CHAPTER 7
PGBP

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

Particular	Amount
Opening WDV of plant and machinery as on 1.4.2021	30,00,000
New plant and machinery purchased and put to use on 08.06.2021	20,00,000
New plant and machinery acquired and put to use on 15.12.2021	8,00,000
Computer acquired and installed in the office premises on 2.1.2022	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income-tax Act, 1961 for A.Y. 2022-23. Assume that all the assets were purchased by way of account payee cheque.

Solution

Computation of depreciation and additional depreciation for A.Y. 2022-23

Particulars	Plant and machinery (15%)	Computer (40%)
Written down value as on 1.4.2021	30,00,000	
Add: Plant & Machinery purchased on 08.6.2021	20,00,000	
Add: Plant & Machinery acquired on 15.12.2021	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2022	**58,00,000**	**3,00,000**
Normal depreciation		
@ 15% on INR 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@ 7.5% (50% of 15%, since put to use for less than 180 days) on 8,00,000	60,000	-
@ 20% (50% of 40%, since put to use for less than 180 days) on 3,00,000	-	60,000
Additional Depreciation		
@ 20% on 20,00,000 (new machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on 8,00,000	80,000	-
Total depreciation	**12,90,000**	**60,000**

Notes:

1. Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

   Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2020 and computer acquired and installed on 02.01.2022, is restricted to 50% of 15% and 40%, respectively.

   The additional depreciation on the said plant and machinery is restricted to INR 80,000, being 10% (i.e., 50% of 20%) of INR 8 lakhs.

2. The balance additional depreciation of INR 80,000 being 50% of INR 1,60,000 (20% of INR 8,00,000) would be allowed as deduction in the A.Y. 2023-24.

3. Additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house. Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Concept Problem 2

A car purchased by Dr. Soman on 10.08.2018 for INR 5,25,000 for personal use is brought into professional use on 01.07.2021 by him, when its market value was INR 2,50,000. Compute the actual cost of the car and the amount of depreciation for the AY 2022-23 assuming the rate of depreciation to be 15%.

Solution

As per section 43(1), the expression "Actual Cost" would mean the actual cost of asset to the Assessee. The purchase price of INR 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e., INR 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the AY 2021-22 would be INR 78,750, being INR 5,25,000 x 15%.

Note: The provision regarding reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

Concept Problem 3

A newly qualified Chartered Accountant Mr. Dhaval commenced practice and has acquired the following assets in his office during FY 2021-22 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2022-23. Assume that all the assets were purchased by way of account payee cheque.

S. No	Description	Date of acquisition	Date when put to use	Amount
1.	Computer including computer software	27 Sept, 2021	1 Oct, 2021	35,000
	Computer UPS	2 Oct, 2021	8 Oct, 2021	8,500
2.	Computer printer	1 Oct, 2021	1 Oct, 2021	12,500
3.	Books (of which books being annual publication are of INR 12,000)	1 Apr, 2021	1 Apr, 2021	13,000
4.	Office furniture (Acquired from practicing C.A)	1 Apr, 2021	1 Apr, 2021	3,00,000
5.	Laptop	26 Sept, 2021	8 Oct, 2021	43,000
6.	Fire extinguisher	1 Apr, 2021	1 Apr, 2022 (No instance arose to use during FY 2021-22)	2,500
7.	Purchased practicing CA's office in April' 2020 who had run it for 4 years, for INR 5 lacs which includes INR 2 lacs for goodwill and INR 3 lacs for cost of furniture (included in 4 above)			

Solution

Computation of depreciation allowable for A.Y.2022-23

Block of Assets		Amount
Block 1: Furniture –rate 10%	3,00,000 *10%	30,000

Block of Assets		**Amount**
Block 2: Computer– rate 40%		
Computer including software (put to use for 180 days or more)	35000 x 40% = 14,000	
Computer UPS (put to use for less than 180 days)	8500 x 20% = 1,700	
Computer printer (put to use for 180 days or more)	12500 x 40% = 5,000	
Laptop (put to use for less than 180 days)	43000 x 20% = 8,600	29,300
Block 3: Books - Rate 40%	13,000 x 40%	5,200
Block 4: Plant –Rate 15%		
Fire extinguisher	Nil	
Total Depreciation		**1,14,500**

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate.

In this case, since Mr. Dhaval commenced his practice in the P.Y. 2021-22 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Note: No depreciation allowed on goodwill.

Concept Problem 4

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2021. The manufacturing unit was set up on 1.5.2021. He commenced his manufacturing operations on 1.6.2021. The total cost of the plant and machinery installed in the unit is INR 120 crore. The said plant and machinery included second hand plant and machinery bought for INR 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of INR 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2022-23. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has not opted for the provisions of section 115BAC.

Solution

Computation of depreciation allowable for the A.Y. 2022-23 in the hands of Gamma Ltd.

Particulars	**Amount (INR in crore)**	
Total cost of plant and machinery	120	
Less: used for scientific research {Note 1}	15	
	105	
Normal depreciation at 15% on INR 105 crore		15.75
Additional depreciation:		
Cost of plant and machinery	120	
Less: Second hand plant and machinery (Note 2)	20	
Less: Plant and machinery used for scientific research the whole of the actual cost of which is allowable deduction under section 35(2)(ia) (Note 2)	15	
	85	
Additional depreciation at 20%		17

Particulars	Amount (INR in crore)	
Depreciation allowable for A.Y 2021-22		**32.75**

Notes:

1. As per section 35(2)(iv), no deprecation shall be allowed in respect of plant and machinery purchased for scientific research relating to Assessee business since 100% deduction is allowable under section 35 in respect of such capital expenditure
2. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an Assessee engaged in the business of manufacture or production of any article or things at the rate of 20% of the actual cost of such machinery or plant.
3. Thus, additional depreciation cannot be claimed in respect of second-hand plant and machinery.

Concept Problem 5

Mr. A, furnishes the following particulars for the P.Y.2021-22. Compute the deduction allowable under section 35 for A.Y.2022-23, while computing his income under the head "Profits and gains of business or profession".

	Particulars	Amount
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
	a) Revenue expenditure on scientific research	3,00,000
	b) Capital expenditure (including cost of acquisition of land INR 5,00,000) on scientific research	7,50,000

Solution

Computation of deduction under section 35 for the A.Y.2022-23

Particulars	Amount	Section	% of deduction	Amount of deduction
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land INR 5,00,000)	2,50,000	35(1)(iv)	100%	2,50,000
Deduction allowable under section 35				**13,00,000**

Note: Only company Assessee are entitled to deduction @ 100% under section 35(2AB) in respect of in-house research and development expenditure incurred. However, in this case, the assessee is an individual.

Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Concept Problem 6

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food gains, sugar and edible oil on 01.04.2021. He incurred capital expenditure of INR 80 lakh, INR 60 lakh and INR 50 lakh respectively on purchase of land and building during the period January, 2021 to March 2021 exclusively for the above businesses and capitalized the same in its books of account as on 1st April 2021.

The costs of land included in the above figures are INR 50 lakhs, INR 40 lakhs, and INR 30 lakhs respectively. Further, during the PY 2021-22, it incurred capital expenditure of INR 20 lakhs, INR 15 lakhs and INR 10 lakhs respectively for extension and reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head Profit and Gains from Business or Profession for the AY 2022-23 and the loss to be carried forward assuming that Mr. Ram has fulfilled all the conditions specified for claim of deduction under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes.

The profit from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32 for the AY 2022-23 is INR 16 lakhs, INR 14 lakhs and INR 31 lakhs respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Solution

Computation of profits and gains of business or profession for A.Y.2022-23

Particulars	Amount (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32 10% of INR 30 lakh, being (INR 50 lakh – INR 30 lakh + INR 10 lakh)	3
Income chargeable under "Profits and gains from business or profession"	**28**

Computation of income/loss from specified business under section 35AD

Particulars		Food Grains	Sugar	Total
		INR (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021 (excluding the expenditure incurred on acquisition of land) = 30 lakh (80 lakh – 50 lakh) and 20 lakhs (60 lakh – 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y. 2021-22	20	15	35
(D)	**Total capital expenditure (B + C)**	**50**	**35**	**85**
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/sugar)	50	35	85

	Total deduction u/s 35AD for A.Y.2022-23	**50**	**35**	**85**
(F)	**Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)**	**(34)**	**(21)**	**(55)**

Notes:

i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2022-23 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.

