at the same time, it should not be taken into consideration for the purposes of admissible deduction in the assessment of the managed company.

32. The rationale of this method of treatment of the surrendered commission is that it constitutes an amount that has become due if the accounts are maintained on the mercantile basis. As such, its further disposition, howsoever laudable the object, is in the nature of an application of income after it has been earned. These rules are based on a long line of judicial decisions and embody, in our opinion, a salutary principle. We are aware that a departure was

*Orient Corporation *vs.* C. I. T. (1950 I. T. R. 28.)

made from this position by enacting the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1950. We suggest that it should not form a precedent for the future.

33. The inadmissibility of the amount surrendered is also justified as the actual outgo has not been in excess of that allowed and the right to the balance has already been waived. It is, therefore, not in the nature of an outstanding liability. In our opinion, therefore, there is no case for a statutory provision of the nature suggested by business interests.

34. We are opposed to any statutory recognition to the surrender of managing agency commission for another reason also. There is a possibility of this method being used for avoiding super-tax liability in certain cases. We are hence in agreement with the procedure evolved by the Central Board of Revenue recently. It prescribes, *inter alia*, that where a public company has suffered a loss or will suffer a loss if the commission is paid, no attempt should be made to tax the surrendered amount of the commission in the assessment of the managing agents provided (a) the managing agency is held by a public company, or (b) the managing agency is held by a private company or an individual or a firm and the managing agents and their relations do not hold more than 25 per cent. of the shares of the managed company, and (c) the managed company does not claim the amount of commission as an expense in its assessment. Assessing officers have also been asked to bring other cases where special hardship is stated to exist, to the notice of the Central Board of Revenue, for final orders. These instructions appear to us to be sufficient to cover any cases of genuine hardship that may arise in this connection.

Exclusion of balancing charge

35. Another suggestion that has been made is that the excess of the sale proceeds of a depreciable asset over its written down value limited to the original cost of the asset, which is at present chargeable under section 10(2) (vii) of the Income-tax Act, should be exempt from taxation or should be suitably spread over a number of years for the purposes of taxation. We have recommended in Chapter V that this excess should not be brought to charge, but that it should operate to reduce the original cost of the new asset provided certain conditions are satisfied. We consider that this meets substantially the point made in the suggestion under consideration.

36. We recommend that similar treatment should be accorded to compensation received from an insurance company on account of the destruction or loss of a building, machinery or plant as the principle involved is the same in both cases.

Other receipts

37. The following other receipts have also been suggested for exclusion from the scope of income-tax. These suggestions have been dealt with in the appropriate context in other chapters of this volume:—

(i) foreign income of residents of India;*

(ii) annual value of owner-occupied property;†

(iii) profits of mutual life insurance business;†

*Chapter II.

†Chapter VIII.

(iv) income of charitable institutions from business activities of all types;*

(v) dividends received by a shareholder out of the capital profits of a company.†

Irregular and lump sum receipts

38. The progressive rate structure and the present pitch of the rates of tax have focussed attention on the treatment of certain types of irregular and lump sum receipts. They may represent effort over a period of time, but are charged to income-tax in the year of accrual or receipt. A heavy tax liability is thus placed on an assessee merely because of the accident of their receipt in a particular manner. It is possible that a measure of inequity might result from some taxpayers getting away with a lighter charge than others who receive the same amount of income during a given period, but the manner of accrual of which might attract a higher rate of tax.

39. There is no doubt that such differences in tax liability cannot be avoided so long as the charge is based on annual computation of income which is a fundamental principle of income-tax. The possibility of a variation of incidence among assessees following the mercantile system of accounting is less than among those following the cash system of accounting. Any attempt at adjusting such variations may result in the manipulation of the timing of the receipt of income of this type in order deliberately to reduce tax liability. These considerations, therefore, suggest the need for caution in making a selection of receipts for special treatment. This special treatment should consist, in our opinion, of such receipts being spread backwards or forwards, depending on the nature of each receipt. It is not possible to lay down a statutory criterion for this purpose. Each case should be considered on its merits in order to decide whether it should be accorded preferential treatment and the manner in and the extent to which the concession should operate.

40. We indicate in the following paragraphs the exact treatment that should be accorded to each type of such receipts, the principle being that there should be some correspondence between the period over which income is earned and the period over which it should be spread over for assessment.

Income from speculation

41. Speculation is a typical instance of a business where the risks are very much higher than in normal types of business, but a person who indulges in speculative transactions enters into them with the full knowledge that wide fluctuations in the results are to be expected in his ventures. We do not think that we can recommend any special protection to income arising from this kind of business.

