

**[Expenditure on scientific research.]**

**35.** (1) In respect of expenditure on scientific research, the following deductions shall be allowed—

(i) any expenditure (not being in the nature of capital expenditure) laid out or expended on scientific research related to the business.

[*Explanation.*—Where any such expenditure has been laid out or expended before the commencement of the business (not being expenditure laid out or expended before the 1st day of April, 1973) on payment of any salary [as defined in *Explanation 2* below subsection (5) of section 40A] to an employee engaged in such scientific research or on the purchase of materials used in such scientific research, the aggregate of the expenditure so laid out or expended within the three years immediately preceding the commencement of the business shall, to the extent it is certified by the prescribed authority to have been laid out or expended on such scientific research, be deemed to have been laid out or expended in the previous year in which the business is commenced ;]

(ii) [an amount equal to [one and three-fourth] times of any sum paid] to 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 :

[**Provided** that such association, university, college or other institution for the purposes of this clause—

(A) is for the time being approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed; and

(B) such association, university, college or other institution is specified as such, by notification in the Official Gazette, by the Central Government;]

[(iii) an amount equal to one and one-fourth times of any sum paid to a company to be used by it for scientific research:

**Provided** that such company—

(A) is registered in India,

(B) has as its main object the scientific research and development,

(C) is, for the purposes of this clause, for the time being approved by the prescribed authority in the prescribed manner, and

(D) fulfils such other conditions as may be prescribed;]

[ (iii) [an amount equal to one and one-fourth times of [any sum paid to 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 :

[**Provided** that [such association, university], college or other institution for the purposes of this clause—

(A) is for the time being approved, in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed; and

(B) [such association, university], college or other institution is specified as such, by notification in the Official Gazette, by the Central Government.]

[*Explanation.*—The deduction, to which the assessee is entitled in respect of any sum paid to a [research association], university, college or other institution to which clause (ii) or clause (iii) applies, shall not be denied merely on the ground that, subsequent to the payment of such sum by the assessee, the approval granted to the association, university, college or other institution referred to in clause (ii) or clause (iii) has been withdrawn;]

(iv) in respect of any expenditure of a capital nature on scientific research related to the business carried on by the assessee, such deduction as may be admissible under the provisions of sub-section (2) :

**Provided** that the [research association], university, college or other institution referred to in clause (ii) or clause (iii) shall make an application in the prescribed form and manner to the [Central Government] for the purpose of grant of approval, or continuance thereof, under clause (ii) or, as the case may be, clause (iii) :

**Provided further** that the [Central Government] may, before granting approval under clause (ii) or clause (iii), call for such documents (including audited annual accounts) or information from the [research association], university, college or other institution as it thinks necessary in order to satisfy itself about the genuineness of the activities of the [research association], university, college or other institution and that [Government] may also make such inquiries as it may deem necessary in this behalf :

**Provided also** that any [notification issued, by the Central Government under clause (ii) or clause (iii), before the date on which the Taxation Laws (Amendment) Bill, 2006 receives the assent of the President, shall, at any one time, have effect for such assessment year or years, not exceeding three assessment years] (including an assessment year or years commencing before the date on which such notification is issued) as may be specified in the notification:]

**Provided also** that where an application under the first proviso is made on or after the date on which the Taxation Laws (Amendment) Bill, 2006 receives the assent of the President, every notification under clause (ii) or clause (iii) shall be issued or an order rejecting the application shall be passed within the period of twelve months from the end of the month in which such application was received by the Central Government.]

(2) For the purposes of clause (iv) of sub-section (1),—

[(i) in a case where such capital expenditure is incurred before the 1st day of April, 1967, one-fifth of the capital expenditure incurred in any previous year shall be deducted for that previous year; and the balance of the expenditure shall be deducted in equal instalments for each of the four immediately succeeding previous years ;

(ia) in a case where such capital expenditure is incurred after the 31st day of March, 1967, the whole of such capital expenditure incurred in any previous year shall be deducted for that previous year :]

**Provided** that no deduction shall be admissible under this clause in respect of any expenditure incurred on the acquisition of any land, whether the land is acquired as such or as part of any property, after the 29th day of February, 1984.]

[*Explanation 1*].—Where any capital expenditure has been incurred before the commencement of the business, the aggregate of the expenditure so incurred within the three years

immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced.