However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

ii) Mr. A can, however, claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2021-22.

iii) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of INR 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of INR 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Concept Problem 7

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2021. He incurred capital expenditure of INR 50 lakhs during the period January, 2021 to March, 2021 exclusively for the above business and capitalized the same in his books of account as on 1st April, 2021. Further, during the P.Y. 2021-22, he incurred capital expenditure of INR 2 crore (out of which INR 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2022-23, assuming that he has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes".

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y. 2022-23 is INR 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations ten years back, the profits from which are INR 120 lakhs for the A.Y. 2022-23. Also, assume that payments for capital expenditure were made by net banking.

Solution

Computation of profits and gains of business or profession for A.Y. 2022-23

Particulars	Amount (L)	Amount (L)
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)		25
Less: Deduction under section 35AD		
Capital expenditure incurred during the P.Y. 2021-22 (excluding the expenditure incurred on acquisition of land) = [200 lakhs – 150 lakhs]	50	
Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021	50	
Total deduction under section 35AD for A.Y. 2022-23		**100**

Particulars	Amount (L)	Amount (L)
Loss from the specified business of new hotel in Madurai		**(75)**
Profit from the existing business of running a hotel in Coimbatore		120
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		**45**

Concept Problem 8

Arnav is a company having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar, Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2020 and it claimed deductions of INR 100 lacs incurred on purchase of two buildings for INR 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y. 2021-22. However, in February 2022, unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Arnav.

Solution

Since the capital asset in respect of which deduction of INR 50 lacs was claimed under section 35AD has been transferred by unit A carrying on specified business to unit B carrying on non-specified business in the P.Y. 2021-22, the deeming provision under section 35AD(7B) is attracted during the A.Y. 2022-23.

Particulars	Amount
Deduction allowed under section 35AD for A.Y. 2021-22	50,00,000
Less: depreciation allowable u/s 32 for A.Y. 2021-22 [10% of INR 50 lacs]	5,00,000
Deemed income under section 35AD (7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y. 2022-23. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Amount
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2021-22 [10% of INR 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	**45,00,000**

Concept Problem 9

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregates to INR 10 lakhs. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Solution

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	Amount
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	**14,00,000**
Actual contribution (20% of basic salary i.e., 20% of INR 10 lakh)	2,00,000

Particulars	Amount
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of INR 14,00,000 = INR 1,40,000)	**1,40,000**
Excess contribution disallowed under section 40A(9)	**60,000**

Concept Problem 10

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2022 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2021-22, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

S. No	Particulars	Amount
1.	Salary to its employees (credited and paid in March, 2022)	12,00,000
2.	Directors' remuneration (credited in March, 2022 and paid in April, 2022)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2022 at the time of payment and remitted the same in July, 2022?

Solution

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source would attract disallowance @ 30% under section 40(a)(ia).

In case of salary, tax has to be deducted under section 192 at the time of payment and incase of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.

Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2021-22, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y. 2022-23 is as follows:

S. No	Particulars	Amount paid	Disallowed u/s 40(a)(ia) @ 30%
1.	Salary [Tax is deductible undersection 192]	12,00,000	3,60,000
2.	Director's remuneration [Tax is deductible u/s 194J]	28,000	8,400
Disallowance under section 40(a)(ia)			**3,68,400**

If the tax is deducted on directors' remuneration in the next year i.e., P.Y. 2022-23 at the time of payment and remitted to the Government, the amount of INR 8,400 would be allowed as deduction while computing the business income of A.Y. 2023-24.

Concept Problem 11

During the financial year 2021-22, the following payments/expenditures were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2021 was INR 99 lacs):

a. Interest of INR 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

b. INR 10,00,000 was paid as salary to a resident individual without deduction oftax at source;

c. Commission of INR 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2021 without deduction of tax at source.

Briefly discuss whether any disallowance arises under section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Solution

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2020-21 exceeds INR 1 crore. Thus, in present case, since the turnover of the assessee is less than INR 1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable u/s 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source u/s 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed INR 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of INR 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2020-21 exceeds INR 1 crore.

Thus, in present case, since the turnover of the assessee is less than INR 1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed INR 50 lakh during the P.Y. 2021-22. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Concept Problem 12

A firm has paid INR 7,50,000 as remuneration to its partners for the P.Y.2021-22, in accordance with its partnership deed, and it has a book profit of INR 10 lakh. What is the remuneration allowable as deduction?

Solution

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	Amount
On first INR 3 lakh of book profit [INR 3,00,000 × 90%]	2,70,000
On balance INR 7 lakh of book profit [INR 7,00,000 × 60%]	4,20,000
	6,90,000

The excess amount of INR 60,000 (i.e., 7,50,000 –6,90,000) would be disallowed as per section 40(b)(v).

Concept Problem 13

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of INR 7,00,000 before deduction of the following items:

i) Salary of INR 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

ii) Depreciation on plant and machinery under section 32 (computed) INR 1,50,000.

iii) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest INR 5,00,000.

Compute:

i) Book-profit of the firm under section 40(b) of the Income-tax Act,1961.

ii) Allowable working partner salary for the assessment year 2022-23 as per section 40(b).

Solution

i) Computation of Book Profit of the firm under section 40(b)

Particulars	Amount	Amount
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Less: Interest @ 12% p.a. [the maximum allowable U/S 40(b)] (5,00,000 × 12%)	60,000	2,10,000
Book Profit		**4,90,000**

Salary actually paid to working partners = INR 20,000×2×12 = INR 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits

On the first 3,00,000 of book profit or in case of loss	1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2022-23 in this case would be:

Particulars	Amount
On the first INR 3,00,000 of book profit [Higher of (INR 1,50,000 or 90% of INR 3,00,000)]	2,70,000
On the balance of book profit [60% of (INR 4,90,000 – INR 3,00,000)]	1,14,000
Maximum allowable partner's salary	**3,84,000**

Hence, allowable working partners' salary for the AY 2022-23 u/s 40(b)(v) is INR 3,84,000.

Concept Problem 14

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

Particulars	Amount
Andhra Pradesh State Financial Corporation (P.Y. 2020-21 & 2021-22)	15,00,000
Indian Bank (P.Y. 2021-22)	30,00,000
	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2021-22, converted the above interest payable by Hari to them as a loan repayable in 60 equal instalments. During the year ended 31.3.2022, Hari paid 5 instalments to APSFC and 3 instalments to Indian Bank

Hari claimed the entire interest of INR 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not, what is the amount of interest, if any, allowable.

Solution

According to section 43B, any interest payable on the loans to specified financial institutions or scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the Assessee.

Where there is default in the payment of interest by the Assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be considered as payment of interest for the purpose of section 43B.

The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of INR 15,00,000 due to APSFC and of INR 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion.

Hence, claim of Hari that the entire interest of INR 45,00,000 is to be allowed as deduction in the year of conversion is not tenable/valid. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2022-23 shall be calculated as follows:

	Interest outstanding	Number of instalments	Amount per instalment	Instalments paid	Interest allowable
APSFC	15 Lakhs	60	25,000	5	1,25,000
Indian Bank	30 Lakhs	60	50,000	3	1,50,000
Total amount eligible for deduction					**2.75,000**

Concept Problem 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Financial year 2018-19	1,15,000
Financial year 2019-20	1,80,000
Financial year 2020-21	2,10,000

What is his obligation regarding maintenance of books of accounts for AY 2022-23 u/s 44AA of Income-tax Act?

Solution

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded INR 1,50,000; or

ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed INR 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded INR 1,50,000 in financial year 2018-19, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Concept Problem 16

Mr. Praveen engaged in retail trade, reports a turnover of INR 1,98,50,000 for the financial year 2021-22. His income from the said business as per books of account is computed at INR 13,20,000. Retail trade is the only source of income for Mr. Praveen. A.Y. 2021-22 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2022-23?

ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.

iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

iv) What is the due date for filing his return of income under both the options?