Income of works contracts

42. It has been represented to us that the results of a contract as a whole can be ascertained only after the entire work is completed. In the meantime, tax is charged every year on the basis of estimated profits, and, if the final result is a loss or a profit less than what has already been assessed, hardship may result. Under the current procedure, it is understood that it is possible for the income finally computed to be spread backwards and the necessary adjustments are

*Chapter VIII.

†Chapter X.

allowed to be made provided the accounts maintained are accepted as reliable. We do not think that any further concession is necessary, or that it should be embodied in the statute, as we are satisfied that the condition regarding the reliability of accounts is essential and this can be enforced only by treating each case on its merits.

Income of film producers, etc.

43. It has been represented to us that the production of a picture usually takes more than a year, but the payment is received by the producer in a lump sum and is brought to charge in the year of its accrual or receipt. It is stated that this causes hardship and that the receipt should be distributed suitably over the period it has taken to produce a picture. The extent of the hardship involved will largely depend on the manner in which the business of production is organised. If the assessee has a regular business of production, his income is likely to even out over a period of years and no particular hardship would be caused. However, we appreciate that if a single picture is produced by an assessee and it takes him a number of years to do so, there will be hardship in bringing to charge the sale proceeds in the year of accrual or receipt. We understand that a considerable proportion of producers are single-picture producers. We, therefore, recommend that if the production of a picture takes more than eighteen months the sale proceeds may be spread backwards over a period of two years.

44. The distributors have represented that the amortisation of the payment made by them to the producers has no relation, under the procedure in force at present, to the actual life of the picture. The system in force is that 60 per cent. of the total cost is written off in the first year after the picture is released, 25 per cent. during the second year and 15 per cent. during the third year. The whole value of the picture is amortised during a period of 36 months. The Film Enquiry Committee, which considered this question from the technical angle, suggested that the cost of the picture should be spread over a period of 24 months as given below:—

1st	four	months	.	.	.	.	.	.	10	per	cent. per month.
2nd	,,	,,	.	.	.	.	.	.	6	,,	,, ,, ,,
3rd	,,	,,	.	.	.	.	.	.	3	,,	,, ,, ,,
4th	,,	,,	.	.	.	.	.	.	2	,,	,, ,, ,,
5th	,,	,,	.	.	.	.	.	.	2	,,	,, ,, ,,
6th	,,	,,	.	.	.	.	.	.	2	,,	,, ,, ,,

45. Alternatively, they suggested a system of provisional assessment being made of the profits earned, subject to these being adjusted after a period of two years on the basis of actual receipts. We prefer the former method, as the latter involves difficulties in its practical working and might possibly involve loss of revenue. We agree to the schedule suggested by the Film Enquiry Committee for the amortisation of the payment made by the distributors to the producers.

Income of actors and cinema artistes

46. Preferential treatment has been claimed for the income of actors and cinema artistes, on the ground that their working life is relatively short, and that during this period they have to lay by sufficient savings for a future period of unemployment or under-employment.

We are unable to accept the suggestion that the length of normal working life should be treated as an appropriate criterion for distinguishing their incomes from those of other professional people, and therefore see no reason to recommend any special treatment to them.

Interest on long-term cash certificates issued by banks

47. Certain banks issue cash certificates redeemable at the end of a specified period. The interest on the certificates is payable at the end of the period and it is understood that it is charged to tax in the year of receipt. We recommend that this is a deserving case in which interest should be allowed to be spread backwards over the period for which cash certificate is issued or for a period not exceeding four years, whichever is less. There should, however, be a stipulation that only persons who do not hold cash certificates of a value more than Rs. 25,000 should be eligible for this concession.

Income from nidhis and chit funds

48. 'Nidhis' and 'chit funds', which are forms of institutions mostly confined to South India, provide lump sum payments in return for periodical payments spread over a number of years. The subscribers to these funds belong mostly to the lower income brackets, and may normally pay income-tax at very low rates, or none at all. The receipt of such incomes in a particular year may make the recipient taxable or may unduly increase his rate of tax. As these funds furnish a method of encouraging small savings, we recommend that interest received from the funds should be suitably spread backwards over a period of three to five years at the maximum.

Accumulated preference dividends

49. The suggestion has been made that, where cumulative preference dividends for two or more years are paid together in one year, income from the dividends should be spread backwards over the years to which they relate. Income from such dividends is by its very nature fluctuating, dependent on the profits of a company and the discretion of the directors in timing the declaration of dividends. The investor is well aware of this at the time he purchases shares. There is, therefore, no case for giving preferential treatment in respect of income from these dividends.