[*Explanation 2.*—For the purposes of this clause,—

- (a) “land” includes any interest in land ; and
- (b) the acquisition of any land shall be deemed to have been made by the assessee on the date on which the instrument of transfer of such land to him has been registered under the Registration Act, 1908 (16 of 1908), or where he has taken or retained the possession of such land or any part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882 (4 of 1882), the date on which he has so taken or retained possession of such land or part ;]
- (ii) notwithstanding anything contained in clause (i), where an asset representing expenditure of a capital nature [incurred before the 1st day of April, 1967,] ceases to be used in a previous year for scientific research related to the business and the value of the asset at the time of the cessation, together with the aggregate of deductions already allowed under clause (i) falls short of the said expenditure, then—
  - (a) there shall be allowed a deduction for that previous year of an amount equal to such deficiency, and
  - (b) no deduction shall be allowed under that clause for that previous year or for any subsequent previous year ;
  - (iii) if the asset mentioned in clause (ii) is sold, without having been used for other purposes, in the year of cessation, the sale price shall be taken to be the value of the asset at the time of the cessation ; and if the asset is sold, without having been used for other purposes, in a previous year subsequent to the year of cessation, and the sale price falls short of the value of the asset taken into account at the time of cessation, an amount equal to the deficiency shall be allowed as a deduction for the previous year in which the sale took place ;
  - (iv) where a deduction is allowed for any previous year under this section in respect of expenditure represented wholly or partly by an asset, no deduction shall be allowed under [clause (ii) of sub-section (1)] of section 32 for the same [or any other] previous year in respect of that asset ;
  - (v) where the asset [mentioned in clause (ii)] is used in the business after it ceases to be used for scientific research related to that business, depreciation shall be admissible under [clause (ii) of sub-section (1)] of section 32.

[(2A) Where [, before the 1st day of March, 1984,] the assessee pays any sum [(being any sum paid with a specific direction that the sum shall not be used for the acquisition of any land or building or construction of any building)] to a scientific research association or university or college or other institution referred to in clause (ii) of sub-section (1) [or to a public sector company] to be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority having regard to the social, economic and industrial needs of India, then,—

- (a) there shall be allowed a deduction of a sum equal to one and one-third times the sum so paid ; and
- (b) no deduction in respect of such sum shall be allowed under clause (ii) of sub-section (1) for the same or any other assessment year.]

[*Explanation.*—For the purposes of this sub-section, “public sector company” shall have the same meaning as in clause (b) of the *Explanation* below sub-section (2B) of section 32A.]

[(2AA) Where the assessee pays any sum to a National Laboratory [or a [University or an Indian Institute of Technology or a specified person] with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority, then—

- (a) there shall be allowed a deduction of a sum equal to [two] times the sum so paid ; and
- (b) no deduction in respect of such sum shall be allowed under any other provision of this Act :

[**Provided** that the prescribed authority shall, before granting approval, satisfy itself about the feasibility of carrying out the scientific research and shall submit its report to the <sup>1</sup>[Principal Chief Commissioner or Chief Commissioner] or [*Principal Director General or*] Director General in such form as may be prescribed.]

[*Explanation 1.*—The deduction, to which the assessee is entitled in respect of any sum paid to a National Laboratory, University, Indian Institute of Technology or a specified person for the approved programme referred to in this sub-section, shall not be denied merely on the ground that, subsequent to the payment of such sum by the assessee, the approval granted to,—

- (a) such Laboratory, or specified person has been withdrawn; or
- (b) the programme, undertaken by the National Laboratory, University, Indian Institute of Technology or specified person, has been withdrawn.]

[*Explanation [2].*—For the purposes of this section,—

- (a) “National Laboratory” means a scientific laboratory functioning at the national level under the aegis of the Indian Council of Agricultural Research, the Indian Council of Medical Research, the Council of Scientific and Industrial Research, the Defence Research and Development Organisation, the Department of Electronics, the Department of Bio-Technology or the Department of Atomic Energy and which is approved as a National Laboratory by the prescribed authority in such manner as may be prescribed ;
- (b) “University” shall have the same meaning as in *Explanation* to clause (ix) of section 47 ;
- (c) “Indian Institute of Technology” shall have the same meaning as that of “Institute” in clause (g) of section 3 of the Institutes of Technology Act, 1961 (59 of 1961)];
- [(d) “specified person” means such person as is approved by the prescribed authority.]