Solution

i) Yes. Since his total turnover for the F.Y.2021-22 is below INR 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be INR 15,88,000, being 8% of INR 1,98,50,000.

iii) Mr. Praveen had declared profit for the previous year 2020-21 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2022-23 to A.Y. 2026-27, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he does not opt for presumptive taxation in say P.Y. 2021-22 relevant to A.Y.2022-23, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2023-24 to A.Y. 2027-28.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

iv) In case he opts for the presumptive taxation scheme u/s 44AD, the due date would be 31st July, 2022

In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2022.

Concept Problem 17

Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during the P.Y.2021-22. Compute his income under section 44AE for A.Y. 2022-23.

S. No	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022

Would your answer change if the goods vehicles purchased in April, 2021 were put to use only in July, 2021?

Solution

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2021-22, he is eligible to opt for presumptive taxation scheme under section 44AE. INR 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and INR 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)

Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2021	8	16
1	23.02.2022	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2021	12	24
1	15.3.2022	1	1
3	16.7.2021	9	27
1	2.1.2022	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y. 2022-23 would be -

INR 6,82,500, i.e., 55 × INR 7,500, being for other than heavy goods vehicle + 18 x INR 1,000 x 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2021 were put to use only in July, 2021, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Concept Problem 18

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2022:

Particular	Amount (in lakhs)
WDV of Plant and Machinery on 31.3.2021	30
Depreciation including additional depreciation for P.Y. 2020-21	4.75
New machinery purchased on 1-9-2021	10
New machinery purchased on 1-12-2021	8
Computer purchased on 3-1-2022	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2021 and computer have been installed in the office.
- During the year ended 31-3-2021, a new machinery had been purchased on 31-10-2020, for INR 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the Assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2022. Assume that he does not opt for section 115BAC.

Solution

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2022

Particulars	Plant &	Computer

	machinery (INR in lacs)	(INR in lacs)
Opening written down value (as on 31.03.2021)	**30**	**Nil**
Less: Depreciation inc. additionaldepreciation for P.Y. 2020-21	4.75	
Opening balance as on 1.4.2021	25.25	
Add: Actual cost of new assets acquired during the year		
➢ New machinery purchased on 1.9.2021	10	-
➢ New machinery purchased on 1.12.2021	8	-
➢ Computer purchased on 3.1.2022	-	4
	43.25	4
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Closing Written Down Value (as on 31.03.2022)	**43.25**	**4**

Computation of Depreciation for A.Y. 2022-23

S. No	Particular	Plant & machinery (lakhs)	Computer (lakhs)
1.	**Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal Depreciation		
	Opening WDV of plant and machinery (INR 25.25 lacs x 15%)	3.79	-
	New Machinery purchased on 1.9.2021 (INR 10 lacs x 15%)	1.50	-
	(A)	**5.29**	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2021 (INR 10 lacs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2020 and put to use for Less than 180 days in the P.Y. 2020-21 (INR 10 lakhs)	1.00	
	(B)	**3.00**	
2.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation**		
	Normal Depreciation		
	New machinery purchased on 1.12.2021 [8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2022 [INR 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	**0.60**	**0.80**
	Total Depreciation (A+B+C)	**8.89**	**0.80**

Notes:

1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an Assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

   However, additional depreciation shall not be allowed in respect of, inter alia, –

   i) Any office appliances or road transport vehicles;

ii) Any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

i) Car purchased on 1.12.2021; and

ii) Computer purchased on 3.1.2022, installed in office.

2) As per third proviso to section 32(1)(ii), balance 50% of additional depreciation on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year

Hence, in this case, the balance additional depreciation @ 10% (i.e., 1 lakhs, being 10% of 10 lakhs) in respect of new machinery which had been purchased during the previous year 2020-21 and put to use for less than 180 days in that year can be claimed in P.Y. 2021-22 being immediately succeeding previous year.

Concept Problem 19

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2022-23, assumingthat he does not opt for section 115BAC:

Particulars	Amount (In Lacs)
WDV of block as on 31.3.2021 (15% rate)	50
Depreciation for P.Y. 2020-21	7.50
New machinery purchased on 12.10.2021	10
Machinery imported from Colombo on 12.4.2021. This machine had been used only in Colombo earlier and the Assessee is the first user in India.	9
New computer installed in generation wing of the unit on 15-7-2021	2

All assets were purchased by A/c payee cheque.

Solution

Computation of depreciation under section 32 for A.Y. 2022-23

Particulars	Amount	Amount
Depreciation @ 15% on 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2021 of 50,00,000 – Depreciation for P.Y. 2020-21 of 7,50,000 + Purchase cost of imported machinery of 9,00,000]	7,72,500	
Depreciation @ 7.5% on 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation @ 40% on computers purchased INR 2,00,000	80,000	**9,27,500**
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of INR 10,00,000 [being actual cost of new machinery purchased on 12-10-2021]	1,00,000	
Additional Depreciation @ 20% on new computer installed in generation wing of the unit [20% of INR 2,00,000]	40,000	**1,40,000**
Depreciation on Plant and Machinery		**10,67,500**

Note:

The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an Assessee engaged, inter alia, in the business of generation or generation and distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing of the unit is eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 12.10.2021, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2022-23. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the Assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the Assessee.

Concept Problem 20

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2022:

Particulars	Amount	Particulars	Amount
To Opening stock	90,000	By sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		
	1,13,97,600		**1,13,97,600**
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		**3,06,000**

Additional Information:

i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	INR 9,000
Closing stock	INR 18,000

ii) Salary includes INR 10,000 paid to his brother, which is unreasonable to the extent of INR 2,000.

iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

iv) The depreciation provided in the Profit and Loss Account INR 1,05,000 was based on the following information:

The opening balance of plant and machinery(i.e., the written down value as on 31.3.2021 minus depreciation for P.Y. 2020-21) is INR 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2021 for INR 70,000. Two old plants were sold on 1.10.2021 for INR 50,000.

v) Rent and rates includes GST liability of INR 3,400 paid on 7.4.2022.

vi) Other general expenses include INR 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act assuming he has not opted for the provisions of section 115BAC. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Solution

Computation of business income of Mr. Sivam for the A.Y. 2022-23

Particulars	Amount	Amount
Net profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [section 40A(2)]	2,000	
Printing and stationary whole amount of printing & stationary paid in cash would be disallowed since such amount exceeds INR 10,000 [section 40A (3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		
Under valuation of opening stock	9,000	
Income from UTI **[Chargeable under the head"Income from Other Sources]**	2,400	11,400
Business income before depreciation		**1,96,900**
Less: Depreciation (see note 1)		66,000
PGBP		**1,30,900**

Computation of business income as per section 44AD

As per section 44AD, where the amount of turnover is received by way of account payee cheque or use of electronic clearing system through bank, the presumptive business income would be 6% of turnover i.e., INR 1,12,11,500 x 6/100 = INR 6,72,690

The business income under section 44AD is INR 6,72,690

Notes:

i) **Calculation of depreciation**

Particulars	Amount
Opening balance of plant & machinery as on 1.4.2021 (i.e.WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	4,20,000
Add: Cost of new plant and machinery	70,000
	4,90,000
Less: sale proceeds of assets sold	50,000
WDV of the block of plant and machinery as on 31.3.2022	**4,40,000**
Depreciation @ 15%	**66,000**

Particulars	Amount
No additional deprecation is allowable as the Assessee is not engaged in manufacture or production of any article	

ii) Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible u/s 43B

Concept Problem 21

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2021, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle of such goods is 15,000 kg each). On 2nd May, 2021, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2021. This new vehicle could however be put to use only on 15th June, 2021.

Compute the total income of Mr. Sukhvinder for the assessment year 2022-23, taking note of the following data:

Particulars	Amount	Amount
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Less: Depreciation as per section 32	1,85,000	
Less: Other office expenses	15,000	8,25,000
Net Profit		**4,45,000**
Other business and non- business income		**70,000**

Solution

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such Assessees on a presumptive basis. The income shall be deemed to be INR 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and INR 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the Assessee in the previous year or such higher sum as declared by the Assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is INR 13,72,500 (See Notes 1 & 2 below) and his total income would be INR 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be INR 4,45,000 instead of INR 13,72,500 and his total income would be INR 5,15,000.

