Chapter 5 – Profits and Gains from Business or Profession

Method of Accounting [Section 145]

Income chargeable under this head shall be computed in accordance with the method of accounting, either cash or mercantile basis, regularly and consistently employed by the assessee.

Section 29: Computation of Profits and Gains from Business or Profession

- The profits and gains of any business or profession are to be computed in accordance with the provisions contained in sections 30 to 43D.
- In addition to the specific allowances and deductions stated in sections 30 to 36, the Act further permits allowance of items of expenses under the residuary section 37(1), which extends the allowance to items of business expenditure not covered by sections 30 to 36, where these are allowable according to accepted commercial practices.

Computation of Profits and Gains from Business or Profession (section 29)

Sections 30 to 37	Section 40	Section 40A	Section 41	Other Provisions
Admissible Deductions	Inadmissible Deductions	Expenses or payments not deductible in certain circumstances	Profits chargeable to Tax	

Section 30: Rent, Rates, Taxes, Repairs and Insurance for Buildings

Particulars	Rent	Rates, Taxes	Insurance	Revenue Repairs	Capital Repairs
Owner	Not Applicable	Allowed	Allowed	Allowed	Not Allowed*
Tenant	Allowed	Allowed	Allowed	Allowed	Not Allowed*

*It is added to the cost, and depreciation is allowed thereon.

Section 31: Repairs and Insurance of Machinery, Plant and Furniture

Particulars	Rent	Insurance	Revenue Repairs	Capital Repairs
Owner	Not Applicable	Allowed	Allowed	Not Allowed*
Tenant	Allowed u/s 37	Allowed	Allowed	Not Allowed*

*It is added to the cost, and depreciation is allowed thereon.

Note: Expenses u/s 30 and 31 are allowed only if the assets are used for the purposes of Business or Profession.

Depreciation [Section 32]

Category	Details
Conditions for Depreciation	• Asset must be used for business or profession during the previous year. • Asset must be owned wholly or partly by the assessee.
Depreciation on Assets Used < 180 Days	• If acquired and used for < 180 days (put to use on or after 05-10-2023) in the acquisition year: 50% depreciation. • If acquired in previous year and used for < 180 days in the next year: 100% depreciation.
Depreciation Calculation Basis	• On written down value of block of assets at prescribed rates. • For power generating units' assets, use Straight Line Method.
Depreciation Rates	**Building: 10%** **Furniture: 10%** **Plant & Machinery: 15%** **Intangible Assets: 25%** Computers: 40% Books: 40%
Calculation of Depreciation	1. Calculate WDV for depreciation: Opening WDV + Assets Purchased during the year – Money received on sale of assets during the year 2. Divide WDV into categories: a. Not used: NIL b. Used < 180 days: Half Normal Depreciation c. Balance: Full Depreciation

Important Question: Question 5

Additional Depreciation [Section 32(1)(iia)]

Condition	Details
Eligibility for Additional Depreciation	Assessees shifting out of the default tax regime under section 115BAC(1A) and engaged in manufacturing, production, or in the generation, transmission, or distribution of power. Allowed rate is 20% of the actual cost of plant or machinery acquired and installed.
Acquisition and Use Period	If acquired and used for less than 180 days in the previous year, additional depreciation is restricted to 10% of actual cost.
Succeeding Year Adjustment	The balance additional depreciation (10% of actual cost) is allowed in the immediately succeeding previous year if shifting out of the default tax regime under section 115BAC(1A).
Exclusions from Additional Depreciation	Not allowed on ships, aircraft, road transport vehicles, office appliances, previously used machinery, machinery installed in office premises, residential accommodation, or guest houses, and machinery fully deducted in any one previous year.
Note	• Additional Depreciation is allowed on Fork Lift Trucks used in factories. • Additional Depreciation is allowed to Printing and Publishing businesses.

