

BASIS OF CHARGE [SECTION 28]		GENERAL DEDUCTIONS [SECTION 37]	
1	Profits & Gains of any business or profession carried on at any time during the PY. ▪ Capital Receipt → Not Taxable; ▪ Capital Loss → Not Deductible.	1	Not covered in Sec 30 to 36.
2	Compensation for Loss of Office ▪ Termination or Modification of contract relating to Agency in India. ▪ Termination/Modification of T&C of any business/professional contract.	2	Not a capital expenditure [Only revenue expenditure is deductible u/s 37]
3	Export Incentives [Sale of Import entitlements/Duty Drawback/DEPS/DFRC]	3	Incurred during PY.
4	Non-Compete Fees [Taxable u/h PGBP even if they are capital receipts] ▪ For not carrying out any activity in relation to any business or profession ▪ Not to share any know-how, patent, copyright, TM	4	It must have been incurred after the business was set up.
5	FMV of Inventory (SIT) on its conversion into Capital Asset ▪ Income = FMV of Inventory on date of conversion – Purchase Price.	5	Only Business Expenditure [Personal Expenditure → NOT deductible]
6	Benefit arising from Business/Profession (Gift) [Nexus Hona b/w Gift & Business]	6	Legal Purpose only (in & outside India) [Any Penalty → Not Deductible]
8	Remuneration received by Partners is taxable in his hands. ▪ only to the extent it is deductible to the firm [Refer Section 40(b)]	►	Note: AO cannot question necessity of expenditure in allowing deduction.
9	Income of Trade/Professional Association from Specific Activities for its Members.	Important Circulars related to Section 37	
10	Maturity Amount of KIP (+ Bonus) → Taxable to Employer if Received by him.	☞	Premium paid on KIP by Employer → Business Expenditure & Deductible.
	Sum received/receivable on demolition, destruction or transfer of any Capital Asset whole cost of which was allowed as deduction u/s 35AD.	☞	Expenditure on CSR → Not Business Expenditure & Not Deductible
		☞	Expenses on providing freebies to medical practitioner → Not Deductible.
		FREQUENTLY ASKED ADJUSTMENTS IN EXAMS	
		▪	Income Tax & Related Payment, Surcharge → Not Deductible.
		▪	Indirect Tax & Related Payment → Deductible.
		▪	Demurrage paid to authorities for releasing confiscated goods → Deductible
		▪	Penalty paid by assessee for non-completion of contract within time → Deductible as it is not a fine paid for infraction of law. [Infraction of contract].
		▪	Expenditure on Advertisement in souvenir/brochure/pamphlet published by Political Party → Not deductible u/h PGBP but deductible u/s 80GGB & 80GGC

SPECULATION BUSINESS	SPECIFIC DEDUCTIONS [SECTION 30 - 36]				
❖ Meaning: Contract for purchase/sale of any commodity (including stocks & shares) is settled otherwise than by Actual delivery or transfer of the commodity/Scripts [Section 43(5)] ❖ Transactions NOT deemed to be speculative transactions: ▪ Hedging Contract i.r.o Raw Materials or Merchandise or Stocks & Shares ▪ Forward Contract ▪ Trading in Derivatives or Commodity Derivatives ❖ Speculation Profits/Losses → Treated Separately from other business or profession since Speculation Business Loss can be set off against Speculative Business Profit only.	1	Rent, Rates, Taxes, Repairs & Insurance for BUILDING (Section 30)			
		Rent	Taxes	Revenue Repairs	Insurance
		Tenant	Check 43B	Done by owner or Tenant	Owner
		☞ No Deduction for Notional Rent is allowed.			
	☞ Subletting of Rented premises → Deduction = Rent paid – Rent recovered.				
	☞ Capital Repairs → Added to COA of building & eligible for depreciation.				
	2	Revenue Repairs & Insurance of Plant, Machinery & Furniture [Sec 31]			
		PC Note: Deduction of Rent of P&M → Allowed u/s 37 & not u/s 31.			
		☞ Capital Repairs → Added to COA of P&M & eligible for depreciation.			

DEPRECIATION (Section 32)

[on **BLOCK OF ASSETS & Not on Individual Asset**] + Mandatory

CONDITIONS FOR CLAIMING DEPRECIATION

- OWNERSHIP** → Part/Full; Registered/Beneficial owner.
PC Note: If Tenant incurs Capital Expenditure on leased/rented building, he will get depreciation on such capital expenditure.
 - USED BY THE ASSESSEE FOR HIS BUSINESS/PROFESSION DURING PY**
 - Active or Passive use. [Ex: Trial run/Generators].
 - 2nd PY onwards: Asset used for 1 day in PY → 100% Depreciation (as per ROD)
 - 1st PY: If used for < 180 days → Only 50 % of the Allowable Depreciation.**
- PC Note:** Asset acquired in PY but not put to use, 180 days condition is NA for 2nd PY; Thus 100% depreciation will be allowed in Next PY when it is put to use.