Notes:

Computation of total income of Mr. Sukhvinder for A.Y.2022-23

Particulars	Presumptive income	Where books are maintained
Income from business of plying goods carriages **[Note 2 Below]**	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	**14,42,500**	**5,15,000**

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per	Ton	Amount (INR)

		month/ per month		
(1)	**(2)**		**(3)**	**(4)**
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				**13,72,500**

Concept Problem 22

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2022:

Particulars	Amount	Particulars	Amount
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		**2,34,00,000**
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To State GST penalty	5,000	By Dividend from domestic companies	15,000
To State GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		**12,55,000**

Following are the further information relating to the financial year 2020-21:

i) Administrative charges include INR 46,000 paid as commission to brother of the Assessee. The commission amount at the market rate is INR 36,000.

ii) The Assessee paid INR 33,000 in cash to a transport carrier on 29.12.2021. This amount is included in manufacturing expenses (Assume that the provisions relating to TDS are not applicable to this payment.)

iii) A sum of INR 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.

iv) Bank term loan interest actually paid upto 31.03.2022 was INR 20,000 and the balance was paid in November 2022.

v) Housing loan principal repaid during the year was INR 50,000 and it relates to residential property occupied by him in PY 2020-21 for self-occupation. Interest on housing loan was INR 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Amount
Opening WDV (as on 31.03.2021)	14,00,0000
Less: Depreciation for P.Y. 2020-21	2,10,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation under section 32(1)(iia)	

Compute the total income of Mr. Raju for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Solution

Computation of total income of Mr. Raju for the A.Y 2022-23

Particulars	Amount	Amount
Net profits as per profit and loss account		5,00,000
Add: excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance u/s 40A(3) is not attracted since the limit for one-time cash payment is INR 35,000 in respect of payment to transport operators. Therefore, amount of INR 33,000 paid in cash to a transport carrier is allowable deduction	Nil	
Salary paid to staff not recorded in the books (assuming that the expenditure is in the nature of unexplained expenditure and hence is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See note 1]	48,000	
Bank term loan interest paid after the due date of filling of return under section 139(1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [see Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	3,03,000
		8,03,000
Less: dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	15,000	
Income from agricultural [exempt under section 10(1)]	1,80,000	
Depreciation under the income tax act 1961 (as per working note)	2,23,500	4,18,500
Income uth PGBP		**3,84,500**
Income from house property		
Annual value of self-occupied property	Nil	
Less: deduction under section 24(b) – internet on housing loan	23,000	(23,000)
Income from Other Source		
Dividend from domestic companies		15,000
Gross total income		**3,76,500**
Less: deduction u/s 80C in respect of Principal repayment of housing loan		50,000

Particulars	Amount	Amount
Total income		**3,26,500**

Working note:

Computation of depreciation under the Income tax Act 1961

Particulars	Amount
Depreciation @ 15% on INR 14 lakh (WDV as on 31.3.2021 of INR 14 lakh less Depreciation for P.Y. 2020-21 of 2.10 lakh plus assets purchased during the year and used for more than 180 days 2 lakh))	2,08,500
Depreciation @ 7.5% on INR 2 lakh (cost of assets used for less than 180 days)	15,000
	2,23,500

Notes (Alternate views):

1) It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the Assessee has offered satisfactory explanation for the same. In such a case the same should not be added back as unexplained expenditure but would be allowable as deduction while computing profits and gains of business and profession.

2) Where the imposition of penalty is not for delay in payment of GST but for contravention of provisions of the GST, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

   Since the question only mentions state 'GST penalty paid' and the reason for levy of penalty is not given it has been assumed that the levy is not compensatory and therefore, not deductible. It is however possible to assume that such levy is compensatory in nature and hence allowable as deduction. In such a case the total income would be INR 3,21,500.

2. ICAI RTPs, MTPs and Past Year Questions

Concept Problem 23

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2021, he had the following vehicles

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2021-22
A	8,500	2-4-2020	Yes
B	13,000	15-5-2020	Yes
C	12,000	4-8-2020	No (as under repairs)

During P.Y. 2021-22, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11,000	30-4-2021	10-5-2021
E	15,000	15-5-2021	18-5-2021

Compute his income under section 44AE of the Income-tax Act,1961 for A.Y. 2022-23.

Solution

Since Mr. Prakash does not own more than 10 vehicles at any time during the previous year 2021-22, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, INR 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and INR 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount
(1)	**(2)**	**(3)**	**(4)**	**(5) [(2)x(3)x(4)]**
Heavy goods vehicle				
Vehicle B (13,000 kgs) held throughout the year	12	1,000	13 (13,000/1,000)	1,56,000
Vehicle E (15,000 kgs) purchased on 15.5.2021	11	1,000	15 (15,000/1,000)	1,65,000
Goods vehicles other than heavy goods vehicle		**Rate per month**		
Vehicle A held throughout the year	12	7,500	-	90,000
Vehicle C held throughout the year	12	7,500	-	90,000
Vehicle D purchased on 30.4.2021	12	7,500	-	90,000
			Total	**5,91,000**

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Prakash.

Concept Problem 24

Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2021. The following machineries (falling under 15% block) purchased by him during the PY 2021-22.

	Particulars	Amount (INR in lakhs)
(i)	Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2021, 25th July 2021 and 1st August 2021, respectively). Payment is made on 15th April 2022 to Sahaj Limited by net banking.	58
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2021). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2021 (The payment for the purchase invoice was made through NEFT on 5th January, 2022)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the AY 2022-23.

Solution

Computation of depreciation under section 32 for A.Y. 2022-23

Particulars	Amount	Amount

Particulars	Amount	Amount
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @ 15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2021 [Since payment of INR 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		NIL
Second hand Machinery M from Sunshine Ltd on 18.12.2021 assuming it is installed and put to use in P.Y. 2021-22. [Since payment is made to Sunshine Ltd by way of use of ECS]		15,00,000
Actual Cost		**73,00,000**
Depreciation for P.Y. 2021-22		
Depreciation @ 15% on Machineries X, Y and Z on INR 58 lakhs	8,70,000	
Depreciation @ 7.5% (50% of 15%) on INR 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	
	9,82,500	
Additional Depreciation @ 20% on INR 58 lakhs	11,60,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2022-23	**21,42,500**	

Concept Problem 25

Mr. Ram has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2022.

Particulars	Amount
(i) Payments made to K Research Ltd.	20
(ii) Payment made to LMN College	15
(iii) Payment made to OPQ College	10
(iv) Payment made to National Laboratory	8
(v) Machinery purchased for in-house scientific research	25
(vi) Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 for arriving at the business income of the Assessee.

Note: K Research Ltd. and LMN College are approved research institutions.

Solution

Computation of deduction u/s 35

Particulars	Amount	% of weighted deduction	Amount of deduction
Payment for scientific research			
K Research Ltd.	20	100%	20
LMN College	15	100%	15
OPQ College	10	Nil	Nil

Particulars	**Amount**	**% of weighted deduction**	**Amount of deduction**
National Laboratory	8	100%	8
In-house research			
Capital expenditure	25	100%	25
Revenue expenditure	12	100%	12
Deduction allowable under section 35			**80**

Notes:

1. **Payment to OPQ College:** Since the note in the question below item (vi) clearly mentions that only K Research Ltd. and LMN College (mentioned in item (i) and (ii), respectively) are approved research institutions, it is a logical conclusion that OPQ College mentioned in item (iii) is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction under section 35.

2. **Deduction for in-house research and development:** Only Company Assessees are entitled to weighted deduction@200% under section 35(2AB) in respect of in-house research and development expenditure incurred.

   However, in this case, the Assessee is an individual. Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

3. **Payment to K Research Ltd.:** Any sum paid to a company registered in India which has as its main object scientific research, as is approved by the prescribed authority, qualifies for a weighted deduction of 100% under section 35(1)(iia).

4. **Payment to National Laboratory:** The percentage of weighted deduction under section 35(2AA) in respect of amount paid to National Laboratory with specific direction for usage in scientific research is 100%.