Important Questions: Questions 8, 9

Actual Cost [Section 43(1)]

Particulars	₹
Cost of Asset (Purchase Price)	xxx
Add: Installation Charges	xxx
Transportation Charges	xxx

Trial Run Expenses (Test Run)	xxx
Taxes and Duties (If ITC is not available)	xxx
Interest on Loan (upto the date the asset is put to use)	xxx
	xxx
Less: Sale of Trial Run Product	xxx
Government Grant for Acquisition of Asset	xxx
Actual Cost	xxx

Notes:

1. If any payment > ₹ 10,000 is made in relation to acquisition of asset by any mode other than A/c Payee Cheque, A/c Payee Demand Draft, Electronic Clearing System to a single person in a single day, then it is not included in Actual Cost.
2. If any building which was used for any other purpose is now brought into business, actual cost:

Particulars	₹
Cost of Building	xxx
Less: Notional Depreciation at Current Rate	xxx
Actual Cost	xxx

Note: This provision is applicable only for Building, and not for any other asset. So, if any other asset is brought to the business, actual cost shall be cost at which such asset was acquired.

Important Question: Question 11

Section 50: Sale of Assets When it is a Part of Block of Assets

Particulars	Calculation of WDV for Depreciation							
	Full Block Transfer				Part Block Transfer			
	Case 1		Case 2		Case 3		Case 4	
	₹	No.	₹	No.	₹	No.	₹	No.
Sale Details	**9,20,000**	**7**	**6,50,000**	**7**	**8,90,000**	**4**	**6,20,000**	**4**
Opening WDV	6,00,000	5	6,00,000	5	6,00,000	5	6,00,000	5
Add: Actual Cost	2,00,000	2	2,00,000	2	2,00,000	2	2,00,000	2
	8,00,000	7	8,00,000	7	8,00,000	7	8,00,000	7
Less: Sale	8,00,000	7	6,50,000	7	8,00,000	4	6,20,000	4
WDV for Depreciation	-	-	1,50,000	-	-	3	1,80,000	3
.								
Asset	No		No		Yes		Yes	
WDV	No		Yes		No		Yes	
Depreciation	No		No		No		Yes	
Capital Gains	Yes		Yes		Yes		No	
.								

Particulars	Calculation of Capital Gains			
	Case 1	Case 2	Case 3	Case 4
	₹	₹	₹	₹
FVOC	9,20,000	6,50,000	8,90,000	-
Less: COA (WDV + Purchase)	8,00,000	8,00,000	8,00,000	-
STCG	1,20,000	(1,50,000)	90,000	-

Sale of Assets Under Individual Asset System (SLM Method of Depreciation)

Sale Value vs. WDV/Cost	Treatment
Sale Value < WDV	Terminal Depreciation: Debited to P&L.
Sale Value > WDV < Cost	Balancing Charge: Credited to P&L.
Sale Value > Cost	Capital Gains: On sale value over cost. Balancing Charge (Cost – WDV): Credited to P&L.

Important Question: Question 18

Asset is Partly used for Business Purposes and Partly for Personal Purposes

- Only proportionate expenditure towards business allowed.
- Depreciation calculated on entire WDV, but only proportionate depreciation allowed as deduction from the block value.

Important Question: Question 19

Expenditure on Scientific Research [Section 35]

Category	Provision
Expenditure Incurred by Assessee	• Allowable under both tax regimes • Revenue and capital expenditure (excluding land cost) on in-house scientific research related to business. • Deduction for salary/material inputs for research during 3 years before business commencement, deemed incurred in the year of commencement. • Capital expenditure in the 3 years before business commencement, allowed as deduction in the year business commences. Unabsorbed capital expenditure can be carried forward indefinitely.
Contributions to Outsiders	• Allowable when opting out of default tax regime (section 115BAC(1A)) • 100% deduction for contributions to specified/approved institutions for scientific or social science/statistical research. • Not allowable under default tax regime u/s 115BAC.

Important Questions: Questions 21, 22

Section 35D: Amortization of Preliminary Expenses

Aspect	Details
Preliminary Expenses Include	- Preparation of feasibility report - Preparation of project report - Conducting market or other necessary surveys - Engineering services related to business - Legal charges for drafting business agreements
Eligibility for Deduction	Deduction allowed only to resident assessees who incur such expenditure before business commencement, for extension, or for setting up a new unit.
Limit for Indian Company	Lower of: - Actual Preliminary Expenses - Higher of 5% of Cost of Project/Capital Employed

Limit for Other Resident Person	Lower of: - Actual Preliminary Expenses - 5% of Cost of Project
Definition of Cost of Project	Amount invested in fixed asset of new project, extension, or new unit as per books on the last day of the previous year.
Definition of Capital Employed	Share Capital + Debentures + Long Term Borrowings (Reserves & Surplus not included) for New Project, Extension, or New Unit.
Deduction Period	Allowed in 5 equal annual instalments.
Audit Requirement	Audit is mandatory in the year expenses are incurred, except for companies and cooperative societies.
Amalgamation/Demerger Provision	Remaining deduction allowed to amalgamated/resulting company.

Important Question: Question 23

Section 35DDA: Amortisation of Expenditure Incurred Under Voluntary Retirement Scheme

1. This deduction is allowed to all assessees.
2. This deduction is allowed in 5 equal annual instalments.
3. If there is an amalgamation or demerger, then remaining deduction is allowed to amalgamated company/resulting company.

Section 35AD: Investment Linked Tax Deduction to Specified Businesses

Aspect	Details
Specified Businesses	• Cold chain facilities (from 1.4.2009) • Warehousing for agricultural produce (from 1.4.2009) • Cross-country pipeline for gas/oil (from 1.4.2007) • Hotels of two-star or above (from 1.4.2010) • Hospitals with 100 beds (from 1.4.2010) • Housing projects for slum redevelopment/affordable housing (from 1.4.2010/1.4.2011) • Fertilizer production (from 1.4.2011) • Inland container depots/container freight stations (from 1.4.2012) • Bee-keeping/honey production (from 1.4.2012) • Warehousing for sugar (from 1.4.2012) • Slurry pipeline for iron-ore (from 1.4.2014) • Semiconductor wafer fabrication manufacturing unit (from 1.4.2014) • New infrastructure facility (from 1.4.2017)
Quantum of Deduction	• 100% of capital expenditure (excluding land, goodwill, financial instrument) incurred for specified businesses. • Expenditure incurred before commencement of operation, if capitalized, is deductible in the year of commencement.
Payment Mode for Deduction Eligibility	Payments over ₹10,000 for the specified business must be made through electronic modes or account payee cheques/bank drafts to qualify for deduction.
Non-eligibility for Other Deductions	If availing deduction under Section 35AD, not eligible for profit-linked deductions under Chapter VI-A or Section 10AA for the same or any other assessment year.

Asset Usage Requirement	• Assets must be used only for the specified business for 8 years post-deduction. • If used for other purposes, the deduction amount minus allowable depreciation will be added to business income of the year of misuse.
Note	Deduction not available under default tax regime under Section 115BAC.

Important Questions: Questions 24, 25, 26

Section 36: Other Deductions

Particulars	Details
Interest on Capital Borrowed	• Allowed for business/profession purposes. • Interest for asset acquisition period (until put to use) not allowed; added to asset cost.
Contributions to Provident/Superannuation Funds	Paid by employer towards recognized provident or approved superannuation funds.
Contributions to Pension Scheme (Section 80CCD)	• Up to 10% of salary (including dearness allowance, if applicable). • Excess contributions disallowed under section 40A(9).
Contributions to Approved Gratuity Fund	By employer for the benefit of employees under an irrevocable trust.
Employee Welfare Fund Contributions	• Deduction for employer's contributions allowed if credited by due date under relevant act. • Contributions credited after this date but before section 139(1) due date not eligible for deduction.
Bad Debts	• Written off as irrecoverable in the accounts, provided taken into account in income computation. • At the time of recovery, only the allowed portion earlier will be included as income.
Expenditure on Family Planning (For Companies)	• Bona fide expenditure incurred for promoting family planning amongst employees. • Capital expenditure deducted over five years (initial year + four equal installments). • Not allowable for non-corporate assesses.
Securities Transaction Tax (STT)	Equal to STT paid on taxable securities transactions included in business income.
Commodities Transaction Tax (CTT)	Equal to CTT paid on taxable commodities transactions included in business income.

Important Questions: Questions 27, 48

General Deductions

Criteria	Details
Allowable Expenditure Conditions	• Not covered under sections 30 to 36. • Not capital expenditure. • Not personal expenditure of the assessee. • Wholly and exclusively for business/profession. • Not for offences or prohibited by law.

	• Not CSR activities under section 135 of the Companies Act, 2013.
Offence or Law Prohibition	• Includes expenditure for offences under any law, in India or abroad. • Includes benefits or perquisites to any person in violation of law. • Includes expenditure to compound an offence under any law, in India or abroad.
Non-allowable Expenditure	Expenditure for advertisement in materials published by a political party.

Amounts Not Deductible in the hands of Any Assessee

Clause	Particulars	Non-Deductibility/ Conditions for Deductibility
40(a)(i)	Interest, royalty, fees for technical services payable outside India or to a non-corporate non-resident/foreign company without TDS deduction or not paid by due date.	Not deductible unless TDS is deducted and paid in a subsequent year or after the due date in the previous year deducted.
40(a)(ia)	30% of any sum payable to a resident where TDS is required but not deducted or not paid by due date under Chapter XVII-B.	30% of such sum is not deductible unless TDS is deducted and paid in a subsequent year or after the due date in the previous year deducted.
40(a)(ii)	Any sum paid on account of income-tax including surcharge or cess.	Entire amount is not deductible.
40(a)(iii)	Payments under "Salaries" payable outside India or to a non-resident without tax payment or deduction.	Not deductible if tax has not been paid or deducted therefrom.
40(a)(v)	Tax paid by the employer on non-monetary perquisites provided to employees exempt under section 10(10CC).	Entire amount is not deductible.

Important Questions: Questions 41, 42

Amounts Not Deductible in case of Partnership Firms or LLPs [Section 40(b)]

Particulars	Non-Deductibility Conditions
Payment to non-working partners	Salary, bonus, commission, or remuneration of any kind not deductible.
Remuneration or interest not authorized or not in accordance with the partnership deed	Not deductible.
Payment relates to period before partnership deed or not authorized by earlier deed	Not deductible.
Interest to partners exceeding 12% per annum	Excess over 12% not deductible.
Remuneration to working partners exceeding specified limits	Excess over limits not deductible: • Up to ₹3,00,000 of book-profit or loss: ₹1,50,000 or 90% of book-profit, whichever is more. • On balance of book profit: 60%.

Meaning of Book Profit	Net profit as per P&L adjusted for remuneration to partners if deducted while computing net profit.

Important Questions: Questions 45, 46

Expenses or Payments Not Deductible in Certain Circumstances

Section	Criteria	Non-Deductibility Conditions	Exceptions/Remarks
40A(2)	Expenditure to related persons	Non-deductible if considered excessive or unreasonable by the Assessing Officer.	Related persons include relatives of the individual, partners of a firm, members of HUF or AOP, directors of a company, any person with substantial interest in the assessee's business.
40A(3)	Payments exceeding ₹10,000 (₹35,000 for transport operators)	Entire expenditure disallowed if payment made other than by account payee cheque/draft or prescribed electronic modes.	Exceptions include payments to RBI, SBI, co-operative banks, government, and for certain purchases like agricultural produce, as covered in Rule 6DD.
40A(3A)	Payment of previously accrued expenses exceeding ₹10,000/₹35,000	Such payments made otherwise than by prescribed modes deemed as income of the subsequent year.	Deeming provision does not apply in cases covered by Rule 6DD.
40A(7)	Provision for gratuity	Disallowance does not apply if provision is for approved gratuity fund or for gratuity payable during the year.	Applicable for contributions to approved gratuity funds or actual payment of gratuity.