“BLOCK OF ASSETS” [Same Class & having Same ROD]

- Classify assets into (i) Intangible Assets & (ii) Tangible Assets **Except Goodwill.**
- Group the classified assets in each category separately on the basis of ROD.
- Assets having same rate of depreciation should be grouped together.

B. STEPS TO CALCULATE DEPRECIATION [V. IMP]

- Find Closing WDV of each block for PY.**
 Opening WDV as on 1st April of current PY
Add: Cost of Assets purchased during PY (Not GW of business/profession)
Less: Sale Value of assets sold, discarded, demolished or destroyed during PY
Less: Actual cost of the goodwill - amount of depreciation that would have been allowable to the assessee for such goodwill (upto PY 2019-20) as if goodwill was the only asset in the block. **However, such amount of reduction cannot exceed the WDV.**
- Bifurcate Closing WDV of each block into two categories:**
 - WDV of the assets used for less than 180 days during PY
 - Balance WDV. [It is **not always equal** to WDV of Assets used for > 180 days]
- Apply Rate of depreciation** on (i) Assets used for < 180 days. [50% of ROD]
 (ii) Balance WDV. [100% of ROD].

PC Note: Letting out of assets is:

- Business of Assessee → Depreciation is allowed u/s 32.
- Not a business → Depreciation is allowed u/s 57(ii).

- Building** includes Roads, bridges & tubewells attached to it or forming part of it.
- Machinery** → Asset which is directly connected with Production or Manufacture.
- Furniture** → Asset used for Convenience & Decoration.
- Plant** → Any other Asset Essential to carry out the business.

PC Note

- No Depreciation on **Land & Personal assets** & thus not included in any block.
- While calculating Depreciation on Building, Cost of Land is to be Excluded.**
- No Depreciation is allowed on Goodwill from PY 2020-21.**

ADDITIONAL DEPRECIATION [Sec 32(1)(iia)] → [On New P&M in Factory]

Assessee	(a) Engaged in Manufacturing or Production or (b) Generation, transmission or Distribution of Power
Ineligible Investment	1. Ships & Aircrafts 2. Second-hand P&M (in/out of India) 3. P&M installed in office premises, residential/guest house. 4. Office appliances or Road Transport Vehicles. 5. P&M whose whole of Actual cost has been allowed as deduction.
Rate	20% of Actual cost

Use < 180 days in first PY: 1st PY = Restricted to 50% & Next PY = Remaining 50%.

- ☞ Addition depreciation will be over & above normal depreciation allowed.
- ☞ It should be reduced from WDV of the asset.
- ☞ Printing &/ Publishing = Manufacture & eligible for Additional Depreciation.
- ☞ **No Additional Depreciation on L&B or Old P&M.**

Allowed only in Default (New) Tax Regime. Not Allowed in old Tax Regime.

Space for PC Analysis:

DEPRECIATION ON SLM BASIS [Sec 32(1)(i)]

Assessee	Engaged in Generation, transmission, Distribution of Power .
Time to Exercise	Before DD of Filing ROI u/s 139(1) of PY in which they begin to generate power. The option once exercised shall be Final.
New Assets used for < 180 days	Depreciation is allowable at 50% of ROD ; Remaining 50% will be allowed in next Year.
Sale in 1st Year	Profit/Loss arising shall be treated as STCG/STCL .
Option of SLM → For Tangible Assets only; Intangible Assets → only WDV is applicable. Depreciation can be charged on tangible assets individually ; i.e SLM/WDV (more beneficial)	

TRANSFER OF DEPRECIABLE ASSETS BY POWER SECTOR UNITS

Conditions	Treatment
1. NSC < WDV	Terminal Depreciation (Loss) = WDV - NSC. Deductible u/s 32.
2. COA > NSC > WDV	Balancing Charge (Profit) = NSC - WDV. Taxable u/s 41(2).
3. NSC > COA	<ul style="list-style-type: none"> ▪ Balancing Charge (Profit) = Original COA - WDV. Taxable u/s 41(2). ▪ Capital Gain = NSC - Original COA.