Concept Problem 26

Honest Industry furnishes you the following details pertaining to the financial year 2021-22:

Description	**Plant & Machinery**	**Building**	**Patents**
Rate of depreciation	15%	10%	25%
Opening balance as on 01-04-2021	14,50,000	25,00,000	15,00,000
Acquired before 30-09-2021	12,00,000	Nil	5,00,000
Acquired after 01-12-2021	4,00,000	18,00,000	Nil
Transferred in March 2022, one of the patents held for the past 2 years	-	-	3,00,000

A machinery which was acquired in July 2021 at original cost of INR 1,50,000 was destroyed by fire and the Assessee received compensation of INR 50,000 from the insurance company. Newly acquired building given above includes value of land of INR 3,00,000. Calculate the eligible depreciation claim for the AY 2022-23.

Note: Ignore additional/accelerated depreciation.

Solution

Computation of depreciation allowable to Honest Industry for the A.Y. 2022-23:

Description	**Plant & Machinery**	**Building**	**Patents**	**Total**

Rate of depreciation	15%	10%	25%	
Opening Balance as on 1.04.2021	14,50,000	25,00,000	15,00,000	
Add: Assets acquired during the year	16,00,000	15,00,000	5,00,000	
Less: Moneys payable in respect of asset sold or destroyed	50,000	-	3,00,000	
W.D.V as on 31.03.2022	**30,00,000**	**40,00,000**	**17,00,000**	
Asset held for less than 180 days	4,00,000	15,00,000	-	
Depreciation @ 50% of applicable rate	30,000	75,000	-	1,05,000
Asset held for more than 180 days	26,00,000	25,00,000	17,00,000	
Depreciation at the applicable Rates	3,90,000	2,50,000	4,25,000	10,65,000
Total Depreciation allowable				**11,70,000**

Note:

Land is not a depreciable asset. Therefore, INR 3 lacs, being the value of land, has been reduced from INR 18 lacs, being the value of building acquired during the year, for the purpose of computing depreciation.

Concept Problem 27

Mr. Kunal, a proprietor, engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2021-22. Compute the depreciation allowable under section 32 for A.Y. 2022-23, while computing his income under the head "Profits and Gains of Business or Profession". The proprietor has opted for the depreciation allowance on the basis of written down value.

S. No	Particulars	Amount
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2021 (Purchase value INR 8,00,000)	5,78,000
2.	Purchase of second-hand machinery (15% block) on 29.12.2021 for business purpose	2,00,000
3.	Purchase of machinery Y (15% block) on 12.07.2021 for business purpose	8,00,000
4.	Acquired and installed for use a new air pollution control equipment on 31.7.2021	2,50,000
5.	New air conditioner purchased and installed in office premises on 8.9.2021	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2021 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year (Purchase value INR 4,80,000, WDV as on 01.04.2021 INR 3,46,800)	3,10,000

Solution

Computation of depreciation allowance under section 32 for the A.Y. 2022-23

Particulars	Amount	Plant and machinery (15%)	Plant and machinery (40%)
Opening WDV as on 01.04.2021		5,78,000	-
Add: Plant and Machinery acquired during the year			
- Second hand machinery		2,00,000	
- Machinery Y		8,00,000	
- Air conditioner for office		3,00,000	
- Machinery Z		3,25,000	
- Air pollution control equipment		-	2,50,000

		22,03,000	**2,50,000**
Less: Asset sold during the year		3,10,000	NIL
Written down value before charging depreciation		**18,93,000**	**2,50,000**
Normal depreciation			
40% on air pollution control equipment (INR 2,50,000 x 40%)		-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days @ 7.5% (i.e., 50% of 15%)			
- Second hand machinery (INR 2,00,000 × 7.5%)	15,000		
- Machinery Z (INR 3,25,000 × 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (INR 13,68,000 × 15%)		2,05,200	
Additional depreciation			
- Machinery Y (INR 8,00,000 × 20%)	1,60,000		
- Machinery Z (INR 3,25,000 × 10%, being 50% of 20%)	32,500		
- Air pollution control equipment (INR 2,50,000 × 20%)	-	1,92,500	50,000
Total depreciation		**4,37,075**	**1,50,000**

Notes:

1. Power generation equipment qualifies for claiming additional depreciation in respect of new plant and machinery.
2. Additional depreciation is not allowed in respect of second-hand machinery.
3. No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
4. The balance 50%additional depreciation in respect of Machinery Z of INR 32,500 (10% x INR 3,25000) can be claimed as deduction in subsequent financial year i.e., F.Y. 2022-23.

Concept Problem 28

Tax Ltd. is a power generating unit and the company has purchased one plant and machinery on 01.07.2018 for INR 20 lakhs (not eligible for additional depreciation) and it was put to use on 01.11.2018 and rate of depreciation is 7.8%.

In this case depreciation allowed shall be

PY 2018-19 20,00,000 x 7.8% x 1/2 = INR 78,000

PY 2019-20 20,00,000 x 7.8% = INR 1,56,000

PY 2020-21 20,00,000 x 7.8% = INR 1,56,000

If this plant is sold on 01.10.2021

a. For INR 7,00,000.
b. For INR 19,00,000.
c. For INR 23,00,000.

The tax treatment shall be as given below:

a. Written down value of the asset as on 01.04.2021 is INR 16,10,000 but it was sold for INR 7,00,000. In this case, terminal depreciation is 7,00,000 - 16,10,000 = INR 9,10,000 and it will be allowed to be debited to profit loss account.
b. If the assets are sold for INR 19,00,000 there will be profit of 19,00,000 - 16,10,000 = INR 2,90,000 and it

will be called "balancing charge" under section 41 (2) and shall be considered to be deemed income under the head Business/ Profession.

c. There will be gain of 23,00,000 - 16,10,000 = INR 6,90,000. There will be balancing charge to the extent depreciation has been debited i.e. 3,90,000 and balance amount i.e. INR 3,00,000 shall be short term capital gain as per section 50A.

Concept Problem 29

Raju Ltd set up a manufacture unit in notified backward area in the state in the state of Telangana on 01.06.2021. It invested INR 90 Crore in New Plant and Machinery on 01.06.2021. Further, it invested INR 75 Crore in the plant and machinery on 01.11.2021, out of which INR 15 crores was second hand plant and Machinery.

Compute the depreciation allowable u/s 32 for PY 2021-22.

Solution

Computation of Depreciation and Additional Depreciation u/s 32 for PY 2021-22

Particulars	Amount in crores
Plant and machinery (acquired on 01.06.2021)	90
Plant and machinery (acquired on 01.11.2021)	75
WDV as on 31.03.2022	**165**
Less:	
(i) Normal Depreciation @ 15% u/s 32	
On 90 crores (90 x 15%); Usage period >=180 days	13.5
On amount (75 x 15% x 50%); Usage period <180 days	5.63
(ii) Additional Depreciation @ 20%	
On 90 Crores (90 x 20%); Usage period >180 days	18
On 60 Crores (60 x 20% x 50); Usage period <180 days	6
WDV as 01.04.2022	**121.87**

Depreciation for PY 2021-22 = 19.13

Additional Depreciation for PY 2021-22 = 24

Note

i) Plant & Machinery put to use for less than 180 days is eligible for 50% Depreciation only. Balance 50% of Additional Depreciation will be available in the subsequent Assessment year.

ii) Additional Depreciation shall not be allowed in respect of Second-Hand Machinery.

Concept Problem 30

N Textiles Ltd, purchased machinery from Germany for Euro 1,00,000 on 3.09.2020 through a term loan from Fortune Bank Ltd. The exchange rate on the date of acquisition was INR 65 per Euro. The Assessee took a forward exchange rate on 05.10.2021 when the rate specified in the contract was INR 67 per Euro.

Compute depreciation for the assessment years 2021-22 and 2022-23. Ignore additional depreciation and assume normal depreciation @ 15%.

Solution

Computation of depreciation for the assessment years 2021-22 and 2022-23

Particulars	Amount
Assessment year 2021-22	

Particulars	Amount
Cost of the asset [1,00,000 x 65]	65,00,000
Less: Depreciation @ 15%	9,75,000
WDV as on 01.04.2021	**55,25,000**
Add: Exchange rare difference u/s 43A [1,00,000 x 2]	2,00,000
WDV as on 31.3.2022	**57,25,000**
Depreciation @ 15%	8,58,750
WDV as 01.04.2022	**48,66,250**

Particulars	Amount
Depreciation for AY 2021-22	9,75,000
Depreciation for AY 2022-23	8,58,750

Concept Problem 31

Mr. Ram purchased a residential building on 01.12.2019 for INR 12,00,000 and it was put to use on the same date. Till 01.12.2021, the same was self-occupied as residence. On this date, the building was brought into use for the purpose of his medical profession (it was used as residential building).

What would be the depreciation allowable for the Assessment year 2022-23?

Solution

In this case, notional depreciation shall be allowed as per explanation No. 5 to section 43(1) and depreciation allowable for the Assessment Year 2022-23 shall be computed in the manner given below:

Particulars	Amount
Cost of building as on December 1st, 2019	12,00,000
Less: depreciation for the previous year 2019-20 (2.5% of 12,00,000)	-30,000
(As building purchased during PY 2019-20 is put to use for less than 180 days during year)	
Written down value as on 01.04.2020	**11,70,000**
Less: depreciation for previous year 2020-21 @ 5%	-58,500
Written down value as on 01.04.2021	**11,11,500**
Depreciation for the previous year 2021-22 @ 5%	**55,575**

Concept Problem 32

Tax Ltd, an Indian Company, has incurred expenditure before commencement of business as under:

- Expenditure on advertisement INR 3 Lakhs.
- Expenditure in preparation of project report and the report was prepared by a concern which is approved by the Board INR 85,000.
- Expenditure in connection with travelling and stay in hotels INR 45,000.
- Expenditure on drafting and printing of memorandum and articles INR 4 Lakhs.

All the above expenses have been debited to the profit and loss account and the Company has computed income to be INR 7 Lakhs. The Company has commenced its business on 01.06.2021.

Company's project cost is INR 50 Lakhs and capital employed is INR 57 Lakhs.

Compute the tax liability for AY 2022-23.

Solution

Particulars	Amount
Net profit as per profit and loss account	7,00,000
Add	
Expenditure on advertisement	3,00,000
Expenditure in connection with travelling and stay in hotels	45,000
Excessive expenditure under section 35D **(Note)**	4,28,000
Income under the head business and profession	**14,73,000**
Gross Total income	**14,73,000**
Less: Deductions	Nil
Total income	**14,73,000**
Working Note	
Particulars	**Amount**
Eligible expenditure u/s 35D	
Expenditure on preparation of project report	85,000
Expenditure on drafting and printing of memorandum and articles	4,00,000
Total	**4,85,000**
Expenditure allowed u/s 35D cannot exceed 5% of capital employed (57,00,000*5%)	**2,85,000**
Installment allowed (285,000/5)	**57,000**
Expenditure disallowed (485,000 - 57,000)	**(428,000)**

Concept Problem 33

X Ltd. made the following payments to one of its employees on account of voluntary retirement

Previous year	Amount
2020-21	3,00,000
2021-22	5,00,000

Show how deduction u/s 35 DDA shall be claimed in different assessment years.

Solution

Computation of deduction u/s 35 DDA

AY 2021-22	AY 2022-23	AY 2023-24	AY 2024-25	AY 2025-26	AY 2026-27
60,000	60,000	60,000	60,000	60,000	-
	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000
60,000	**1,60,000**	**1,60,000**	**1,60,000**	**1,60,000**	**1,00,000**

Concept Problem 34

Tax Ltd. has computed its income to be INR 20,00,000 and some of the entries noted from profit and loss account are as given below:

a) Company has debited the amount of opening stock INR 33,00,000 which is overvalued by 10%

b) Company has received duty drawbacks of INR 7,00,000 but the amount has not been credited to the profit and loss account.

c) The company has received import entitlement license from the Government and it was sold it at a profit of INR 3,00,000. The amount has not been credited to the profit and loss amount.

d) Interest expenses of INR 50,000 was debited in the books out of which INR 12,000 was payable outside India on which tax was not deducted at source; INR 15,000 was payable to a resident on which no tax was deducted.

e) Drawings INR 50,000.

f) Stipend paid to articled assistants INR 40,000 and incentive to articled assistant for clearing CA Final exams in first attempt INR 10,000.

g) Rental expense of the building in which office is located in INR 25,000 per annum. 20% of the building is used for residence of the Assessee.

h) INR 1,40,000 was incurred in relation to repairs and maintenance of building which includes INR 1,00,000 being cost of raising a compound wall for the own business premises.

Compute the taxable income of Tax Ltd.

Solution

Particulars	Amount
Net Profit as per profit and loss account	20,00,000
Add: Opening stock overvalued (33,00,000/110*10)	3,00,000
Add: Duty drawback received	7,00,000
Add: Sale of import entitlement license	3,00,000
Add: Interest payable to a Non- Resident without deduction of tax	12,000
Add: Interest payable to a Resident without deduction of tax (15,000 x 30%)	4,500
Add: Drawings (being a personal expense)	50,000
Add: Proportionate rent of the building used for personal expense disallowed	5,000
Add: Capital expenditure on raising a compound wall	1,00,000
Less: Depreciation on compound wall (1,00,000 x 10%) (assuming more than 180 days of use)	10,000
Income under the head Business/Profession	**34,61,500**
Gross Total Income	**34,61,500**
Less: Deduction u/s 80C to 80U	Nil
Total Income	**34,61,500**

Concept Problem 35

X, Y and Z are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm for PY 2021-22 is as given below:

Particulars	Amount	Particulars	Amount
Purchases	90,00,000	Sales	102,00,000
Salary and bonus to partners X Y Z	 3,00,000 2,50,000 1,50,000	Discount	10,000
Municipal tax payable	30,000	Interest from Indian company	60,000
General expenses	1,00,000	Interest on drawings	10,000
Expenditure on technical know-how	40,000	Income tax refund	5,000

Particulars	**Amount**	**Particulars**	**Amount**
(purchased and put to use on 01.01.2022)			
Advance Income Tax	70,000		
Expenses on GST proceedings	10,000		
Expenses on income tax proceedings	8,000		
Advertisements	50,000		
Interest on capital to partners @ 13% p.a. X Y Z	 65,000 39,000 26,000		
Rent of building owned by partnership firm	1,20,000		
Net Profit	27,000		
Total	**102,85,000**		**102,85,000**

Additional information:

1. The partnership firm has complied with all the conditions of section 184.
2. Salary to the partners is allowed as per partnership deed and interest is allowed @ 10% p.a.
3. Capital contributed by Mr. X is INR 5,00,000; by Mr. Y is INR 3,00,000 and by Mr. Z is INR 2,00,000.
4. The partnership firm has brought forward business loss for AY 2018-19 amounting to INR 1,00,000.
5. Municipal tax was paid on 01.11.2022.

Personal incomes of partners:

a) Mr. X has income from house property INR 5,00,000 and amount invested in NSC INR 80,000.

b) Mr. Y has income from house property INR 2,00,000 and amount invested in NSC INR 1,00,000.

c) Mr. Z has loss from house property INR 2,00,000.

Compute tax liability of the partnership firm and also that of its partners for the Assessment Year 2022-23.

Solution

Income under the head Business Profession	**Amount**
Net Profit as per profit and loss account	27,000
Add:	
Salary and bonus to partners	
X INR 3,00,000	
Y INR 2,50,000	
Z INR 1,50,000	7,00,000
Municipal tax payable (sec 43B)	30,000
Technical Know-how	40,000
Income tax (Sec 40(a))	70,000
Interest on capital	
X (65,000 x 3/13)	15,000
Y (39,000 x 3/13)	9,000
Z (26,000 x 3/13)	6,000

Income under the head Business Profession	Amount
Rent of own building (Sec 30)	1,20,000
Less:	
Depreciation on technical Know-how (40,000 x 25% x ½)	-5,000
Interest from Indian company	-60,000
Income tax refund	-5,000
Book Profit	**9,47,000**
Salary and bonus allowed to partners	
X (6,58,200 x 3/7)	-2,82,085.71
Y (6,58,200 x 2.5/7)	-2,35,071.43
Z (6,58,200 x 1.5/7)	-1,41,042.86
Income under the head business/profession	**2,88,800**
Less: Brought forward business loss	-1,00,000
Income under the head Business/Profession	**1,88,800**

Income under the head Other Sources	Amount
Interest from Indian Company	60,000
Income under the head Other Sources	**60,000**

Computation of Total Income

Particulars	Amount
Income under the head Business/Profession	1,88,800
Income under the head Other Sources	60,000
Gross Total Income	**2,48,800**
Less: Deductions u/s 80C to 80U	Nil
Total Income	**2,48,800**

Working note

Computation of remuneration allowed to partners
3,00,000 x 90% = INR 2,70,000
6,47,000 x 60% = INR 3,88,200
Total remuneration = INR 6,58,200
Salary allowed to partners maximum to INR 6,58,200

Computation of Tax Payable	Amount
Tax on INR 2,48,800 @ 30%	74,640
Add: Health and education cess @ 4%	2,985.6
Tax Liability	**77,625.6**
Less: Income tax paid	-70,000
Tax Payable	**7,625.6**
Rounded off u/s 288B	**7,630**

Computation of total Income and Tax Liability of Mr. X	Amount

Computation of total Income and Tax Liability of Mr. X	Amount
Salary from partnership firm	2,82,085.71
Interest from partnership firm	50,000
Income under the head Business/profession	**3,32,085.71**
Income from house property	5,00,000
Gross Total Income	**8,32,085.71**
Less: Deduction u/s 80C {National Saving Certificate}	-80,000
Total Income (rounded off u/s 288A)	**7,52,090**
Tax on INR 7,52,090 at slab rate	62,918
Add: Health and education cess @ 4%	2,516.72
Tax Liability	**65,434.72**
Rounded off u/s 288B	**65,430**

Computation of Total Income and Tax Liability of Mr. Y	Amount
Salary from partnership firm	2,35,071.43
Interest from partnership firm	30,000
Income under the head business/profession	**2,65,071.43**
Income from house property	2,00,000
Gross Total Income	**4,65,071.43**
Less: Deduction u/s 80C {National Saving Certificate}	-1,00,000
Total Income (Rounded off u/s 288A)	**3,65,070**
Tax on INR 3,65,070 at slab rate	5,754
Rebate u/s 87A	5,754
Tax Liability	**Nil**

Computation of total income and tax liability of Mr. Z	Amount
Salary from partnership firm	1,41,042.86
Interest from partnership firm	20,000
Income under the head Business/Profession	**1,61,042.86**
Loss from house property	-2,00,000
Net house property loss carry forward	**-38,957.14**

Concept Problem 36

Assume due date of filing of Return of Income for PY 2021-22 is 31.07.2022.

Financial Year	Expenditure	Payment	Allowability [FY]
2021-22	Municipal Tax	24.06.2022	
2021-22	GST	01.10.2022	
2021-22	Entertainment Tax	01.04.2023	
2021-22	Interest to Bank	28.04.2023	
2021-22	Rent	20.04.2023	
2021-22	Advertisement expense	20.04.2024	

Solution

Financial Year	Expenditure	Payment	Allowability (PY)	Remarks
2021-22	Municipal Tax	24.06.2022	2021-22	
2021-22	GST	01.10.2022	2022-23	
2021-22	Entertainment Tax	01.04.2023	2023-24	
2021-22	Interest to Bank	28.04.2023	2023-24	
2021-22	Rent	20.04.2023	2021-22	43B is not applicable
2021-22	Advertisement expense	20.04.2024	2021-22	43B is not applicable.

Concept Problem 37

Mr. Ram is an Advocate in the Delhi High Court and he keeps his books of account on cash basis and his receipt and payment a/c for the year 2021-22 is as given below:

Receipts	Amount	Payments	Amount
Balance b/f	4,50,000	Rent of building in the use of profession	2,20,000
Legal consultancy fee	9,20,000	Office expenses	30,000
Interest on units of UTI	12,000	New computer purchased on 01.11.2021 and put to use on the same date	35,000
Remuneration from Delhi University for setting one paper for LLB exams	4,000	Computer purchased on 10.11.2021 and put to use the same date	25,000
Honorarium for delivering lectures as guest speaker	3,000	Motor car purchased on 01.12.2021 and put to use on the same date	4,00,000
Sales proceeds of an old computer with w.d.v as on 01.04.2021 INR 2,300	7,000	Legal books purchased on 01.01.2022 and put to use on the same date.	9,000
Sale proceeds of one house which was purchased on 01.04.2020 for INR 6,70,000	9,80,000	Income tax paid being advance tax under section 207 to 219	12,000
		Subscription to Bar Association	3,000
		Deposit in public provident fund in the name of major son	12,000
		Balance carried forward	16,30,000
	23,76,000		**23,76,000**

Compute his income tax liability for AY 2022-23. Assume that the provisions of section 115BAC is not applicable.

Solution

Computation of income under the head Business/Profession of Mr. Ram for AY 2022-23.

Particulars	Amount
Legal consultancy fees	9,20,000
Less:	
Rent of building	-2,20,000
Office expenses	-30,000
Depreciation on computer **(WN)**	-11,060

Particulars	Amount
Depreciation on car **(4,00,000*7.5%)**	-30,000
Depreciation on books **(9,000*20%)**	-1,800
Subscription to bar association	-3,000
Income under the head Business/Profession	**6,24,140**
Working Note:	
Computer – w.d.v.	2,300
New compute purchase and put to use on 01.11.2021	35,000
Compute purchase and put to use on 10.11.2021	25,000
Sale of computer	(7,000)
Balance	**55,300**
Depreciation @ 20%	**11,060**

Computation of income under the head Capital Gains on sale of house

Particulars	Amount
Full Value of Consideration	9,80,000
Less: Cost of acquisition	(6,70,000)
Income under the head Capital Gains (STCG)	**3,10,000**

Computation of income under the head Other Sources

Particulars	Amount
Remuneration from Delhi University	4,000
Honorarium for delivering lectures	3,000
Interest from UTI	12,000
Income under the head Other Sources	**19,000**

Computation of Total Income

Particulars	Amount
Income under the head Business/Profession	6,24,140
Income under the head Capital Gains (STCG)	3,10,000
Income under the head Other Sources	19,000
Gross Total Income	**9,53,140**
Less: Deduction u/s 80C	(12,000)
Total Income	**9,41,140**

Computation of Tax Liability

Particulars	Amount
Tax on INR 9,41,140 at slab rate	1,00,728
Add: Health and education cess @ 4%	4029
Tax Liability	**1,04,757**
Less: Advance tax payable	12,000
Tax Payable	**92,757**

Rounded off u/s 288B	**92,760**

Concept Problem 38

Mr. Ram submits his profit & loss account for year ending 31st March, 2022.

Particulars	Amount
Computed net profit after debiting the following amounts to	87,000
Provision for doubtful debts	16,000
Depreciation reserve	21,000
Household expenses	20,000
Donation to poor persons	10,000
Other charitable donations	20,000
Cash payment for purchases	80,000

Additional Information

a) Advertisement expenses INR 5,000 spent on a neon sign board purchased and put to use on 01.07.2021 and advertisement gifts to 100 customers at a cost of INR 100 each.

b) Audit fee charged INR 5,000 including expenses on income tax assessment INR 3,000.

c) Patents purchased for INR 70,000 on 01.10.2021 and put to use on 07.10.2021.

d) Preliminary expenses covered under section 35D - market survey expenses of INR 5,000 and feasibility report expenses of INR 10,000. Project cost INR is 10,00,000.

e) Income credited to profit and loss account were:

   i) Interest on company deposit INR 50,000.

   ii) Opening stock is valued at cost plus 15% whereas closing stock was valued at cost minus 15% basis.

   iii) Opening stock was valued at INR 1,15,000. Closing stock was valued at INR 1,70,000.

Compute his tax liability for the AY 2022-23. Assume that the provisions of sec 115BAC is not applicable.

Solution

Computation of Total Income of Mr. Ram for AY 2022-23.

