

PGBP Adjustments

* Profit as per books / N.P. as per P/L

ADD: Deductions not allowed / Items to be added to income

- 1) Undervaluation of closing stock; overvaluation of opening stock
- 2) Advertisement in souvenir of political party (disall v/s 37(2B))
- 3) Expenses on travelling of wife of MD on invitation of Trade & Commerce Chamber
[allowable ✓ - grounds of Commercial expediency & bus. consideration]
- 4) GST: Penalty for delayed filing of returns (breach of law)
[Int. on delayed deposit of GST → breach of contract → allowed]
- 5) Payment to wife of director (relative) → any excess over the amount normally charged is disallowed. **40A(2)**
- 6) Payment without deduction of tax → 30% disallowed (**40A(1A)**)
↳ **TDS** → 100% disall. if paid to NR (**40A(1B)**)
↳ online digital ad to NR → ex. levy not deducted ⇒ 100% disall. **40A(1B)**
@ 5% (to be claimed)
- 7) Depn as per books.
- 8) Franchise emp. paid (it is an intangible asset & depn @ 25% - transport operator) → **entirely disall.**
- 9) cash paid > ₹10,000 (v/s **40A(3)**) In single day [₹35,000 - transport operator] → **entirely disall.**
- 10) Municipal taxes w.r.t. let out property (**IFHP dedu.**)
- 11) Expense on issue of right shares → expansion of cap. base → disallowed
- 12) Loss on destruction of machine (fire) → capital nature ∴ add
↳ if scrap value credited to P/L, then less at from WDV in P/L → **capital nature ∴ not allowed**
- 13) STCL (comes w/ CGT for set off)
- 14) Contribn to approved university v/s 35(1)(ii)/(iia) → Separately treated
- 15) Paid to employee welfare trust [disall v/s **40A(9)**], except if paid RPF / approved superannuation / approved gratuity
- 16) Payment made after DD of return → allowed in year of actual payment
↳ like bonus, tan, employer's contribn to RPF/SPF/etc. (leave encashment (emp) EPF)
↳ int. on loan / loan / if int payable converted into loan / deb. where liab. to pay is deferred to future date → **disall v/s 43B** (all when actually paid)
↳ not paid before DD of filing return → **disallowed**
- 17) Share issue expense, rights issue, etc → expansion of capital base - disallowed (even if it did not materialize)
- 18) Compounding fees / regularization fees → nature of "penalty", breach of law
- 19) CSR emp. → not deemed for bus. purpose (disall. v/s 37)
- 20) Sale of import entitlements → chargeable income w/ **PGBP** → if not credited, add.
- 21) **43B** - Int on loan settled by issue of deb. - here int. liab. is deferred to a future date - not deemed to have been actually paid. (Issue of deb is not equivalent to discharge of int on term loan)
- 22) Income tan paid is disallowed (incl. surcharge/cess/tan called by any name)
↳ int. on short pay of adv. tan v/s 234B
v/s **40(a)(ii)**
- 23) Interim dividend distributed - not allowed
- 24) Employer contribn → SOCCO pension → dedn man. ∴ lower of actual & 10% (Basic Sal + DA) } **excess disall.**
- 25) Cash paid > ₹10,000 usually disall. v/s **40A(3)** unless to dairy farmer → exceptⁿ. Rule 60
- 26) Exp. on tfr. of carbon credits taxable v/s **115 5B(7)** @ flat rate of 10%
- 27) Bonus to emp. after settling disputes → allowed only if paid on / before due date.

- 28) **Non compete fees** - no acqn. of bss / new source of income - revenue in nature
 ↳ hence exp. is allowed → only if TDS u/s 194J deducted → else 30% disall.
- 29) **Prov. for gratuity** not allowed u/s 40A(7) - But, actual grat. paid allowed
- 30) Exp. on **foreign travel** → directors → project not related to existing bss + project abandoned → disallowed → capital in nature
- 31) **Feasibility study** ^{Research (Prel. exp.)} related to existing bss → ^{even if} project abandoned → allowed
- 32) **Escalation** price claim → ongoing contracts → includible as business income → if reasonable certainty of realization recd → add to income → on due basis (even if not recd.)
- 33) **Retention** of contract money → add as income → when contract is completed → (on % of completion method) → ICDS III
- 34) Sale of **scientific research asset** → acqd to conduct S.R. → add to income → extent of: lower of a) dedn u/s 35 b) excess of sale consi. and 35 dedn over capen.
- 35) **VR S** paid (eg SL paid) → only 1/5th allowed → add back 4L
- 36) **Marked to market loss** → cannot be recog. u/ICDS - I → notional
- 37) Payment to **relative** → only ALP → excess disallowed (for AOP - member of its relatives, firm / LLP - partners & relatives) → 40A(2)
- 38) Expenditure made by **crossed cheque** → u/s 37(2B)
- 39) Contribution to **electoral trust** / **political party** → not allowed as dedn from PGBP - but 80GG(1B) (co) / 80GG(1C) (others) dedn available (if paid by cheque)
- 40) **loss of cash** (or any loss) due to **theft, dacoity, embezzlement** → deductible if in **OCB** → allowable expense ✓ (incidental to bss)
- 41) Salary paid to employees through **bearer cheques**.
 ↳ The given info will mostly be w.r.t 80JJA computation, wherein bearer cheque exp. cannot be considered for the dedn, here, remember to add back such amt.
- 42) **40(a)(i) ★★** → Commission / any amount paid to NR for services rendered o/s India → paid in forex directly
 ↳ Here, amt is NOT recd by him / on his behalf in India
 ∴ not deemed to accrue/arise in India
 ∴ not subject to tax in India → so 40(a)(i) not applicable → so allowable expense ✓
- 43) section **40A(2)**
 ↳ Payment made to **relative** → disallow unreasonable / excessive
- 44) **Bonus** - no expansion of cap. base → so revenue exp. ∴ allowed.
Rights - expansion of cap. base → capital exp. → disallowed
- 45) **Revenue exp.** using amt. withdrawn from NABARD - see **33AB** - disall.
 ↳ Also disallowed → P&M in office/residential; office appliances; 100% dedn allowed (not computer); P&M u/ PGBP
- 45) **Debentures** issue exp. → not cap. in nature → even if capitalized → allowed
- 46) **43A** loss on hedging contract - to mitigate loss due to foreign currency fluctuations - w.r.t machinery imported → add to actual cost of mach. (as capen) → hence, disallowed.
 ↳ However, loss on **hedging** contract - against future price fluctuations w.r.t import of RM is not deemed - speculative trans. Hence, allowed as deduction - treat as revenue exp. (per. of RM)

LESS: Deductions allowed/items to be considered separately

- 1) Depn. as per IT Act. (on ITA also consider)
- 2) IT refund and interest (IFOs)
- 3) Income from specified bss (separate head v/ PGBP)
- 4) **Over valuation** of **Closing stock**; under valuation of opening stock.
- 5) Rental income (IFHP)
- 6) Dividend (IFOS) → from resi. co/FC
- 7) STCG (CG) → remember Tfr of land/asset to **WOS** → not a tfr → not taxable in CG also
- 8) Deduction v/s 35(i)(ii)/(iia) → 100% dedn
- 9) loss by **theft** / embezzlement / dacoity → allowed (incidental to bss.)
↳ usually will already be dr. to P/L ∴ no adj.
- 10) Exp. on issue of **deb** → not a capex; expended wholly for bss. purpose → allowed as dedn.
- 11) Travel exp. of **wife of MD** (for bss. purpose) → allowable exp
↳ grounds of **commercial expediency** & **bss. consideration**
- 12) **Waiver of bank loan** → benefit → ∴ would have been credited to P/L
↳ **Principal**: Benefit w.r.t trading liab. by way of cessation & hence, taxable v/s 41(i) → should be credited as income to P/L.
↳ **Interest**: int. allowed only on **actual payment** v/s 43B.
if int. not paid, dedn not allowed → hence, if credited as income upon waiver, it should be deducted.
- 13) **Unpaid int. converted into loan** → **this is income for us!**
↳ not be construed as payment of int v/s 43B.
↳ dedn allowed as dedn only in year in which converted loan **actually paid.**
- 14) Dedn allowed → Tfr. to **Special Reserve** 36(i)(viii) → only to fin. corp → LT finance
↳ lower of: a) Actual Amt of tfr.
b) 20% of core PGBP
c) 120% of GR + PUC) - op. bal. of special Reserve
- 15) **Prov. for wages** payable to workers → based on fair est. of wages & reasonable certainty of revision → allowed (ICDS X)
- 16) Profit from **hedging** contract → if eg: hedging against currency fluctuation towards foreign payment to import machine → profit to be adjusted against **exchange cost** → not includible as income.
- 17) Income from tfr. of **Carbon credits** → taxable v/s 115BBG → **@ 10% flat**
treated as: a) PGBP (then, add to income); b) IFOS (if added here, deduct).
- 18) Industrial power tariff **concession from govt.** → treated as **income**
↳ if credited, no adjustment.
- 19) **Bad debt** → actually **w/o** → allowed as **dedn** v/s 36(i)(vii)
↳ **recovered**: taxable as **income** in PGBP → in yr of recovery
- 20) **Cessation** of **trading liab** → allowed as dedn earlier → deemed as **income** → so credited to P/L (eg., trade cre. o/s 75 yrs & no bss-relationship w/ them → can be treated as income).

21) National Fund for Rural Development → allowed as dedn u/s 35CCA
↳ even if section 115BAB opted, this dedn can be ~~also~~ taken.
↳ dedn if expense not already considered; else, no adjustment.

★ Dividend → taken in IFOs

↳ when amt of dividend is taken in IFOs (say ₹ 50,000) ^(90%) remember that this is net of 10% TDS u/s 194 → so 90% → 50,000
∴ 100% → $50,000 \times \frac{100}{90} = 55,555$.

Rs 55,555 gross amt to be taken as dividend u/s IFOs.

↳ After funding tax liability, deduct such TDS (5,555) from it.

★ Payment of gratuity to director who died on trip abroad

↳ NO ADJUSTMENT. If already deducted, no further adjustment

★ Retrenchment compensation to emp. on closure of unit.

↳ If already deducted, NO FURTHER ADJUSTMENT