[(2AB)(1) Where a company engaged in the business of [bio-technology or in [any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule]] incurs any expenditure on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility as approved by the prescribed authority, then, there shall be allowed a deduction of [a sum equal to [two] times of the expenditure] so incurred.

[*Explanation.*—For the purposes of this clause, “expenditure on scientific research”, in relation to drugs and pharmaceuticals, shall include expenditure incurred on clinical drug trial, obtaining approval from any regulatory authority under any Central, State or Provincial Act and filing an application for a patent under the Patents Act, 1970 (39 of 1970).]

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<sup>1</sup> Inserted with effect from April 1, 2016

(2) No deduction shall be allowed in respect of the expenditure mentioned in clause (1) under any other provision of this Act.

(3) No company shall be entitled for deduction under clause (1) unless it enters into an agreement with the prescribed authority for co-operation in such research and development facility and <sup>2</sup>[fulfils such conditions with regard to maintenance of accounts and audit thereof and furnishing of reports in such manner as may be prescribed.]

(4) The prescribed authority shall submit its report in relation to the approval of the said facility to the <sup>3</sup>[Principal Chief Commissioner or Chief Commissioner] or [*Principal Director General or*] Director General in such form and within such time as may be prescribed.]

[(5) No deduction shall be allowed in respect of the expenditure referred to in clause (1) which is incurred after the 31st day of March, [2017].

[(6) No deduction shall be allowed to a company approved under sub-clause (C) of clause (ia) of sub-section (1) in respect of the expenditure referred to in clause (1) which is incurred after the 31st day of March, 2008.]

[(2B)(a) Where [, before the 1st day of March, 1984,] an assessee has incurred any expenditure (not being in the nature of capital expenditure incurred on the acquisition of any land or building or construction of any building) on scientific research undertaken under a programme approved in this behalf by the prescribed authority having regard to the social, economic and industrial needs of India, he shall, subject to the provisions of this sub-section, be allowed a deduction of a sum equal to one and one-fourth times the amount of the expenditure certified by the prescribed authority to have been so incurred during the previous year.

(b) Where a deduction has been allowed under clause (a) for any previous year in respect of any expenditure, no deduction in respect of such expenditure shall be allowed under clause (i) of sub-section (1) or clause (ia) of sub-section (2) for the same or any other previous year.

(c) Where a deduction is allowed for any previous year under this sub-section in respect of expenditure represented wholly or partly by an asset, no deduction shall be allowed in respect of that asset under [clause (ii) of sub-section (1)] of section 32 for the same or any subsequent previous year.

(d) Any deduction made under this sub-section in respect of any expenditure on scientific research in excess of the expenditure actually incurred shall be deemed to have been wrongly made for the purposes of this Act if the assessee fails to furnish within one year of the period allowed by the prescribed authority for completion of the programme, a certificate of its completion obtained from that authority, and the provisions of sub-section (5B) of section 155 shall apply accordingly.]

[(3) If any question arises under this section as to whether, and if so, to what extent, any activity constitutes or constituted, or any asset is or was being used for, scientific research, the Board shall refer the question to—

(a) the Central Government, when such question relates to any activity under clauses (ii) and (iii) of sub-section (1), and its decision shall be final;

(b) the prescribed authority, when such question relates to any activity other than the activity specified in clause (a), whose decision shall be final.]

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<sup>2</sup> Substituted with effect from April 1, 2016

<sup>3</sup> Inserted with effect from April 1, 2016

(4) The provisions of sub-section (2) of section 32 shall apply in relation to deductions allowable under clause (iv) of sub-section (1) as they apply in relation to deductions allowable in respect of depreciation.

[(5) Where, in a scheme of amalgamation, the amalgamating company sells or otherwise transfers to the amalgamated company (being an Indian company) any asset representing expenditure of a capital nature on scientific research,—

(i) the amalgamating company shall not be allowed the deduction under clause (ii) or clause (iii) of sub-section (2); and

(ii) the provisions of this section shall, as far as may be, apply to the amalgamated company as they would have applied to the amalga-mating company if the latter had not so sold or otherwise transferred the asset.]]