Particulars	Amount
Computation of Business Income	
Net Profit as per profit and loss account	87,000
Add: inadmissible expenses	
Provision for doubtful debts	16,000
Depreciation Reserve	21,000
Household Expenses	20,000
Donations	30,000
Cash purchase in excess INR 10,000	80,000
Cost of neon sign board (capital expenditure)	5,000
Patents purchase	70,000
Installment for preliminary expenses under section 35D (15,000 – 3,000) **(WN)**	12,000
Opening stock overvalue [1,15,000 x 15/115]	15,000

Particulars	Amount
Closing stock undervalued [1,70,000 x 15/85]	30,000
Less:	
Interest on company deposit	-50,000
Depreciation on neon sign @ 10% on INR 5,000	-500
Depreciation on patents @ 12.5 on INR 70,000	-8,750
Income under the head Business/Profession	**3,26,750**
Income under the head Other Sources	50,000
Gross Total Income	**3,76,750**
Less: Deduction u/s 80C to 80U	Nil
Total Income	**3,76,750**

Working Note:
15,000 but subject to a maximum of 10,00,000 x 5% = 50,000
Installment allowed INR 15,000/5 = INR 3,000

Computation of Tax Liability

Particulars	Amount
Tax on INR 3,76,750 at slab rates	6,338
Less: Rebate u/s 87A	6,338
Tax Liability	**Nil**

Concept Problem 39

Tax Ltd. presents the following information to you pertaining to the year ending March 31st, 2022.

i) Having regard to the vast purchase of a particular chemical by the company, the supplier of the chemical presents a car worth INR 2,50,000 which is used for business purposes by the company.

ii) Expenditure towards acquisition of technical know-how paid to a foreign company in lump sum INR 6 lakhs.

iii) The company has paid tax of INR 60,000 being the tax in respect of non-monetary perquisites of its employee.

iv) The company wanted to start a new plant for manufacturing of a new product. Y Ltd. paid to the company INR 10 lakh in order not to start the same and not to compete with it.

v) The company has borrowed INR 15 lakh for acquiring machinery. Interest paid is INR 90,000. The machinery is not put to use during the year.

vi) Payment of INR 40,000 is made to a Don for ensuring that the employees will not indulge in strike.

vii) The company has incurred expenditure of INR 34,000 in respect of exempt income. This forms part of administrative expenses.

viii) Amount recovered from employees towards provident fund contribution INR 12,00,000 of which amount remitted upto the end of the year was INR 7,00,000 and the balance was remitted before the 'due date' for filing the return prescribed in Section 139(1).

ix) Contribution to the account of employees as per pension scheme referred to in section 80CCD amounted to INR 30,00,000. Amount above 10% of the salary of employees is INR 7,00,000.

x) Gain due to change in the rate of exchange of foreign currency INR 1,00,000 related to import of machinery. The machinery was acquired two years ago and put to regular use since then.

xi) Purchase of building for setting up a warehousing facility for storage of food grains amounting to INR 4,50,000.

xii) You are requested to briefly state with reasons as to how the above are to be dealt with in computing the total income of the company for the assessment year 2022-23. The total income need not be computed.

Solution:

i) As per the provision of section 28, the value of any benefit or perquisite, whether convertible into money or not, arising from business (or the exercise of a profession) is chargeable to tax under the head "Profit and Gains from Business or Profession".

INR 2,50,000 is chargeable to tax as business income in the present situation and "Actual cost" of car for depreciation purpose will be cost of car to the previous owner, i.e. INR 2,50,000 [Sec. 43(1)].

ii) INR 6 lakhs qualifies for depreciation under section 32 @ 25%.

iii) As per section 40(a), while calculating income of the employer, the tax paid by the employer on non-monetary perquisite to employees is not deductible.

iv) As per section 28, any payment received for not pursuing any business i.e. non-compete fee shall also be treated as Income from Business/Profession.

v) INR 90,000 should be capitalized. Depreciation can be claimed by Tax Ltd. in the year the asset is put to use and actual cost for this purpose will include INR 90,000.

vi) As per section 37(1), in order to claim deduction, the expenditure should not have been incurred for any purpose, which is an offence or is prohibited by any law. Since the payment of INR 40,000 to Don is unlawful, it is not allowable as deduction.

vii) As per section 14A, no deduction shall be made in respected of expenditure incurred by the Assessee in relation to income which does not form part of the total income i.e. exempted income. INR 34,000 is, therefore, not allowable as deduction.

viii) As per section 2(24)(x), the amount of provident fund contribution recovered from employees i.e. INR 12 lakhs would be taxable as income of Tax Limited. However, the company can claim deduction under section 36(1)(va) of amount credited to the account of the employee in the provident fund before the due date under the relevant Act.

If INR 7 lakhs has been remitted before the said due date, the same is allowable as deduction. If it has not been so remitted, then the same is not allowable as deduction. The deduction would be restricted to the amount remitted before the due date. The balance INR 5 lakhs remitted after the due date under the said Act but before the due date of filing the return is not allowable as deduction.

ix) The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income. Disallowance under section 40A(9) would be attracted only in respect of the amount in excess of 10% of salary.

Accordingly, INR 23 lakhs would be allowed as deduction and INR 7 lakhs would be disallowed.

x) As per section 43A, the gain of INR 1,00,000, arising at the time of making payment in respect of an imported machinery, due to change in rate of exchange of foreign currency, has to be reduced from the actual cost of machinery, and depreciation would be computed on such reduced cost.

xi) Assessee would be eligible for investment-linked tax deduction under section 35AD @ 100% in respect of amount of INR 4,50,000 invested in purchase of building for setting up a warehousing facility for storage of food grains. Therefore, the deduction under section 35AD while computing business income would be INR 4,50,000.

Concept Problem 40

State with reasons the deductibility or otherwise of the following expenses/payment under Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business or Profession" for the AY 2022-23:

i) Mr. Shyam paid INR 75,000 as commodity transaction tax on sale of commodity during the PY 2020-21.

ii) Mr. Achal, a hotelier, claimed expenditure on replacement of linen and carpets in his hotel as revenue expenditure.

iii) Mr. Ram has claimed deduction for bad debt. However, the debtor is still not written off in the books.

iv) Provision made on the basis of actuarial valuation for payment of gratuity INR 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

v) Payment of INR 50,000 by using credit card for fire insurance.

vi) Purchase of oil seeds of INR 50,000 in cash from a farmer on a banking day.

vii) Payment made in cash INR 30,000 to a transporter in a day for carriage of goods.

Solution

i) An amount equal to commodity transaction tax paid by the Assessee shall be allowable as deduction, under section 36(1)(xvi), if the income arising from taxable commodities transactions is included in the income computed under the head "Profit and Gains of Business or Profession". In the given case, Mr. Shyam is entitled to claim deduction in respect of commodity transaction tax of INR 75,000 paid by him.

ii) The expenditure on replacement of linen and carpets in a hotel are in the nature of expenses incurred for the business and are allowable as revenue expenses under section 37(1).

iii) It is mandatory to write off the amount due from a debtor as not receivable in the books of account by crediting the debtor, in order to claim the same as bad debt under section 36(1)(vii).

iv) Not allowable as deduction

As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the Assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

1. Where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
2. Where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

v) Allowable as deduction

Payment for fire insurance is allowable as deduction under section 36(1). Since payment by credit card is covered under Rule 6DD, which contains the exceptions to section 40A(3), disallowance under section 40A(3) is not attracted in this case.

vi) Allowable as deduction:

As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds INR 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

vii) Allowable as deduction:

The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is INR 35,000 in case of payment made for plying, hiring or leasing goods carriage.

Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of INR 30,000 made in cash to a transporter for carriage of goods.

Concept Problem 41

Examine with reasons whether the following statements are true or false having regard to provisions of Income Tax Act, 1961.

i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

ii) Where a person follows mercantile system of accounting, an expenditure of INR 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, Assessee makes the payment of INR 25,000 through a cheque crossed as "& Co.", disallowance of INR 25,000 under section 40A(3) can be made in the year of payment.

iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".

iv) The medi-claim premium paid to GIC by Mr. Lokesh for his employees, by a draft, on 27.12.2021 is a deductible expenditure under section 36.

v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.

vi) An existing Assessee engaged in trading activities, can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Solution

i) True:

Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.

ii) True

As per section 40A(3), in the case of an Assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding INR 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

iii) True:

According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

iv) True

Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction u/s 36(1)(ib).

v) False:

Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.

vi) False

Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an Assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the Assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the Assessee will not be entitled to claim additional depreciation u/s 32(1)(iia).