Profits Chargeable to Tax [Section 41]

Section	Situation	Tax Treatment
41(1)	Deduction previously allowed for loss, expenditure, or trading liability, and subsequent recovery or benefit received due to remission or cessation.	The amount obtained or the value of benefit is deemed to be income of the previous year in which the benefit was obtained.
41(3)	Transfer of an asset used for scientific research (not used for other purposes), where deduction was claimed under section 35(1)(iv).	Taxable as business income in the year of sale, to the extent of the lower of deduction allowed under section 35(1)(iv) or sale proceeds.
41(4)	Recovery of any amount against a bad debt previously allowed as deduction.	Taxed as income in the year in which it is received.

Certain Deductions to be allowed only on Actual Payment [Section 43B]

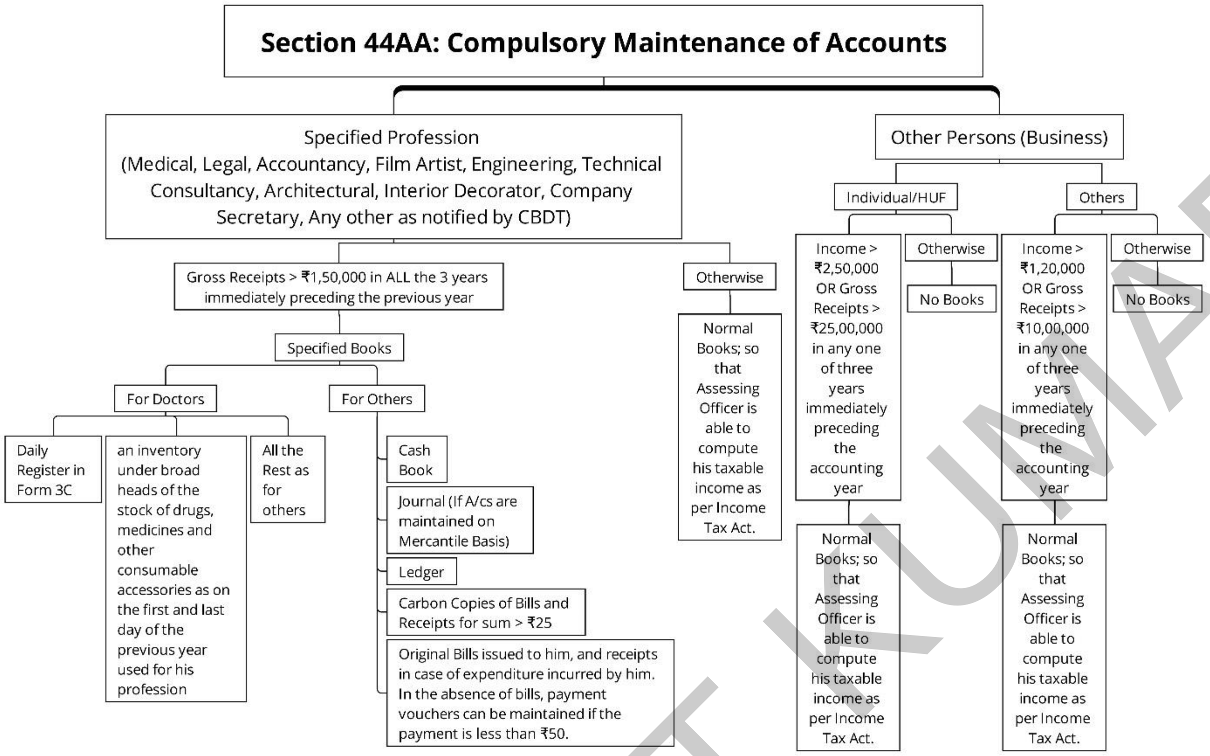
S. No.	Sums Payable	Condition for Deduction	Special Provision for MSMEs
1	• Tax, duty, cess, or fee • Contributions to employee welfare funds • Bonus or commission to employees • Interest on loans from financial institutions, NBFCs, banks, cooperative banks • Payment in lieu of leave to employees • Sum payable to Indian Railways	Deduction allowed if paid on or before the due date for filing return u/s 139(1) for the P.Y. Otherwise, allowed in the year of actual payment.	Not applicable
2	Sum payable to micro or small enterprises (MSMEs)	Deduction allowed only in the P.Y. in which the sum is actually paid, adhering to the time-limit specified in section 15 of the MSME Development Act, 2006.	• Payment terms as per written agreement (which cannot exceed 45 days) or within 15 days if no agreement. • Deduction in the year of accrual if paid within the specified period. • Deduction in the year of actual payment if paid after the specified period, even if before due date of filing return u/s 139(1).

Important Questions: Questions 30, 31, 32

Stamp Duty Value as Consideration for Land/Building Transfers as Stock-In-Trade [Section 43CA]

Criteria	Consideration for Taxation	Note
Consideration < Stamp Duty Value	Stamp duty value deemed as consideration.	
Stamp Duty Value < 110% of Consideration	Actual consideration deemed as full value.	
Different Agreement and Registration Dates	Stamp duty value as on agreement date if part payment made by specified modes.	Applicable when part payment received by electronic modes before agreement date.

Section 44AA: Compulsory Maintenance of Accounts



Penalty for Failure to Maintain Books of Account [Section 271A]

If a person fails to keep and maintain any such books of account and other documents as required by section 44AA in respect of any previous year or to retain such books of account and other documents for the specified period, penalty of ₹ 25,000 would be leviable under section 271A.

Important Question: Question 33

Mandatory Audit of Accounts of Certain Persons [Section 44AB]

Category	Condition for Applicability	Specific Conditions/Notes
Business	Total sales, turnover, or gross receipts > ₹1 crore in PY	Audit not required for presumptive income under section 44AD(1)
	Total sales, turnover, or gross receipts > ₹10 crore in PY	Applicable if cash receipts & payments ≤ 5% of total
	Assessee under section 44AE (owns ≤ 10 goods carriages)	Required if profits < presumptive basis u/s 44AE
	Total turnover ≤ ₹200 lakhs & opted for section 44AD in any earlier PY	Audit required if profits declared lower than 8% or 6% for 5 successive PYs after default
	Aggregate cash receipts ≤ 5% of total & total turnover ≤ ₹300 lakhs	
Profession	Gross receipts > ₹50 lakh in PY	Audit not required for presumptive income under section 44ADA(1)
	Notified profession under section 44AA(1) with gross receipts ≤ ₹50 lakhs	Required if profits < 50% of gross receipts on presumptive basis u/s 44ADA & income exceeds exemption limit
	Notified profession under section 44AA(1) with aggregate cash receipts ≤ 5% of total & gross receipts ≤ ₹75 lakhs	

Penalty for failure to get books of account audited [Section 271B]: The penalty amount will be the lesser of the two options below:

1. Half a percent (0.5%) of total sales, business turnover, or gross receipts for that year, or of their gross professional receipts; or
2. ₹ 1,50,000.

Presumptive Income Provisions

Section	Eligibility Criteria	Deemed Profits and Gains	Non-Applicability
44AD	• Residents (individual, HUF, firm except LLP) not claiming deductions under section 10AA/ Chapter VI-A. • Business turnover/ gross receipts ≤ ₹2 crore (₹3 crore if cash receipts ≤ 5% of total).	• 8% of turnover/gross receipts or higher sum claimed. • 6% for turnover received via electronic modes/account payee cheques/bank drafts by the due date of return filing u/s 139(1).	• Specified professions under section 44AA(1). • Income from commission/ brokerage. • Agency business.
44ADA	Residents (individual, partnership firm except LLP) in specified professions with gross receipts ≤ ₹50 lakhs (₹75 lakhs if cash receipts ≤ 5% of total).	50% of gross receipts or higher sum claimed.	N/A
44AE	Assessees owning ≤ 10 goods carriages during the PY, engaged in plying, hiring, leasing goods carriages.	• Heavy goods vehicle: ₹1,000 per ton of gross vehicle weight per month. • Other vehicles: ₹7,500 per month or actual earnings, whichever is higher.	N/A

Notes:

1. Maintenance of Books and Audit Requirements: Individuals declaring profits as per Section 44AD or 44ADA are exempt from maintaining detailed books of accounts or undergoing audits.
2. Advance Tax Obligation: Assessees eligible under sections 44AD and 44ADA must pay advance tax by March 15th of the relevant financial year.
3. Consequences of Opting Out of Section 44AD:
   a. If an assessee discontinues using Section 44AD for any year within a five-year period, they lose eligibility to opt for this section for the next five years.
   b. Upon opting out, and if the income exceeds the basic exemption limit, the assessee must maintain detailed books and get them audited as per the Income Tax Act's requirements.
   c. For instance, an assessee who uses Section 44AD for the Assessment Year 2021-22 but opts out by offering lower income in the Assessment Year 2024-25 will not be eligible for the benefits of Section 44AD from the Assessment Year 2025-26 to 2029-30. During

this period, they must maintain books of account and get them audited if their total income exceeds the exemption limit, regardless of their income or turnover.

Important Questions: Questions 34, 35, 36, 43, 44

Speculative Business

Aspect	Details
Speculative Business	• Treated as distinct and separate from other businesses. • Losses from speculative business cannot be set off against profits of non-speculative businesses. • Losses carried forward can only be set off against profits from speculative business in subsequent years. • Profits and losses from speculative transactions are distinct from other business activities.

Meaning of Speculative Transaction	• A transaction settled without actual delivery or transfer of the commodity or scrips.
	• Business involving purchase and sale of shares deemed speculative, unless:
	  ○ Income mainly from "Interest on securities", "Income from house property", "Capital gains", "Income from other sources";
	  ○ Principal business is trading in shares, banking, or granting loans and advances.

Transactions Not Deemed Speculative	• Hedging contracts in respect of raw materials, merchandise, stocks, and shares. • Forward contracts. • Trading in derivatives. • Trading in commodity derivatives.

Important Question: Question 49

Agricultural Income

Agricultural income in India originates from one of three sources: rent or revenue from land used for agriculture, income from agricultural activities including cultivation, processing to make produce market-ready, or direct sales by cultivators, and income from farm buildings necessary for agricultural operations.

For questions involving partial sale of agricultural produce, and partial use for the production of something else, use the following format:

Particulars	₹
A. Agricultural Income from Produce Sold	
Sale Proceeds	xxx
Less: Cost of Cultivation	xxx
Agricultural Income	xxx
B. Agricultural Income from Produce Used	
Market Value of Produce Used	xxx
Less: Cost of Cultivation	xxx
Agricultural Income	xxx

C. Business Income from Manufactured Goods	
Sale Proceeds of Manufactured Goods	xxx
Less: Market Value of Produce Used	xxx
Less: Additional Costs of Manufacturing	xxx
Business Income	xxx

Important Question: Question 51

Rules for Apportioning Business Income and Agricultural Income in Different Cases

Particulars	Agricultural Income	Business Income
Growing and manufacturing of rubber	65%	35%
Growing and curing of coffee	75%	25%
Growing, curing, roasting and grounding of coffee	60%	40%
Growing and manufacturing of tea	60%	40%

Income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Important Questions: Questions 54, 55

Partial Integration of Agricultural Income with Non-Agricultural Income

If three conditions are satisfied, the agricultural income shall be partially integrated with non-agricultural income. The conditions are:

1. Assessee should be Individual/HUF/AOP/BOI/AJP
2. Net Agricultural Income exceeds ₹ 5,000 p.a., and
3. Non-agricultural income exceeds the basic exemption limit relevant to the assessee.

The calculation in such cases is done as follows:

1. Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.
2. Add net agricultural income and the maximum exemption limit available to the assessee (i.e., ₹ 2,50,000/₹ 3,00,000/₹ 5,00,000). Compute tax on the aggregate amount.
3. Deduct the amount of income tax calculated in step 2 from the income tax calculated in step 1 i.e., Step 1 – Step 2.
4. The sum so arrived at shall be increased by surcharge, if applicable. It would be reduced by the rebate, if any, available u/s 87A.
5. Thereafter, it would be increased by health and education cess @4%.

The process of partial integration and calculation of tax liability is best understood with the questions.

Important Question: Question 56