Class Note:

DETERMINATION OF ACTUAL COST FOR DEPRECIATION [Sec 43(1)]

Cost of Acquisition/Construction of Asset		XXX
Less:		
(i) GST on which ITC is Allowed	(xx)	
(ii) Subsidy/Grant received (Directly/Indirectly)	(xx)	(xx)
Add:		
(i) Interest upto the date on which asset is put to use	xxx	
(ii) Expenses incurred for acquiring Asset	xxx	
(iii) Expenses incurred for Installation of Asset.	xxx	
(iv) FOREX Fluctuations (if asset is imported) [Sec 43A]	xxx	Xxx
ACTUAL COST for computing Depreciation		XXX

PC Note: Any Expenditure for Acquisition of Asset for which aggregate payments made to A Person in A Day, **otherwise than** by A/c Payee Cheque/Draft or ECS > **Rs. 10,000**, such expenditure shall **not be included in COA of such asset**.

Space for PC Note:

Prescribed Electronic modes:

- Credit card, Debit card, Net banking
- RTGS/IMPS/NEFT
- UPI (Unified Payment Interface) & BHIM (Bharat Interface for Money).

SET OFF & CARRY FORWARD OF DEPRECIATION [SECTION 32(2)]

- Can be Carried Forward for Infinite PYs even if business is discontinued.
- Priority for Set-off in subsequent PYs: **(i) PY Depreciation (ii) B/f Business Loss (iii) Unabsorbed Depreciation.**

If the assessee is paying tax under default tax regime u/s 115BAC & there is a depreciation i.r.o. a block of asset from an earlier AY attributable to additional depreciation u/s 32(1)(iia), which has not been given full effect to prior to AY 2024-25 & which is not allowed to be set-off in AY 2024-25, corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2023 in the prescribed manner (i.e. **WDV as on 1.4.2023 will be increased by unabsorbed additional depreciation not allowed to be set-off**).

Space for PC Analysis:

“ACTUAL COST” IN SPECIAL CASES [Explanation to Section 43(1)]

Cases	Actual Cost
Scientific Asset/ 35AD Asset brought into business.	Nil
Conversion of CA into SIT	FMV of CA on date of conversion into SIT
Conversion of SIT into CA & used into Business	FMV of SIT on date of conversion into CA
Acquired by Gift/Will/ Inheritance	WDV to Previous owner .
Second hand asset	If AO is satisfied that main purpose was to reduce Tax Liability by claiming depreciation on enhanced cost, he may, with previous approval of JCIT , determine Actual Cost .
Re-acquisition of Asset used for Business/profession earlier.	(a) WDV at the time of original transfer or (b) Cost of re-acquisition whichever is Lower
Sale & Leaseback	Cost of asset in the hands of Transferee = WDV of asset in the hands of Lessee.
Building which was used for non-business purpose earlier . Note: Applicable for Building only	Actual cost of building – Deemed Depreciation as if building was used for Business. ▶ Other assets → Recorded @ original COA.
Foreign Asset brought to India by NR & used for his business or profession.	Actual cost – Deemed Depreciation as if asset has been used in India since acquisition.

EXPENDITURE ON SCIENTIFIC RESEARCH [SECTION 35]

1. SCIENTIFIC RESEARCH CARRIED ON BY ASSESSEE [Related to business]

Revenue Expenditure [Sec 35(1)(i)]		[100 % Deduction]
1 Pre-commencement [Last 3 years only]	(i) Payment of Salary (excluding perquisites) (ii) Purchase of Materials used in research.	
2 Post-commencement	Any Revenue Expenditure	
Capital Expenditure [Sec 35(1)(iv) & 35(2)]		[100 % Deduction]
1 Pre-commencement [Last 3 years]	Any Capital Expenditure (Except Cost of Land) .	
2 Post-commencement	Any Capital Expenditure (Except Cost of Land) .	

2. CONTRIBUTION TO OUSIDER [Related to Business/Not]

Research	Sec	Contribution to whom	Deduction
Scientific	35 (2AA)	National laboratory, National university, IITs, IIMs	100%
	35 (1)(ii)	Approved Research Association or Approved University/College etc.	100%
	35 (1)(iia)	Indian Company having scientific research as its main business objective.	100%
Social or Statistical	35 (1)(iii)	Approved Research Association or Approved University/College etc.	100%

➡ **Deduction cannot be denied just because approval granted was withdrawn.**

PC Note:

- Deduction specified in (1) above is available in both new & old scheme.
- However, deductions specified in (2) is available only in old scheme.

CASES WHEN NO DEPRECIATION IS ALLOWED & STCG/STCL Arises

- ☞ WDV is Zero but Block is not Empty → No Depreciation & STCG u/s 50(1).
- ☞ Block is empty but WDV is not Zero → No Depreciation & STCL u/s 50(2).

Space for PC Class Note: